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# Boards as Strategy Makers: The Antecedents and Consequences of Board Involvement in Strategic Decision Making

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I am submitting herewith a dissertation written by Karen Ford Eickhoff entitled "Boards as Strategy Makers: The Antecedents and Consequences of Board Involvement in Strategic Decision Making." I have examined the final electronic copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy, with a major in Business Administration.

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(Original signatures are on file with official student records.)

# Boards as Strategy Makers: The Antecedents and Consequences of Board Involvement in Strategic Decision Making

A Dissertation Presented for the Doctor of Philosophy Degree The University of Tennessee, Knoxville

> Karen Ford Eickhoff August 2012

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# **DEDICATION**

This dissertation is dedicated to my husband Hank Eickhoff, my mom Nell Ford, and my dad Bob Ford. Their love and support made this possible.

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#### **ABSTRACT**

This study describes the antecedents and consequences of the direct involvement of boards in forming the strategies of the organizations they serve. If boards are involved directly and early in the strategic decision making process rather than being held at the periphery, board members may become important assets to their organizations as *strategy makers* beyond their limited contributions as monitors or advisors. By providing a look inside the "black box" of decision making in board rooms, this research addresses a gap in the strategy and board literatures and has important practical implications for executives and board members who are interested in utilizing their boards to the greatest advantage for their organizations.

Board members and chief executive officers who are currently making strategic decisions in a hospital context detailed their involvement in the decision making process in their responses to surveys designed for this study. Utilizing structural equation modeling for analyzing these responses, this study indicates that board members who bring human capital, social capital, and Board Capital (human and social capital in concert) to the board room are more likely to participate early in the strategic decision making process by raising or clarifying issues, generating or evaluating alternatives, or choosing strategies rather than only coming into the process at the end to review and accept or reject the recommendations of the top management team. And when board members are directly involved in forming strategy, the strategic decisions are more likely to be implemented and the implemented strategies are more likely to result in positive

financial outcomes. Thus, boards as strategy makers impact the strategic decision making process and the organization in important ways.

This study has shown that there are identifiable antecedents and positive consequences of boards acting as strategy makers.

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# CHAPTER 1 INTRODUCTION

"One of the great paradoxes of the twentieth century is that while enormous progress was made in understanding how economies in general operate and in improving the management of corporations, relative little was learned about the way in which the people who are by law responsible for the oversight of the corporations, upon which so much of prosperity is based, actually made their decisions."

-- Leblanc and Gillies, Inside the Boardroom (2005: 245)

Executives and scholars have traditionally viewed the primary duties of boards of directors to be monitoring and advising the chief executive officer and top management team (Forbes & Milliken, 1999; Kor & Sundaramurthy, 2009). As either monitors or advisors the board acts independently of the organization's executives in a supervisory role. Scholars have directed attention to the composition of boards, particularly in terms of the status of board members as "insiders" or "outsiders," that enhances their independence. Several organizations where boards failed in their monitoring responsibilities (Enron for example) received much attention in the popular press. As a result of this increased public attention to the accountability of boards and executives, the Sarbanes-Oxley legislation was enacted in 2002. But beyond the legislated requirements relating to audit committee composition and financial reporting for publicly traded corporations, some have called for greater involvement of the boards of all types of organizations in the organization's strategic decision making processes in order for boards to more effectively perform their monitoring and advising functions (e.g. Chait, Ryan, & Taylor, 2005; Charan, 2005; Dalton, Hitt, Certo, & Dalton, 2007; Nadler, 2004). When boards are involved in *developing* the organizational strategies from the beginning, they will likely have greater depth of understanding of both the strategies and the organizational context when they are ultimately asked to pass judgment on those strategies (Finkelstein, Hambrick, & Cannella, 2009).

Even more importantly than improving boards' abilities to perform their traditional monitoring and advising roles more effectively, the direct involvement of boards in the various stages of the organizational strategic decision making process increases the opportunity for organizations to capitalize on their boards as resources for building competitive advantage in their increasingly complex organizational environments (Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978). Since board members bring their perspectives and expertise from their own fields to the boardroom, their perspectives are potentially quite valuable in the process of determining the strategic direction of the organization. These varied perspectives and fields of expertise add breadth and depth to the resources available for sensemaking in the face of the organization's complex environment. When brought to bear in identifying problems, clarifying issues, generating and evaluating alternatives, and making choices—critical steps in the organizational strategic decision making process (Russo & Schoemaker, 2002)—the perspectives and areas of expertise of board members are valuable resources for forming organizational strategy.

This study describes the antecedents and consequences of the direct involvement of boards in forming the strategies of the organizations they serve. If boards are involved directly and early in the strategic decision making process rather than being held at the periphery, board members may become important assets to their organizations as *strategy* 

*makers* beyond their limited contributions as monitors or advisors. This research is of interest because it addresses a gap in the strategy and board literatures, and it has important practical implications for executives and board members who are interested in utilizing their boards to the greatest advantage for their organizations.

If boards are potentially important resources as strategy makers rather than acting only as monitors and advisors, what factors contribute to boards being involved in the strategic decision making process? I propose that three constructs are the primary contributing factors that make boards capable of participating effectively in the strategy formation process: the human capital, the social capital, and the Board Capital that boards bring to the strategic decision making process. Human capital is the knowledge and skills individuals develop as a result of their experiences, education, and training (Becker, 1993; Kor & Sundaramurthy, 2009). Social capital refers to the resources that are available to individuals as a result of their networks of relationships with others (Nahapiet & Ghoshal, 1998). Board Capital is the combination of human capital and social capital (Hillman & Dalziel, 2003).

For boards to be more capable of being involved in forming organizational strategy, the most important sources of human capital are the experiences of board members with decision making at the board level and their experiences in their work and educational fields. Board experience comes from board members serving on boards currently or in the past. Boards are at the apex of their organizations and are ultimately accountable for all organizational decisions and actions. This is a significant responsibility, and board members who have more experience with this board level of responsibility are in a better position to assume that responsibility. When boards are

comprised of members with more board-level experience, boards have a stronger foundation for participating in making the strategic decisions for which they will be held accountable. The perspectives board members bring from their work experiences and educational training are also particularly cogent. The training and work experiences of board members in functional areas such as marketing, finance, or management and their experiences with various strategic options in their home firms or other organizations increases the diversity of perspectives in the boardroom when strategic options are considered. A great deal of research on groups has shown that diversity of perspectives can be beneficial for producing effective decisions (Bantel & Jackson, 1989; Bourgeois, 1985; De Dreu & West, 2001; Hambrick, Cho, & Chen, 1996; Hoffman & Maier, 1961; Jackson, 1992; Nemeth, 1986; Wiersema & Bantel, 1992).

For boards to be more capable of being involved in forming organizational strategy, the most important sources of social capital are the relationships developed from the networks among board members and the collaborative relationships between boards and their CEOs. The relationships among board members develop from serving on boards currently and in the past as well as serving on the focal board. Collaborative relationships between boards and their CEOs develop from interactions both inside and outside the boardroom. When board members are comfortable in offering advice freely to their CEOs and when CEOs are comfortable in seeking the advice and counsel of their boards, the stage is set for a greater and more complete exchange of information. When the relationships among board members and between board members and the CEO are based on friendship rather than on business acquaintanceship alone, the friendship ties will further improve the conditions for exchanging information as well.

When boards possess both human capital and social capital in concert, this Board Capital makes them even more capable of being resources to their organizations in forming strategy.

If boards are involved directly in forming organizational strategy, what are the potential benefits to their organizations? I propose that one outcome of board involvement in forming strategy is the greater likelihood that strategic decisions will be implemented because the board members are more fully informed about the choices as a result of their participation in making them. A second outcome of board involvement in forming strategy is that strategic decisions will be better decisions as a result of capitalizing on the resources of the perspectives of board members. Better decisions are effective decisions, and positive financial results for the implemented strategic decisions are evidence of effective decisions. Since these decisions are strategic (i.e., they have long-term impacts that affect the entire organization), the positive financial outcomes of these implemented strategic decisions will be expected to flow through to the financial performance of the organization as a whole.

With this overview of the study, the following chapters delve into the substance of the study in greater depth. Chapter 2 presents the foundational literature for the constructs incorporated in the study. Chapter 3 describes the study research questions, hypotheses, and details of the research design. Chapter 4 presents the findings from the data analyses. Chapter 5 provides the discussion and practical implications, and Chapter 6 is the conclusion.

# CHAPTER 2 REVIEW OF SELECTED LITERATURE

"In the corporate governance debate, all arguments ultimately converge on the role of the board of directors" (Gilson & Kraakman, 1991: 873). Researchers have directed attention at two roles in particular—boards as monitors and boards as advisors. However, interest is growing in the possibility that to effectively serve their organizations boards must assume a different, much larger role: boards as *strategy makers*. As strategy makers, boards become a valuable resource for the organizations they serve. Specifically, boards are a resource because they bring human capital and social capital to the strategy-making process. When these forms of capital are effectively utilized, the organization prospers.

This chapter describes how a board can be seen as a resource and how that resource might best be employed. Thus, this chapter will review current thinking on resources and resource dependence. Second, the chapter will define and elaborate on resources in the form of the human capital, social capital, and Board Capital (i.e., the combination of human and social capital) board members potentially bring to an organization. Third, this chapter argues why and how these resources can be used to formulate strategy. Finally, this chapter will argue that when board resources are used to formulate strategy the organization will enjoy a competitive advantage that will produce enhanced performance outcomes. Figure 1 depicts the proposed conceptual model of the relationships among the antecedents of the involvement of boards in forming organizational strategy and the consequences of this involvement. All figures and tables may be found in the Appendices.

#### **Boards as Resources**

Pfeffer and Salancik (1978: 163) note that "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will favorably present it to others, and will try to aid it." Boards are often comprised of attorneys, financial experts, executives from other industries, and community representatives who are resources to the organization because of the expertise, skills, experience, and connections they possess. Resource dependence theory focuses attention on the abilities of board members to provide resources of various kinds to the organization and also to create linkages with individuals and organizations outside of the organization. Since board members are boundary spanners, they are important in the organization's ability to access resources and sources of information that are available—possibly exclusively—in the organization's external environment, thereby reducing the uncertainty the organization faces because of its need to access critical resources from outside its boundaries (Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978).

The resources board members bring to boardrooms are substantial and valuable to organizations which are dealing with uncertain, often turbulent, environments. The various backgrounds and experiences of board members mean they bring various kinds of expertise and knowledge to the organization (Baysinger & Butler, 1985; Certo, 2003; Gales & Kesner, 1994). Board members have expertise in law, finance, marketing, human resource management, medicine and so forth as a result of their educational and work experience in various fields. They also possess valuable knowledge about the community and general environment within which the organization operates. This expertise and knowledge enhances the ability of board members to provide valuable

advice and counsel to the organization (Carpenter & Westphal, 2001; Ford-Eickhoff, Plowman, & McDaniel, 2011; Lorsch & MacIver, 1989; Westphal, 1999).

As boundary spanners, board members create linkages with important stakeholders (Daily, Certo, & Dalton, 1999; Hillman, Keim, & Luce, 2001; Hillman, Zardkoohi, & Bierman, 1999), linkages which may not otherwise be available to the organization if it relied instead strictly on employees for its connections. These linkages among individuals and the organizations they represent create channels for communicating information among organizations (Certo, 2003; Davis, 1991; Pfeffer & Salancik, 1978). These channels of communication then facilitate the organizational processes for identifying and tapping into strategic opportunities. These channels also transmit signals of organizational legitimacy to external stakeholders with the important potential outcomes of improving relationships with customers or investors (Certo, 2003; Pfeffer & Salancik, 1978).

The basic logic of the resource dependence view is that organizations need access to critical resources beyond their internal resources in order to prosper. Although the resource dependence view has been relatively less explored in research on boards (Hillman & Dalziel, 2003), the logic of the resource dependence approach has been supported in several studies (e.g., Birnbaum, 1984; Boeker & Goodstein, 1991; Hillman, 2005; Hillman, Canella, & Harris, 2002; Hillman, Cannella, & Paetzold, 2000; Lester, Hillman, Zardkoohi, & Cannella, 2008; Mizruchi & Stearns, 1988; Pearce & Zahra, 1992; Provan, 1980; Stearns & Mizruchi, 1993). As one example, in accordance with the logic of the resource dependence view former government officials would be expected to possess knowledge and networks of contacts which would be valuable to public

corporations. Supporting this logic, Lester, Hillman, Zardkoohi, and Cannella (2008) found that public corporations were more likely to invite former government officials to serve on their boards under circumstances which improved the potential for the former government officials to bring valuable knowledge and contacts to the board: when they had a longer tenure of government service, greater breadth of experience in government service, and more recent government service.

Of particular importance to the current study, the results of some studies in the resource dependence stream of research have shown a relationship between boards as providers of resources and firm performance (Boyd, 1990; Dalton, Daily, Johnson, & Ellstrand, 1999; Hambrick & D'Aveni, 1992; Pearce & Zahra, 1991; Pfeffer, 1972). From the resource dependence perspective, larger boards are in a position to provide more resources to the organization because of the greater number of directors bringing their expertise to the board and the more extensive linkages with other organizations they represent. Dalton, Daily, Johnson and Ellstrand's (1999) meta-analysis of studies that included over 20,000 companies indicated that there is a significant positive relationship between board size and organizational financial performance. This relationship held for both large and small firms, for different performance measures, and for boards with proportionately more outside directors or inside directors. And Hambrick and D'Aveni (1992), looking at the issue from the opposite vantage point (i.e., a lack of access to the resources boards provide will be detrimental to firm performance) found that their sample of firms had faced difficulties in obtaining and retaining outside directors in the five years prior to filing bankruptcy. These firms were unable to tap into the resource linkages of outside directors, resources which may have been crucial for the firms' survival.

Thus boards can be seen as providing many kinds of valuable resources in the form of knowledge, experience, and networks of relationships to organizations, and these resources are crucial to the organization prospering—or perhaps even surviving.

# **Boards as Human Capital**

Human capital is the combination of knowledge and skills individuals possess as a result of their experiences, education, and training (Becker, 1993; Kor & Sundaramurthy, 2009), and it is a valuable resource for a board. In addition to individual board members possessing and using their knowledge and skills on behalf of the organization, boards are comprised of a number of individuals and therefore incorporate a potentially broad range of knowledge and experiences when these individuals are combined as a group. Stiles (2001: 647) noted that the human capital present on the board represents "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." These dynamics include: (1) effort norms that improve director preparation and participation; (2) cognitive conflict involving leveraging different perspectives by balancing the positives and negatives of the presence of differing perspectives; and (3) cohesiveness that is linked to task performance (Forbes & Milliken, 1999).

Board members' knowledge and skills enhance their ability to scan and interpret the environment, make choices based on their interpretations, and help management deal with the complexities and uncertainties surrounding strategic decisions (Rindova, 1999). The knowledge systems and repertoire of skills of top managers and board members are based on their prior professional experiences (Bailey & Helfat, 2003; Carpenter & Westphal, 2001; Certo, 2003; Hambrick & Fukotomi, 1991; Kor, 2003), and these experiences help shape their frame of reference, perceptions, and biases (Kor & Sundaramurthy, 2009; Tsoukas, 1996; Westphal & Fredrickson, 2001). Human capital in the form of knowledge and skills developed from experience serving on boards and experience in the principal occupations of board members are particularly relevant to understanding board and organizational performance (Kosnik, 1987, 1990; Morck, Shleifer, & Vishny, 1988; Olson, 2000).

## **Board Experience**

The knowledge and skills gained from experience serving on boards are an important part of the human capital board members bring to the organization. Boards deal with issues of strategic importance by virtue of their position at the top of the organization, and experience with making decisions that will impact the organization as a whole and that will have long-term consequences is beneficial when board members must make decisions about strategic issues the organization faces. By virtue of this experience with making strategic decisions, members with board experience have seen that decisions at this level of the organization often involve a substantial passage of time—sometimes years—between making a decision and its full implementation. Experience with serving on a board also means that members have worked with other board members, individuals at the same level of responsibility and authority as they, in negotiating the decision making process. Furthermore, board experience means that members are accustomed to working with CEOs in a supervisory capacity rather than only as the colleagues or

subordinates of CEOs, and this type of supervisory experience is valuable to board members in the same way that supervisory experience is valuable to managers of people at any level of the organization.

The importance of board experience is evident in the relationships found in the literature between longer board tenure and outcomes such as organizational proclivity to make strategic changes, improved revenues, and greater attention to stockholders' interests. For example, Golden and Zajac (2001) argued that boards with very low average tenure would have less of an information base from which to draw and therefore would be less inclined to recommend strategic changes. They further argued that boards with very high average tenure may be more committed to the status quo. The results of their study of hospitals indicated an inverted u-shaped relationship in which increasing the average tenure of board members for low-tenure boards increases the likelihood of strategic change but decreases the likelihood for high-tenure boards, supporting their hypothesis. Longer board tenure has also been found to be associated with greater total revenues in not-for-profit colleges (Olson, 2000) as well as to larger gifts from the board members themselves to their not-for-profit organizations (O'Regan & Oster, 2005). And the average tenure of outside directors is positively related to greater board attention to stockholders' interests in the form of resistance to greenmail (Kosnik, 1990).

Of particular interest here, longer board tenure has been associated in the literature with board members perceiving that they have a greater ability to contribute to board discussions of strategic issues (Carpenter & Westphal, 2001) and with board members attending more board meetings and devoting more time to board activities (O'Regan & Oster, 2005). Human capital in the form of board experience increases the

capabilities of board members to participate fully in the strategic decision making process because they are able to draw upon the knowledge and skills developed through other board-level decision making experiences and apply them to new contexts and issues.

These board-level decision making capabilities then enhance the potential for boards to contribute directly to formulating strategy rather than acting only in the capacities of monitors or advisors.

# Work and Educational Experience

The knowledge and skills gained from experience in the board members' primary occupations are also an important part of the human capital they bring to the boardroom. In their seminal article Hambrick and Mason (1984: 199) argued that an executive's functional background will be related to the strategies the firm employs. They noted this "functional-track orientation may not dominate the strategic choices an executive makes, but it can be expected to exert some influence." Scholars have embraced this idea, and functional background is now the most widely cited demographic characteristic thought to affect corporate strategy (Jensen & Zajac, 2004). Since the board is responsible for hiring the chief executive officer, the board is important in determining the functional background and past strategic experiences for successor CEOs of the focal firm (Westphal & Fredrickson, 2001; Zajac & Westphal, 1996) and in determining the successor's strategy for the focal firm once hired (Westphal & Fredrickson, 2001). For example, the literature reveals that CEOs with finance backgrounds prefer strategies involving higher levels of diversification and make more acquisitions (Jensen & Zajac, 2004); therefore a board which prefers to see the organization pursue a diversification or

acquisition strategy might influence the organizational strategic direction by selecting a CEO based on his or her background in finance.

In addition to influencing strategy through the choice of CEOs, the notion that work experiences influence strategic choices can be applied to board members as well as to CEOs. It has been argued that outside directors rely to an even greater extent on their prior experiences in making strategic decisions since they have less organization-specific knowledge than the CEO (Westphal & Fredrickson, 2001). Westphal and Fredrickson (2001) showed that directors often favor strategies for the focal firm that are like the strategies they have experience in formulating and implementing as executives in their own home firms. For example, directors who have formulated and implemented a strategy of extensive diversification at their home firms are likely to advocate for diversification strategies at the focal firm when they interpret parallels in the two firms' capabilities and industry conditions. Furthermore, Westphal and Fredrickson (2001) argue that executives learn from the strategic experiences of firms for which they serve on the board as well. So the experiences with strategies in their home firms and in firms for which they serve on the board become reference points or benchmarks when directors are determining their strategic choices for the focal firm.

The presence of business experience is a primary rationale given by many organizations for inviting individuals to serve on their boards (Daily, Certo, & Dalton, 1999; Dalton et al., 1999; Kesner, 1988) in order to capitalize on the full range of intellectual capital available to the firm. The educational and training experiences of board members are also important contributions to the knowledge and skills they bring to these organizations. Finkelstein, Hambrick, and Cannella (2009: 97) argue that it is

reasonable to expect that the functional work experiences along with other experiences of individuals will form lenses through which they see problems and solutions. The correspondence between functional experiences, psychological preferences, and strategic choices may occur because individuals are drawn to functional areas that fit their personalities or aptitudes, and then individuals become inculcated with a particular mode of thinking typical of that functional area. Since executives tend to perceive problems and generate solutions based on their past experiences—both successes and failures—executives with similar functional backgrounds tend to develop similar perspectives on problems and solutions because of this common lens (Jensen & Zajac, 2004).

Since boards are comprised of a number of individuals, members with different backgrounds often serve on the board together. Diversity in the perspectives of the individuals on boards has both negative and positive aspects. On the negative side, theory suggests that diversity in perspectives will lead to difficulty in exchanging information because of the different perspectives, vocabularies, paradigms and objectives (Ancona & Caldwell, 1992; Chatman & Flynn, 2001; Kirkman, Tesluk, & Rosen, 2004; Lichtenstein, Alexander, Jinnett, & Ullman, 1997; Lincoln & Miller, 1979; Pelled, Eisenhardt, & Xin, 1999). Diversity of perspectives may lead to lower behavioral integration (Carpenter, 2002; O'Reilly, Snyder, & Boothe, 1993) and to less social integration among the members, resulting in discord (Devine, Monteith, Zuwerink, & Elliot, 1991; Hambrick, et al., 1996). The lack of common decision-making routines will slow the decision making process (Carpenter, 2002; Williams & O'Reilly, 1998), and, since members do not have "shared world views" (Carpenter, 2002), this may lead to lower consensus on goals, competitive methods, and environmental perceptions.

On the positive side, however, theory suggests that diversity of perspectives will increase the cognitive resources of the board, enhancing the board's capabilities to be innovative in solving problems. Diversity of perspectives broadens the field of view and expands networks of contacts, increasing the ability of board members as a group to evaluate issues on multiple fronts and enhancing the opportunities to take appropriate actions (Bantel & Jackson, 1989; Bourgeois, 1985; De Dreu & West, 2001; Hambrick, et al., 1996; Hoffman & Maier, 1961; Jackson, 1992; Nemeth, 1986; Wiersema & Bantel, 1992). Greater task-related conflict can be beneficial when considering complex decisions (Carpenter, 2002; Jehn, Chadwick, & Thatcher, 1997; Williams & O'Reilly, 1998) and can lead to productive exchanges of information among members as they negotiate a decision which incorporates the various perspectives of the members (Bettenhausen & Murnighan, 1985; Westphal & Fredrickson, 2001; Williams & O'Reilly, 1998). More perspectives will provide the group with greater breadth and depth of information, a greater variety of skills, and greater "sociocognitive horsepower" (Carpenter, 2002: 277) which may lead to improved analysis of strategic options and strategy formulation (Alexander, Fennell, & Halpern, 1993; Bourgeois, 1985; Daily, Certo, & Dalton, 1999; Haleblian & Finkelstein, 1993; Jackson, Brett, Sessa, Cooper, Julin, & Peyronnin, 1991). Nemeth (1986: 23) suggests that "[m]inority viewpoints are important, not because they tend to prevail but because they stimulate divergent attention and thought. As a result, even when they are wrong they contribute to the detection of novel solutions and decisions that, on balance, are qualitatively better."

The literature provides evidence regarding the impact of diversity of work and educational backgrounds in top management teams and boards. For example,

heterogeneity in functional background and educational level of the top management team relates positively to innovativeness (Bantel & Jackson, 1989) and changes in organizational strategy (Wiersema & Bantel, 1992). Murray (1989) found that occupational heterogeneity of the top management team was negatively related to shortterm performance in the oil industry firms in his sample but not in the food industry firms, indicating that the impact of occupational heterogeneity may be different in different industries. For example, heterogeneity may be more beneficial in novel, complex situations and in turbulent environments and homogeneity may be more beneficial in more routine situations and stable environments (Carpenter, 2002; De Dreu & Weingart, 2003; Hambrick, et al., 1996; Hambrick & Mason, 1984; Jackson, 1992). In studies focusing on boards, Goodstein, Gautam, and Boeker (1994) found fewer strategic changes were associated with occupationally diverse boards, but Golden and Zajac (2001) found that occupational heterogeneity was linked to strategic change in a curvilinear manner, with increasing heterogeneity predicting increased strategic change up to a point before turning negative. Ford-Eickhoff, Plowman and McDaniel (2011) found that hospitals with boards that are characterized by a greater breadth of expertise are more likely to exhibit an external focus in making strategic choices. And Carpenter and Westphal (2001) found that the number of functional areas in which directors had prior experience significantly predicted the level of board monitoring of management's strategic decision making in both stable and unstable organizational environment contexts.

Similar to human capital in the form of board experience, human capital in the form of work and educational experiences increases the capabilities of board members to

participate fully in the strategic decision making process because they are able to draw upon the knowledge and skills developed through those experiences and apply them to issues the organization is currently facing. These work and educational backgrounds then enhance the potential for board members to contribute directly to formulating strategy rather than acting only as monitors or advisors.

Proposition 1: When board members possess human capital by virtue of having board-level experiences, business experiences, and educational/training experiences, they are more capable of participating directly in forming organizational strategy.

# **Boards as Social Capital**

Nahapiet and Ghoshal (1998: 243) define social capital as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit." Social capital is another origin of valuable resources for boards, resources that result from the networks of relationships of the board members. Nahapiet and Ghoshal (1998) further define the social capital concept to be comprised primarily of three, interrelated dimensions: structural, relational, and cognitive. The structural dimension involves the overall pattern of connections among actors; that is, the presence or absence of network ties, the network configuration in terms of density and hierarchy, and the existence of networks created for one purpose but used for another. The relational dimension refers to the aspects of social capital accruing from the relationships in these networks such as the development of trust, norms, obligations, expectations, and identification with the group. The cognitive dimension involves the shared interpretations, language and systems of meaning which

result from shared experiences within stable, dense networks characterized by high levels of interaction (Boisot, 1995; Orr, 1990). Scholars have suggested that individuals build social capital by filling "structural holes" when they bridge the gaps between disconnected others (Burt 1992) and by having strong ties with others in cohesive social networks (Fukuyama, 1995). The notion that network ties provide members access to resources is fundamental to the social capital concept (Adler &Kwon, 2002; Nahapiet & Ghoshal, 1998), and thus organizations accrue social capital through members' efforts to develop their own individual social capital. Organizations clearly also benefit from their members' access to knowledge, information, and a sense of purpose (Cohen & Prusak, 2001).

Several important benefits of social capital at the organizational level have been identified in the literature. Through the encouragement of cooperative behavior, social capital facilitates innovative and flexible organization (Fukuyama, 1995; Jacobs, 1965; Leana & Van Buren, 1999; Putnam, 1993), individual commitment to the greater good and to the organization (Leana & Van Buren, 1999), the acquisition of skills and knowledge (Podolny & Page, 1998), and greater coherence of action (Cohen & Prusak, 2001). Social capital based on high levels of trust may reduce the need for monitoring processes (Portes, 1998; Putnam, 1993) and lower transaction costs both within the organization and between the organization and its customers (Cohen & Prusak, 2001). Strong norms of cooperation within the social network also reduce the need for formal controls (Adler & Kwon, 2002) and help organizations weather volatile environments through the sense of solidarity engendered among organizational members who are committed to a shared mission and vision (Cohen & Prusak, 2001). And social capital is

necessary for organizations to develop dynamic capabilities (Blyler & Coff, 2003; Dyer & Singh, 1998) and facilitates entrepreneurship and product innovation (Chong & Gibbons, 1997; Gabbay & Zuckerman, 1998; Tsai & Ghoshal, 1998; Walker, Kogut, & Shan, 1997).

Social capital is also important for the development of a particularly crucial organizational resource: intellectual capital, or the knowledge and knowing capability of organizations. It does this by affecting the conditions needed for knowledge exchange and combination to occur (Hargadon & Sutton, 1997; Leana & Van Buren, 1999; Nahapiet & Ghoshal, 1998). Nahapiet and Ghoshal (1998: 252) note that "it is well established that significant progress in the creation of intellectual capital often occurs by bringing together knowledge from disparate sources and disciplines." Norms valuing diversity of perspectives, openness to criticism, and tolerance of failure have been shown to be important in the creation of intellectual capital (Leonard-Barton, 1995). Social capital, through its role in developing intellectual capital, is a pivotal component in the organization's ability to develop unique competitive advantage (Leana & Van Buren, 1999).

Although generally focusing on the positive consequences of social capital (Portes, 1998), scholars have noted that social capital is not always beneficial. The same strong norms and identification with others in a network which may result in improved group performance may also limit the openness of network members to alternative ways of doing things, producing a pathological "groupthink" (Janis, 1972; Leonard-Barton, 1995; Perrow, 1984; Turner, 1976). A side effect of high levels of social capital may be a restriction of access to diverse sources of ideas and information (Kor &

Sundaramurthy, 2009; Nahapiet & Ghoshal, 1998) or unthinking loyalty to shared beliefs (Cohen & Prusak, 2001). As Powell and Smith-Doerr (1994: 393) put it, the "ties that bind may also turn into ties that blind." Therefore, organizations which make effective use of social capital must constantly balance the benefits of social capital and its potential downside (Boland & Tenkasi, 1995; Etzioni, 1996; Leonard-Barton, 1995; Nahapiet & Ghoshal, 1998) in much the same way that the benefits of diversity of perspectives must be balanced with the potential disadvantages.

Social capital in the form of networks of board members and a collaborative relationship between board members and their CEOs are particularly relevant to understanding board and organizational performance (Carpenter & Westphal, 2001; Kor & Sundaramurthy, 2009).

#### Networks

The complex world today makes it impossible for any one individual to know everything important for running any organization. Networks of relationships—although they may have been created for other purposes—provide channels through which information flows, reducing the costs involved in gathering information (Coleman, 1988). Networks produce these efficiencies in information transfer by providing an information screening and distribution process for the network members, transmitting information sooner to network members than they would receive it without those contacts, and providing the opportunity for members to exchange knowledge (Burt, 1992). Networks are the "incubators" of collaboration and affect the range of information that may be accessed by network members (Cohen & Prusak, 2001). By means of network

connections, individuals may gain privileged access to information and opportunities as well as social status if membership in the network is restricted (Burt, 1992; D'Aveni & Kesner, 1993). Through these networks, individuals become connected not only directly with other people who have the ability to help them but also indirectly with the resources these contacts can provide through their own networks (Adler & Kwon, 2002).

Networks are valuable assets because of the access they provide members to power, information, and knowledge. A sense of membership in the network comes from learning what the network knows through sharing skills, language, and information (Cohen & Prusak, 2001). These networks of relationships give rise to obligations and expectations for actions in the future due to feelings of gratitude, respect or friendship among members (Bourdieu, 1986; Coleman, 1990) These obligations and expectations provide motivation for exchanging knowledge and acting cooperatively (Lewicki & Bunker, 1996; Nahapiet & Ghoshal, 1998). Furthermore, these norms, obligations, and expectations may be important in the process of individuals identifying themselves as part of a group, taking the values or standards of other individuals as their frame of reference (Merton, 1968; Nahapiet & Ghoshal, 1998; Tajfel, 1982).

Disparate sources of information and differences of opinion expand knowledge bases, but meaningful communication among the diverse parties is an essential part of the social exchange process. High levels of social capital are typically developed in contexts with high levels of interaction and interdependence among people in which the linkages are strong and reciprocal (Nahapiet & Ghoshal, 1998). High levels of interaction lead to network members developing a common language, and sharing a common language facilitates access to others and to the information they possess. Shared vocabularies bind

members together and make conversing more efficient (Cohen & Prusak, 2001). This shared language enables combining information from disparate sources (Boland & Tenkasi, 1995) and also enables the formation of shared stories, powerful means of communicating information among members and preserving rich meanings (Cohen & Prusak, 2001; Nahapiet & Ghoshal, 1998).

The literature provides several insights about networks with respect to boards. Whether individuals are asked to serve on a board is often a function of the personal connections of the individuals with others in the business elite (Davis, 1993; Mintzberg, 1983) as much as the performance of the individuals as executives in their own firms (Brickley, Linck, & Coles, 1999) and their performance in their roles as board members of other firms (Coles & Hoi, 2002; Farrell & Whidbee, 2000; Westphal & Stern, 2007). In a recursive manner, an individual's position within this business elite is at least partly determined by the directorships he or she holds (Allen, 1974; Davis, 1993; Koenig, Gogel, & Sonquist, 1979; Porter, 1957). Since networks create channels through which information flows, the network formed by overlapping memberships on different boards of directors can be a mechanism for spreading techniques and innovations in governance (Davis, 1991; Haunschild, 1994; Westphal, 1999) and the policies underlying strategic decisions (Westphal, Seidel, & Stewart, 2001) from board to board. And longer tenure on a board provides the opportunity to become familiar with other board members and with the top management team, leading to the development of a common language (Kor & Sundaramurthy, 2009) which facilitates the discussion of organizational issues and strategies.

Social capital developed from the networks of board members increases the capabilities of board members to participate fully in the strategic decision making process because they are able to tap into the channels of information their networks provide, at the same time extending the information available for making strategic choices for the organization and reducing the costs of accessing that information. Board members are motivated to exchange information because of the expectations developed from their participation in their various networks and their identification with other members of these networks. And the shared languages that develop from interactions in their networks enable combining information from disparate sources in new ways to benefit the organization. In these ways, the networks of board members enhance the potential for boards to contribute directly to formulating strategy.

### Collaborative Relationship with the CEO

In addition to the social capital in the form of relationships of board members with others in their networks, a collaborative relationship between the board members and their CEO is evidence of social capital, particularly the relational and cognitive dimensions of social capital. Trust is an essential ingredient for a collaborative relationship to develop between boards and their CEOs. Trust involves confidence in the good intent of others in the exchange process (Ouchi, 1981; Pascale, 1990; Ring & Van de Ven, 1994) and belief in their competence and reliability (Giddens, 1990; Ouchi, 1981; Sako, 1992; Szulanski, 1996). Trust is a precondition for the development of social capital because the essential connections among people will not form without some level of confidence in the good intent of others. Personal contacts among people over

time provide opportunities for trust to grow as people evaluate how reliably others behave and whether they seem well-intentioned (Cohen & Prusak, 2001).

Building social capital is a complex recursive process in which social capital is both created and used. For example, in relationships where the parties trust one another, they are more willing to cooperate in activities, and, as a result of successful cooperative action, they develop higher levels of trust in one another (Fukuyama, 1995; Putnam, 1993; Tyler & Kramer, 1996). Trust of others within those relationships may then lead to the development of norms of cooperation, or "expectations that bind" (Kramer & Goldman, 1995), so that people are more willing to interact, cooperate and exchange information because that is the norm within those relationships (Fukuyama, 1995; Gambetta, 1988; Nahapiet & Ghoshal, 1998; Putnam, 1993, 1995; Ring & Van de Ven, 1992, 1994; Tyler & Kramer, 1996). The frequency and intensity of interactions provide the opportunity for cooperating and exchanging information (Kor & Sundaramurthy, 2009), and these interactions also provide the opportunity for a sense of identification with the group or organization to develop (Lewicki & Bunker, 1996; Nahapiet & Ghoshal, 1998). The trust engendered when board members and CEOs are familiar with one another mitigates the need for potentially dysfunctional impression management efforts by CEOs (Sundaramurthy & Lewis, 2003), and trust improves people's ability to deal with complexity and diversity in contexts of high ambiguity and uncertainty (Boisot, 1995; Luhmann, 1979).

Westphal and his colleagues have explored this notion of collaborative relationships between boards and their CEOs extensively, and some of these studies have focused on the outcomes of boards and their CEOs sharing a collaborative relationship.

Westphal (1999) found that stronger CEO-director social ties lead to the board providing more advice and counsel to the CEO, and this collaborative relationship between CEOs and directors leads to higher firm financial performance. Gulati and Westphal (1999) found that CEOs seeking advice and counsel from directors leads to strong cooperative relationships, and these strong cooperative relationships between the CEO and directors lead to increased likelihood of forming a joint venture alliance based on board interlocks because the close relationships build trust and confidence among the parties. Westphal and Fredrickson (2001: 1132), arguing that "new CEOs are primarily responsible for implementing strategies conceived by the board," found that boards selected successor CEOs who had prior experience with strategies similar to the strategies employed by the directors' home firms. And McDonald, Khanna, and Westphal (2008) found that CEOs were more likely to seek advice from other CEOs who are dissimilar from them in terms of their functional backgrounds and social networks when the CEOs and their boards have a collaborative relationship. This increased likelihood of CEOs seeking advice from dissimilar others then leads to improved firm performance.

Social capital in the form of collaborative relationships between boards and their CEOs increases the capabilities of board members to participate fully in the strategic decision making process because the trust in the competence and good intentions of the CEOs and board members involved in these collaborative relationships engenders a greater willingness to cooperate and exchange information. With these collaborative interactions with their CEOs, board members are more likely to have access to organization-specific information—positive and negative—because of this greater willingness to share information among the parties in the collaborative relationship. And

board members are more likely to identify with the organization because of these collaborative relationships as well. In these ways, these collaborative relationships between boards and their CEOs enhance the potential for boards to contribute directly to formulating organizational strategy.

Proposition 2: When board members possess social capital by virtue of having extensive networks and collaborative relationships with their CEOs, they are more capable of participating directly in forming organizational strategy.

## **Boards as Board Capital**

Boards are groups and therefore can benefit from pooling the resources provided by their members: human capital (i.e., experience, expertise, reputation); social capital (i.e., access to information and knowledge derived from networks of relationships); both human and social capital (Kor & Sundaramurthy, 2009). For example, Kor and Sundaramurthy (2009) describe how boards comprised of board members serving on multiple boards and board members having firm-specific knowledge contribute to greater board human capital and social capital simultaneously. Membership on multiple boards exposes board members to a variety of strategic issues, problems and potential solutions, giving them experience in dealing with diverse issues and increasing their human capital. Social capital is also increased when board members are connected to many other board members and executives as a result of their service on multiple boards. And board members' tenure on the focal board increases their firm-specific knowledge resulting in higher levels of human capital. This tenure on the focal board also increases their

opportunities to form connections with the other board members on the focal board resulting in higher social capital.

Hillman and Dalziel (2003) refer to this combination of board members' human capital and social capital as Board Capital, depicted in Figure 2. They argue that the ability of boards to provide resources in various forms to the organization hinges on their Board Capital.

Board Capital—this *combination* of human capital and social capital—is important above and beyond each form of capital considered separately. After all, boards may be rich in human capital as a result of the backgrounds and experiences of board members without being rich in social capital if members do not have extensive networks with others. To illustrate, a board comprised of several research scientists who have great expertise in their fields but who choose to live and work in isolation might enjoy high levels of human capital but not social capital. Alternatively, boards may be rich in social capital because of the extensive contacts of board members without necessarily being rich in human capital. Again to illustrate, boards comprised of several affluent socialites who have extensive social networks but who have little or no work experience might enjoy high levels of social capital but not human capital. Boards rich in Board Capital are so because they enjoy the benefits of both human capital and social capital. Such boards ought to be even more capable when participating in the strategic decision making process because they bring more total resources to a strategy-making event than do boards benefiting from only one type of capital.

Proposition 3: Board members possessing Board Capital (i.e., both human and social capital) will be the most capable of participating directly in forming organizational strategy.

### **Boards as Strategy Makers**

The human capital and social capital resources board members bring to the boardroom make board members capable of participating fully in the organizational strategic decision making process rather than being relegated to the periphery as monitors and advisors. Board Capital also means that boards are an important channel for organizations to use to access information about their environments and the strategic opportunities that exist there (Carpenter & Westphal, 2001; Fredman, 2002; Pfeffer, 1991; Pfeffer & Salancik, 1978). The expertise, experience, and networks that Board Capital represents are crucial resources for organizations to utilize in the process of determining their strategic direction and put boards in the position to be important contributors to this process (Eisenhardt & Schoonhoven, 1990; Geletkanycz, Boyd, & Finkelstein, 2001; Geletkanycz & Hambrick, 1997; Judge & Zeithaml, 1992; Lorsch & MacIver, 1989). Organizations which see their boards only as monitors or advisors are not capitalizing on their boards as the valuable resources they are capable of being for forming strategy for the organization. Tapping the board as a resource for forming organizational strategy is of particular interest to researchers and practitioners alike (Finkelstein, Hambrick & Cannella, 2009; Johnson, Daily, & Ellstrand, 1996; Judge & Zeithaml, 1992; Lorsch & MacIver, 1989; Zahra & Pearce, 1989).

The literature provides evidence that some—but certainly not all—boards are significantly involved in determining the strategy of their organizations in a variety of industries and in for-profit, not-for-profit, and international contexts. For example, Judge and Zeithaml (1992) found that approximately 30 percent of the boards in a sample drawn from hospitals, biotechnology firms, textile firms, and highly diversified Fortune 500 firms reported that the board worked with management to develop strategic choices. Pearce and Zahra (1991) found that almost half of the boards in their sample of large manufacturing and service corporations had significant power in making decisions about corporate strategies. Similarly, Lee, Alexander, Wang, Margolin, and Combes (2008) found that 60 percent of the hospital boards in their sample reported a high focus on the board's strategy/mission setting role. And in an international context, Iecovich (2004) found that approximately 30 percent of the respondents in her sample of nonprofit organizations in Israel reported the highest level of board involvement in deciding and implementing strategic changes in programs and services.

Several studies focusing on how and when boards are involved in the strategy formation process have found relationships between the characteristics of the members of the board and the organizational strategic choices made. Much of this stream of research focuses on board members as either "insiders" or "outsiders" to distinguish their level of independence. Insiders are generally defined as current and former employees or sometimes as individuals with any affiliations with the organization, and outsiders have no such affiliations (Cochran, Wood, & Jones, 1985). Outside director representation has been associated with the involvement of boards in making acquisition and restructuring decisions (Johnson, Hoskisson, & Hitt, 1993), and the proportion of insiders on the board

is negatively related to board involvement in the strategic decision making process (Judge & Zeithaml, 1992). Outside director representation has also been associated with a greater tendency to choose organizational diversification strategies (Hill & Snell, 1988), lower strategic emphasis on research and development (Baysinger, Kosnik, and Turk, 1991; Deutsch, 2005; Hill & Snell, 1988) and greater emphasis on strict adherence to environmental laws in order to avoid the costs associated with infractions (Kassinis & Vafeas, 2002). Also, the arrival of new outside directors makes a firm's decision to divest a poorly performing subunit more likely (Shimizu & Hitt, 2005).

The strategic experience of outside directors in their home firms has been found to be an important factor in determining the strategic direction of the focal organization, evidenced by the board selecting a CEO who has experience with strategies similar to the directors' home firms and who then implements similar strategies in the focal organization (Westphal & Fredrickson, 2001). Along those same lines, Haunschild (1993, 1994) found the acquisition experience of directors in their home firms was positively associated with acquisition activity in the focal firm.

When exploring how and when boards are involved in forming organizational strategy, some scholars have focused on the capabilities of board members to be involved in making strategic decisions. Carpenter and Westphal (2001) argued that experience on other boards will likely affect the degree to which directors have suitable knowledge and information in order to contribute meaningfully to strategy formation. They argued that strategy implementation will be more important than strategy development in stable environments, and therefore appointing directors who also serve on the boards of other firms which follow similar strategies in similar contexts would increase the directors'

abilities to contribute to strategic decisions in stable environments. In contrast, in unstable environments familiarity with different strategies in different contexts will likely be more beneficial to the directors' ability to contribute to strategic decisions. They found support for these hypotheses in their study of outside directors of Fortune 1000 firms. Similarly arguing that knowledge of different technologies and skills in portfolio management are needed to successfully make diversification decisions, Pearce and Zahra (1992) found that greater outsider representation on boards was associated with greater organizational diversification.

A few studies have explored the capabilities of board members to be involved in strategic decision making from the perspective of the human capital or social capital they bring to the board. For example, Kor and Sundarmurthy (2009) found in their study of entrepreneurial firms in the U.S. that various forms of firm- and industry-specific human capital and social capital represented on the board influenced the growth strategies of these firms. Stevenson and Radin (2009) found that the social capital of board members in the form of more prior relationships with other directors, more current ties with other directors, and ties with members of a dominant coalition within the board was the biggest predictor of the members' influence on board decision making. They argued that the strong ties among the board members may lead to higher levels of trust overall on the board, and board members with more connections within the board then have greater influence on board decisions. And Westphal and Milton (2000) found that directors who were in the minority in terms of functional/industry/educational background, race or gender relative to the board as a whole had more influence over board decision making

when they had higher social capital as a result of strong social connections with majority directors through common board memberships.

This literature reveals that research directed at the question of how boards impact organizational strategy has provided evidence that boards have been involved in setting strategic direction in a variety of contexts. However, board involvement in forming strategy is a complex issue. There are three levels of board involvement in strategic decision making: (1) approving/disapproving strategic decisions made by the top management team; (2) shaping strategic decisions; and (3) directly deciding the content, context, and conduct of strategy (McNulty & Pettigrew, 1999). The first level is associated with boards acting as monitors, and the second level is associated with boards acting as advisors. When boards are involved at the third level and are directly forming strategy, they are involved to a greater extent in making strategic choices than is the case for either monitors or advisors—they are acting as *strategy makers*.

Adding to the complexity of the issue, there are stages in the strategic decision making process including identifying the problem, clarifying the issues, generating and evaluating alternatives, and making a choice (Russo & Schoemaker, 2002). When acting as monitors or advisors, boards do not participate in these stages. Rather, the CEO and top management team are involved in these stages in making decisions which will then be presented to the board. However, boards acting as strategy makers are involved in these stages of decision making as well as the top management team, with each stage being subject to varying levels of board involvement. So although the literature reports research which has explored board involvement in setting the strategic direction of organizations, Finkelstein, Hambrick, and Cannella (2009: 262) recently pointed out that

there is still "much that we do not know about board involvement [in strategic decision making]."

Proposition 4: When board members are more capable of participating directly in forming organizational strategy by virtue of their human capital, social capital or Board Capital, some boards do act as strategy makers for their organizations.

Proposition 5: When board members act as strategy makers, boards participate in the stages of strategic decision making including identifying the problem, clarifying the issues, generating and evaluating alternatives, and making a choice.

### **Boards as Strategy Makers and Organizational Performance**

The resource dependence view focuses attention on the premise that access to resources is crucial to any organization (Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978). Organizations that tap into their boards as resources are developing competitive advantages which organizations that do not utilize their board resources to the same extent are lacking (Leana & Van Buren, 1999; Stiles, 2001). Boards are particularly important resources to organizations in their process of forming and choosing organizational strategies (Eisenhardt & Schoonhoven, 1990; Geletkanycz, Boyd, & Finkelstein, 2001; Geletkanycz & Hambrick, 1997; Judge & Zeithaml, 1992; Lorsch & MacIver, 1989), a process that is a fundamental component of an organization's ability to compete and prosper. The human capital and social capital board members bring to the boardroom increase the capacity of the organization to make effective strategic decisions (Baysinger & Butler, 1985; Carpenter & Westphal, 2001; Certo, 2003; Gales & Kesner,

1994; Kor & Sundarmurthy, 2009; Lorsch & MacIver, 1989; Pfeffer, 1991; Pfeffer & Salancik, 1978; Westphal, 1999).

Human capital in the form of experience with board-level authority, accountability, and strategic decisions which board members bring to the organization's strategic decision making process means that board members are better prepared to make strategic decisions for the organization. Human capital in the form of work and educational experience means that multiple perspectives are brought to bear on the issues facing the organization rather than only the CEO's or his or her management team's perspective. Human capital is a portion of a crucial foundation to enable organizational strategic decision making processes that will result in more effective strategic decisions.

Social capital in the form of the networks board members have cultivated with others expands their knowledge of strategic options available to the organization. These networks also expand board members' knowledge of opportunities and threats that exist in the organization's environment, improving their abilities to engage in sensemaking effectively. Board members who enjoy collaborative relationships with their CEOs have developed a necessary level of trust in the good intentions and capabilities of their CEOs as well as other board members, opening channels for communicating the information board members have gathered from their network sources. These communication channels open opportunities for board members to provide advice to their CEOs and for CEOs to seek their counsel. Social capital is therefore another aspect of a crucial foundation to enable organizational strategic decision making processes that will result in more effective strategic decisions.

When both human capital and social capital are present in combination, the resulting Board Capital represents the most solid base and promising opportunity for boards to participate effectively in organizational decision making processes.

Beyond the opportunity to improve the quality of the strategic decisions that result from the decision making process, another benefit arises when board resources are fully utilized. Board members are better informed of the details of the organizational context and of the strategies themselves when boards are involved in forming the organizational strategies. This familiarity will increase the board's confidence in the judiciousness of the strategies that survive the evaluation process. Boards will therefore be more likely to approve implementation of these strategies when they are confident these are wise courses of action for the organization to take.

Strategic decisions which are effective for the organization will lead to positive outcomes. Positive results that can be traced to the implemented strategies are among the important outcomes organizational decision makers look for as indicators that the chosen strategies were effective. Although there are many factors that may interpose themselves between any one implemented strategy and overall organizational performance outcomes, it is reasonable to expect an overall pattern of implementing better decisions will be more effective for the organization, thus improving overall organizational performance as well.

Of the studies in the literature discussed earlier which have explored board involvement in forming strategy, only a few addressed the connection between this involvement and organizational performance. Pearce and Zahra (1991) found that firms with boards that played a significant role in making corporate strategic decisions were associated with higher firm earnings per share and improved stock performance. Hill and

Snell (1988) found that outsider representation on the board was associated with better financial performance in their sample of Fortune 500 firms, and Kor and Sundarmurthy (2009) found that the human and social capital attributes of outsiders were significantly related to sales growth in their sample of technology-based entrepreneurial firms.

Iecovich (2004) found that the more boards were involved in making changes in organizational programs and services, the more sound was the organizational fiscal status. Lastly, Judge and Zeithaml (1992) found a positive but weak relationship between board involvement in strategic decision making and organizational financial performance. So the literature reveals some evidence that involving boards in forming organizational strategy is related to improved organizational performance, but more work is needed to expand this empirical evidence.

Proposition 6: When board members act as strategy makers, the strategic decisions which they participate in forming will be implemented by the organization.

Proposition 7: When board members act as strategy makers by participating in forming organizational strategy, there will be positive outcomes from implementing the strategic decisions.

This chapter reviewed selected literature which has explored the involvement of boards in organizational strategic decision making, the outcomes of this involvement, and the elements of human capital and social capital that may lead to greater involvement of boards in organizational strategic decision making. With this previous research as a foundation, the next chapter will describe the hypotheses of interest, sample and methodology for this study.

# CHAPTER 3 METHODOLOGY

This study explores the antecedents and consequences of the involvement of boards in the process of forming strategy for their organizations in order to expand our understanding of boards as strategy makers rather than thinking of them only in their traditional roles as monitors or advisors. This chapter describes the research questions, the hypotheses, the research design, the research variables, the participants, the research instruments, the data collection procedures, and the data analysis method for the study.

## **Research Questions**

There are two primary research questions in this study. First, if boards of directors are potentially crucial resources to organizations as the resource dependence view suggests, what factors lead to boards being directly involved in forming the strategies of their organizations rather than being relegated to the periphery of the strategic decision making process? And secondly, are there benefits to organizations when their boards are involved in forming strategy rather than only monitoring or advising the top management team members as they make the organizational strategic decisions? Chapter 2 offered propositions relating to these two broad research questions, and the hypotheses discussed in the next section describe how the questions will be addressed in this study in detail.

### **Research Hypotheses**

For boards to be effective strategy makers, boards must be capable of recognizing issues, developing alternative strategic options, evaluating those alternatives and making

strategic choices. As discussed in chapter 2, the levels of human capital, social capital, and Board Capital (i.e., the combination of human capital and social capital) that boards possess impact their capabilities to be effectively involved in strategic decision making. Two forms of human capital—the knowledge and skills developed from board experiences and those developed from work and educational experiences—are particularly important. Also, two forms of social capital—the networks of relationships among board members and the collaborative relationship between boards and their CEOs—are of particular interest. If boards are more *capable* of being involved in forming strategy by virtue of their human capital, social capital, or Board Capital, they are in a position to participate directly in the strategic decision making process. And, because of these superior capabilities incorporated into the process of forming strategy, we might expect positive outcomes for the organization from involving boards in the decision making process. These proposed relationships among the variables of interest are shown in Figure 3 and discussed in detail in the remainder of this section.

## Human Capital

The experiences of board members with decision making at the board level added to their work and educational experiences create human capital. Human capital in the form of extensive experience in making decisions at the board level increases the board members' capabilities to make strategic decisions in other contexts. This board-level experience may come from the board members serving on other boards currently or from past board service. Board members having human capital in the form of business work experiences and extensive educational experiences also leads to greater capabilities for

making strategic decisions. Similarly, board members with experience with a variety of strategies either as a result of their experiences in their home firms or from serving on other boards bring more knowledge to the strategic decision making process. The perspectives developed as a result of these work and educational experiences allow board members to make valuable contributions to the process of raising issues, developing alternatives, evaluating alternatives, and making strategic choices.

Board members with greater human capital will be more capable of forming strategy, and these capabilities will mean that boards are more valuable as resources to their organizations for forming organizational strategy. Organizations that see their boards as valuable resources will be more likely to tap into these resources by involving them in forming organizational strategy. When boards are involved in forming strategy, they participate in one or more of the stages of strategic decision making including identifying the problem, clarifying the issues, generating and evaluating alternatives, and making a choice. When boards are not involved in forming strategy but rather are acting only as monitors or advisors, they remain at the periphery of the decision making process and do not participate in these stages of decision making (see Figure 4). Since board members with more human capital will be more capable of being involved in strategic decision making, they will be more likely to characterize their boards as highly focused on organizational strategic decision making relative to other roles.

Hypothesis 1: Board members with greater human capital (i.e., board-level experience, business work experience, educational experience, and experience with different business strategies) are more likely to participate in strategic decision making by raising or clarifying issues, generating or evaluating alternatives, or choosing strategies.

Hypothesis 2: Board members with greater human capital (i.e., board-level experience, business work experience, educational experience, and experience with different business strategies) are more likely to characterize their boards as highly focused on organizational strategic decision making.

## Social Capital

Social capital arises from relationships with others. Board members who have extensive networks with other individuals with board experience have the opportunity to draw upon the board-level experiences of others as well as their own. These connections may be based on current associations with other board members or from associations on boards in the past when those connections are maintained beyond the term on the board. The relationships are opportunities for board members to develop trust, expectations, and identification with other individuals with board-level experience and to develop shared interpretations and language about organizational contexts and strategic issues. This exponentially greater exposure to issues and strategic choices improves the members' capabilities to be involved in forming strategy.

In addition to the social capital accruing from networks with other board members, the relationship between boards and their CEOs is another source of social capital. Boards which have developed collaborative relationships with their CEOs are in more frequent contact with their CEOs both in terms of board meetings and contacts outside of board meetings. Trust in the competence and reliability of all parties is important in developing collaborative relationships of this kind, and collaborative relationships are characteristically ones in which board members offer their advice and

counsel and CEOs seek that advice and counsel as well. The existence of collaborative relationships with their CEOs added to their relationships with other board members results in board members being more capable of being effectively involved in forming strategy.

Similar to human capital, boards comprised of members with greater social capital will be more capable of forming strategy, and these capabilities will mean that boards are more valuable as resources to their organizations for forming organizational strategy.

And organizations that see their boards as valuable resources will be more likely to tap into these resources by involving them in forming organizational strategy. Again, boards which are forming strategy will participate in one or more of the strategic decision making stages rather than only evaluating the strategic decisions of the top management team and will focus on this strategic decision making role.

Hypothesis 3: Boards characterized by greater social capital (i.e., networks with other board members and collaborative relationships with their CEOs) are more likely to participate in strategic decision making by raising or clarifying issues, generating or evaluating alternatives, or choosing strategies.

Hypothesis 4: Board members with greater social capital (i.e., networks with other board members and collaborative relationships with their CEOs) are more likely to characterize their boards as highly focused on organizational strategic decision making.

## **Board Capital**

Human capital (i.e., board-level experiences and work/educational experiences) and social capital (i.e., board member networks and collaborative board/CEO relationships) individually increase the capabilities of boards to be involved in forming

strategy. Boards with greater human capital and social capital in concert, or in other words with greater Board Capital, will be the most capable of forming strategy and will therefore be the most likely to be involved in forming strategy as organizations tap into their boards as resources.

Hypothesis 5: Boards characterized by greater Board Capital (i.e., greater human capital plus greater social capital in concert) are more likely to participate in strategic decision making by raising or clarifying issues, generating or evaluating alternatives, or choosing strategies than boards with human capital or social capital alone.

Hypothesis 6: Board members with greater Board Capital (i.e., greater human capital plus greater social capital in concert) are more likely to characterize their boards as highly focused on organizational strategic decision making than boards with human capital or social capital alone.

### Performance Outcomes

Boards as monitors are evaluating the decisions about organizational strategy made by the top management team. As a result, board members may have limited understanding of the issues or the organizational context that created the need for the strategic decisions. Boards as advisors also remain at the periphery of the decision making process and therefore similarly may not thoroughly understand the issues and context. However, boards as strategy makers are involved directly in the strategic decision making process by raising issues, developing alternative options for consideration, evaluating the alternatives, or making choices. This direct involvement in the strategic decision making process means that boards have a more thorough understanding of all aspects of the decision situation, and this familiarity will lead to a

greater propensity for boards to implement the strategic decisions they have been involved in making.

Board members bring a variety of backgrounds, experiences and perspectives to the decision making process, and one theoretical perspective suggests this diversity of perspectives will lead to better strategic decisions. Positive outcomes of the implemented strategic decisions, including positive financial outcomes, are indicators of the effectiveness of the decisions.

Hypothesis 7: When boards participate in one or more of the stages of strategic decision making by raising issues, clarifying issues, generating or evaluating alternatives, or choosing strategies, the resulting strategic decisions are more likely to be implemented.

Hypothesis 8: When boards participate in one or more of the stages of strategic decision making by raising issues, clarifying issues, generating or evaluating alternatives, or choosing strategies, the implemented strategic decisions are more likely to result in positive financial outcomes.

# **Research Design**

In order to gather data on the involvement of boards in forming strategy to address these hypotheses, this study employs a cross-sectional survey research design using the general medical and surgical hospital industry in the United States as the organizational context. Hospitals face a dynamic environment in which hospital strategies must address changes in health care financing, complexity in health care delivery, changes in physician-hospital relationships, rapid technological advances, intense competitive pressures, and concerns about access, quality, and cost (Alexander, Weiner, & Griffith, 2006; Fennell & Alexander, 1993). Therefore the hospital context is well suited for exploring the process of forming organizational strategy in the face of

rapid changes in the organizational competitive environment. The survey method is also well suited for this study because it facilitates asking individuals who are currently involved in the strategic decision making process in hospitals questions that are designed specifically to address the study hypotheses rather than relying on secondary data and surrogate measures.

The following sections further describe elements of the research design for this study, including the research variables, participants, research instruments, data collection procedures, and data analysis method.

#### **Research Variables**

Addressing the study hypotheses will involve several independent and dependent variables connected by the mediating variable of board involvement in forming strategy.

This section presents the specific operationalizations of these variables.

## Independent Variables

The independent variables of the study are human capital, social capital and Board Capital.

Human capital in this study is comprised of the knowledge and skills developed from the board experiences and work experiences of board members. Board experiences are measured as the combined total number of years that board members have served on boards other than the focal board, and these board experiences may be from serving on other boards currently or in the past. Work/educational experiences are measured as experiences in business-related functional areas such as finance, planning, and management, experiences in educational programs such as undergraduate, master, and

doctoral degree programs, and experiences with different business strategies identified in the Miles and Snow (1978) typology that board members have accrued through their work at their home firms or board service. The Miles and Snow (1978) "defender" strategy is characterized by offering a relatively stable set of products and services and focusing on the existing market domain. The "analyzer" strategy is characterized by monitoring the actions of other organizations that are first movers when evaluating promising new products or services and following their lead with products or services that compete with the earlier entries in some competitive facet such as cost efficiencies. The "prospector" strategy is characterized by being a first mover and responding rapidly to market opportunities. And the "reactor" strategy is characterized by a lack of a consistent pattern in the strategic approach.

Social capital in this study is comprised of relationships developed through networks with other individuals who have board experience and through collaboration with the CEO of the focal organization. Board networks are measured in terms of the three dimensions (structural, relational, and cognitive) identified by Nahapiet and Ghoshal (1998). The structural dimension, the overall pattern of connections among board members, is measured as the total number of other boards on which the board members currently serve or have served in the past. The relational dimension, which involves the development of trust, expectations, and identification with others, is measured as the number of friendship ties among board members on the focal board. And the cognitive dimension, the shared interpretations, language and systems of meaning which result from high levels of interaction within the group, is measured as the number of years board members have served on the focal board. Collaborative

relationships between boards and their CEOs are measured as the frequency of contacts both during and outside of board meetings, the frequency of board member-initiated advice giving and CEO-initiated advice seeking, and the number of friendship ties between board members and their CEOs.

Board Capital is a summative construct comprised of the elements of human capital and social capital in combination.

#### Mediator Variable

The mediator variable is board involvement in forming strategy. Board involvement is operationalized as respondents indicating that they participated in one or more of the stages of strategic decision making (i.e., raising issues, clarifying issues, developing alternative options, evaluating the alternatives, or making choices) when making a respondent-specified strategic decision.

# Dependent Variables

The dependent variables represent the performance outcomes of the involvement of boards in forming strategy in terms of the implementation of strategies that the board has been involved in forming and the financial outcomes of the implemented strategies. The implementation of strategies is measured as the percentage of strategies that the board was involved in forming that is reported by the CEO to have been implemented by the organization. The financial outcomes of the implemented strategies are measured as the financial outcomes on an eleven-point scale ranging from negative to positive as reported independently by the board members and the CEO.

#### Control Variables

Since system affiliation, hospital ownership (governmental, non-governmental not-for-profit, or investor-owned), and hospital size may possibly affect the degree of involvement of boards in forming strategy, these characteristics of hospitals are control variables in this study.

### **Targeted Participants**

Individuals who currently serve on the boards of general medical and surgical hospitals in the United States comprise the target population of interest in this study. In order to include hospitals with similar environmental and regulatory contexts, the sample consists of the board members and chief executive officers of general medical and surgical hospitals that are located in a single state in the southeastern region of the United States. The sampling frame, the *American Hospital Association Guide to the Health Care Field*, provides a roster of general medical and surgical hospitals by state and includes the contact information for the CEOs of these hospitals. Since there is no centralized roster of board members for all hospitals in the state, the CEOs are the initial points of contact for accessing their board members in order to solicit their participation.

### **Research Instruments**

To gather data as directly as possible from individuals actually making strategic decisions in hospitals, two original survey instruments developed specifically for this study ask participants to provide information about the strategic decision making process in their hospitals. One survey instrument is tailored to the members of the hospital boards, and the other survey instrument is tailored to the hospital CEOs.

The survey items address the respondents' current and past membership on hospital and non-hospital boards; the nature of their work and educational backgrounds; their demographic characteristics; and the experience they have had with strategic options categorized according to the typology developed by Miles and Snow (1978). The survey items also address the nature of the hospital board focus; the dynamics of the interactions among board members and between board members and their CEOs; the extent of board involvement in the stages of decision making (i.e., raising the issues, clarifying the issues, generating alternatives, evaluating alternatives, choosing alternatives); the extent of board involvement at the periphery of the strategic decision making process (i.e., reviewing/questioning the CEO's recommendations or accepting/ rejecting the CEO's recommendations); and the outcomes of strategic decisions in terms of implementation and financial outcomes. Table 1 shows the research variables and their related survey items.

A panel of current hospital board members reviewed the original survey instruments for clarity of wording, length of time to complete the surveys, etc. as a pilot test for the study. The panel's resounding recommendation was to substantially shorten the surveys so they would take ten minutes or less to complete. Given that the study participants will be busy executives who are frequently asked to respond to surveys, the panel's concern was that hospital board members and CEOs would not complete the surveys if it took much of their time to do so. After eliminating redundancies and questions that were not crucial to this study, the current survey instruments are approximately half the length of the original instruments. Questions were also phrased whenever possible so they could be answered by checking a box. Additional test

administrations of the surveys indicated that the current surveys take seven to eleven minutes to complete.

#### **Data Collection Procedures**

I worked with the state Hospital Association for eighteen months in an effort to gain its support for this study before contacting hospitals in the state. After receiving approval from the University of Tennessee Institutional Review Board, I called the administrative assistants of all CEOs in the general medical and surgical hospitals in the state. In this initial personal contact, I introduced myself and described my study to the administrative assistants and asked for an e-mail address so I could send the study description and survey instruments to the CEOs. With this personal approach, I attempted to gain the administrative assistant's support so that he or she would advocate for me with the CEO. I e-mailed the description of my study and the online survey links immediately after completing each phone call.

I asked the CEOs to participate in the study by completing the Hospital CEO Survey and asking the members of their board to complete the Hospital Board Member Survey, stressing that the surveys take approximately ten minutes to complete and that I will provide study summary reports to participants if they wish to receive them. I provided links in my e-mails to CEOs to enable participants to complete the surveys online, and I also offered to send paper copies of the survey instruments and postage-paid return envelopes if the CEOs preferred. By providing the option of paper copies for completing the surveys, individuals who may not have experience with online survey instruments or convenient access to the internet had equal opportunity to participate in

the study. The option of paper copies may also fit the standard method of communicating with board members for some CEOs.

Research involving top executives is plagued by low response rates, response rates that are often less than 25% (Carpenter & Westphal, 2001), so a plan for following up on the initial request for participation in this study was essential. One month after the initial e-mail, I contacted non-responding CEOs via e-mail again to encourage their own and their board members' participation. I provided links to the online surveys again and stressed that the surveys should take a short time to complete. When it was apparent that I could not expect further participation, I concluded the data collection phase at the end of 2011.

## **Data Analysis Method**

Structural equation modeling (SEM) is a statistical methodology well-suited to this study. SEM facilitates a confirmatory approach (i.e., hypothesis testing) for models representing causal processes involving multiple predictor variables each measured by multiple indicators. Unlike regression methods that are based on observed measurements only, SEM can be used to incorporate both latent (i.e., unobserved) and manifest (i.e., observed) variables. SEM also enables assessing models incorporating mediating variables and multiple dependent variables. Using SEM, the hypothesized model can be tested for its fit to the sample data in a simultaneous analysis of the entire system of variables (Blaikie, 2003; Bollen, 1989; Byrne, 2001).

This chapter presented the research questions, study hypotheses, and details regarding the research design for the study. The next chapter will provide the findings

from the analyses of the board member and CEO responses that resulted from the administration of the survey instruments.

# CHAPTER 4 STUDY FINDINGS

This study focuses on the involvement of board members in the process of forming strategy for their organizations and the outcomes of that involvement. This chapter describes the results of the analyses of data gathered via surveys from board members who are currently participating in the strategic decision making process of general medical and surgical hospitals in a state in the southeastern region of the United States. Chief executive officers of hospitals in the same state also provided their perspectives on the involvement of their board members in making strategic decisions and the results of that involvement, and this chapter presents the results of this second survey of these executives as well.

# **Study Participants**

Thirty participants identified their role as board members and completed the Hospital Board Member Survey designed to gather data for this study. Fourteen participants identified themselves as the chief executive officers (CEOs) of their hospitals and completed the Hospital CEO Survey tailored to the executives. The participants could choose to respond to the survey either on-line utilizing the SPSS mrInterview software or on paper. All participants chose to respond on-line. After extensive pilot testing and revising for clarity and efficiency, the survey instruments could be completed in approximately ten minutes.

The participating board members and CEOs represent twenty-two (22) hospitals from across the state, or nineteen percent (19%) of the general medical and surgical hospitals in the state. These twenty-two hospitals include hospitals that are small (less than 100 beds), medium (100-299 beds), and large (300 or more beds) in size. These hospitals also include governmental, non-governmental not-for-profit, and investor-owned hospitals in terms of ownership. In addition, these twenty-two hospitals in the sample include hospitals that are part of systems and those that are not. Chi square tests revealed no significant differences between the twenty-two hospitals in the sample and all hospitals in the state in terms of size, ownership, and system membership.

The participating board members represent fifteen (15) hospitals from across the state. Chi square tests revealed no significant differences between the fifteen hospitals in the sample and all hospitals in the state in terms of size, ownership, or system membership. The fourteen hospitals that participating CEOs represent were across the spectrum in terms of size, ownership, and system membership as well, and chi square tests again revealed no significant differences between the hospitals in the sample and all hospitals in the state. This is an indication that the contexts within which the participants in the sample are making decisions are representative of the hospitals in the state.

Surveys of executives are plagued by low response rates, response rates that are often less than twenty-five percent (Carpenter & Westphal, 2001). The fifteen hospitals in the board member sample represent thirteen percent (13%) of all hospitals in the state, and the fourteen hospitals in the CEO sample represent twelve percent (12%). As a comparison to these surveys for an individual's dissertation study, a 2005 survey of hospital Chairs of the Board and CEOs in the United States conducted by the Health

Research and Educational Trust (HRET) in conjunction with and funded by the American Hospital Association (AHA) resulted in nineteen percent (19%) of the hospitals in the United States being represented in the Board Chair sample and thirty-three percent (33%) of the hospitals in the United States being represented in the CEO sample. Table 2 summarizes the hospital contexts represented in the sample.

Although most of the hospital CEOs are voting members of their boards, it could be argued that including the CEOs as board members may skew the results in favor of board participation in the strategic decision making process and in the earlier stages of decision making. I therefore took the more conservative approach and used the responses from the thirty non-CEO board members for the analyses.

Of the participants who identified their primary role as board members, approximately 17% serve small hospitals, 60% medium-sized hospitals, and 23% serve large hospitals. Twenty-three percent (23%) of the board members serve governmental hospitals, 27% serve non-governmental not-for-profit hospitals, and 50% serve investor-owned hospitals. Seventy-three percent (73%) said their hospitals are members of systems.

Men comprise 87% of the board member respondents, and 93% of these respondents are white. The ages of the respondents ranged from 35 to 77 years with 13% in their seventies, 27% in their sixties, 30% in their fifties, 23% in their forties and 7% in their thirties. Board members holding an associate degree represent 3% of the sample, undergraduate degrees 47%, and graduate degrees 50%. Their functional work backgrounds include medicine, finance, accounting, marketing/sales, planning, law,

information systems, and general management. Table 3 summarizes the demographic characteristics of the board member respondents.

Tenure on the focal hospital board ranged from one year to twenty-two (22) years, with 53% of the participants serving for five years or less. Table 4 describes the tenure on the focal hospital board in more detail. Sixty percent (60%) of the board members indicated they are currently serving on other boards of directors in addition to the focal hospital's board, and 60% said they had served on other boards in the past.

### **Board Member Participation in Decision Making**

The Hospital Board Member survey asked the participants to choose a strategic decision that they had participated in making while on the hospital board. The board members indicated they had participated in strategic decisions such as deciding to construct a new hospital facility, purchase another hospital in the same city, and open a new cancer treatment center or cardiovascular treatment center.

There are stages in the strategic decision making process including identifying the problem, clarifying the issues, generating and evaluating alternatives, and making a choice (Russo & Schoemaker, 2002). In their role as strategy makers, 13% of board members indicated they had participated in raising issues initially, 50% participated in clarifying the issues, 10% participated in generating alternatives, 60% participated in evaluating alternatives, and 30% participated in choosing alternatives.

In addition to their role as strategy makers, in their roles as monitors or advisors board members review and question the CEO's recommendations and accept or reject these recommendations. Seventy-seven percent (77%) of the board members indicated

they had participated in reviewing and questioning the CEO's recommendations and 70% indicated they had participated in accepting or rejecting the CEO's recommendations regarding the strategic decision they were considering. Table 5 summarizes this participation in the decision stages and post-decision stages.

All thirty respondents indicated the decisions they considered in answering this question were ultimately implemented. Ten percent (10%) reported that the decision had negative financial outcomes, 37% reported that the decision had neutral financial outcomes, and 53% reported positive financial outcomes. Table 6 shows the percentages at each point on an eleven-point scale from negative 5 indicating the extreme negative end of the scale to positive 5 indicating the extreme positive end of the scale.

#### **Board Focus**

Many would agree that hospital boards fulfill three primary roles as depicted in Figure 5: establishing the hospital's mission and strategic direction, building and maintaining external relationships, and overseeing the hospital's management team and performance (Lee, Alexander, Wang, Margolin, & Combes, 2008). In terms of establishing the mission and strategic direction, thirteen percent (13%) of the board members indicated a low focus on this role, 37% indicated a medium focus, and 50% indicated a high focus on this role. For the role of building external relationships, ten percent (10%) reported a low focus on this role, 50% reported a medium focus, and 40% reported a high focus. And lastly, seventeen percent (17%) reported a low focus on the role of overseeing performance, 37% reported a medium focus, and 47% reported a high focus on this role.

## **Familiarity with Strategic Approaches**

The board participants were asked to indicate which of the following organizations most resembled their hospital's strategic approach:

**Organization A** maintains a "niche" within its industry by offering a relative stable set of products/services. Generally Organization A is not at the forefront of new products/services and concentrates instead on doing the best job possible in its existing arena.

**Organization B** maintains a relatively stable base of products/services while at the same time moving to meet selected, promising new product/service developments. Organization B monitors the actions of other organizations that are "first movers" and attempts to follow with a more cost-efficient or well-conceived product/service.

**Organization C** makes relatively frequent changes in its set of products/services. Organization C tries to be the "first mover" with new products/services and responds rapidly to early signals of market needs and opportunities.

**Organization D** cannot be clearly characterized in terms of its approach to changing its products/services. It does not have a consistent pattern.

Seven percent (7%) of the board members indicated Organization A most resembled their hospital, and 77% indicated Organization B, 13% indicated Organization C and 3% indicated Organization D most resembled their hospital.

When asked which of the above organizations most resembled the board members' home organizations (that is, the organizations where they are currently employed or, if retired, were formerly employed), 17% selected Organization A, 60% selected Organization B, 20% selected Organization C, and 3% selected Organization D.

### **Relationships with the CEO and Other Board Members**

Selecting from a scale of strongly disagree (SD), disagree (D), neither agree nor disagree (N), agree (A) or strongly agree (SA), board members indicated the accuracy of several statements regarding their relationships with their CEOs and other members of their board. Of particular interest, seventy-seven percent (77%) of the board members reported agreement or strong agreement that board members participate extensively during board meetings by voicing their viewpoints and concerns, eighty percent (80%) agreed or strongly agreed that board members frequently offer advice to the CEO about important decisions, and seventy-four percent (74%) agreed or strongly agreed that they considered the CEO to be a personal friend. Table 7 shows the percentage of board members responding at each level of the scale for each statement.

### The Structural Equation Model

Structural equation modeling (SEM) is an appropriate method to use in this study because of its ability to handle latent (i.e., unobserved) and manifest (i.e., observed) variables, multiple predictor variables each measured by multiple indicators, multiple dependent variables, and mediating variables. The model in this study incorporates both formative latent variables and reflective latent variables; that is, formative latent variables are *defined by the combination* of their indicators whereas the state of the reflective latent variables is *mirrored by each of their individual* indicators.

An example that illustrates a formative latent variable is socioeconomic status (SES). Socioeconomic status is defined by the combination of an individual's education, income, occupation, and residence (Diamantopoulos & Winklhofer, 2001; Edwards &

Bagozzi, 2000). Individuals who have high socioeconomic status are wealthier or more highly educated, but they do not become wealthy or educated because of high socioeconomic status (Nunnally & Bernstein, 1994). If the level of education increases for example, SES increases by definition, but an increase in SES does not necessarily indicate an increase in education. Also, formative indicators may not exhibit any particular pattern of correlations or no correlation at all. If the level of education increases, the individual's income, occupation or residence may or may not change as well. Formative indicators are not interchangeable, and each indicator is an essential ingredient in the definition of the latent construct. Therefore, omitting an indicator changes the nature of the construct (Bollen & Lennox, 1991).

In this study, the latent variables human capital and social capital are defined by the formative indicators shown in Table 8. Table 8 also shows the path weights for each indicator as it predicts its associated latent variable. Note that the sign of the estimate is not important; rather it is the absolute value of the path weights of the indicator variables that describes the prediction.

On the other hand, an example of a latent variable with reflective indicators is self-esteem. We would expect individuals with high self-esteem to reflect that self-esteem by agreeing with statements such as "I feel that I am as good as the next person." Responding to a question on the survey does not create the self-esteem but rather is a reflection of the underlying latent variable (Bollen, 1989).

In this study, the latent variables related to board member involvement in strategic decision making and board focus are reflected in the indicators shown in Table 9. Once

again note that it is the absolute value of the path weights of the indicator variables that describes the prediction level.

The outcome variables related to the implementation of strategic decisions and the financial outcomes of these decisions are manifest (i.e., observed) variables. That is, the respondents provided these data in their responses to items on the surveys.

Given the original sample size of 30 board members, the bootstrapping procedure available for the SEM analysis is appropriate because the bootstrapped sampling distribution is free from assumptions of multivariate normality. Bootstrapping, a term derived from the expression "to pull oneself up by the bootstraps," is a procedure in which multiple samples (in this case 200 samples) of the same size as the original sample (in this case samples of size 30) are randomly drawn with replacement from the original sample (Byrne, 2001). Thus, for example, board member #27 may be in one of the bootstrapped samples twice and not in another sample at all. However, each of the 200 bootstrapped samples contains only the original data; the procedure does not impute or modify the responses of the board members in the original sample.

I am particularly interested in the details of an individual board member's participation in making a particular strategic decision and the outcomes of this specific decision. This necessitates utilizing the board members' responses for their involvement in the process and for the outcomes of the specific decision they considered in answering the questions on the survey instrument because independent data on outcomes are not available at the level of the individual strategic decisions. In order to assess whether common methods bias is problematic in the data, I ran Harman's one-factor test in which all variables are entered into a factor analysis to determine if a single factor accounts for

the majority of the covariance in independent and dependent variables (Podsakoff & Organ, 1986). In this case, however, at most twenty percent (20%) of the variance could be the result of common method variance, well less than fifty percent (50%). It should be noted also that some portion of this twenty percent (20%) of the variance could in fact be due to relationships other than common method variance. Therefore, the Harmon's one-factor test indicates that common methods bias is not of substantial concern in these responses.

Estimation of the model produced a chi square ratio of 3.341 for the default model. Since the chi square ratio is influenced by sample size, various researchers have suggested that a ratio in the range of 2-5 indicates an adequate fit to the data (Marsh & Hocevar, 1985). Other measures of fit indicated poor fit of the overall model to the data ( $\chi^2$ =698.3, d.f. = 209, p = .000; root mean square error of approximation [RMSEA] = .284; comparative fit index [CFI] = .000). However, as Byrne (2001: 87) notes, "global fit indexes alone cannot possibly envelop all that needs to be known about a model in order to judge the adequacy of its fit to the sample data." Bollen (1989: 68) recommends checking the fit with the data "by comparing the magnitude, sign, and statistical significance of parameter estimates to those hypothesized in the model. In short, the model implies that the data should have certain characteristics that we can check." The next section presents the results of the model estimation regarding these expected relationships in each of the study hypotheses.

### **Findings for the Research Hypotheses**

This study proposes several hypotheses regarding the antecedents and consequences of board member involvement in strategic decision making. Before presenting the findings related to the hypotheses themselves, I will address the control variables. The control variables for this study are ownership, system affiliation, and hospital size in the belief that these various contexts for decision making may potentially impact the degree to which board members will be involved in the hospital strategic decision making process. The status of the hospital in terms of these control variables is reported in the *American Hospital Association Guide to the Health Care Field*.

The ownership type is either governmental, non-governmental not-for-profit, or investor-owned. When ownership type was incorporated in the model, the estimated path weight was not significant (-.002, p < .9) indicating that the hospital being a governmental entity or a not-for-profit or investor-owned hospital is not influencing the level of involvement of board members in the sample. System affiliation indicates whether a hospital is part of a larger system of hospitals or independent. When system affiliation was included in the model, the estimated weight was not significant (-.003, p<.7). The hospital size in this study is measured as the number of staffed beds, the typical measurement of size used in the hospital industry. When size was incorporated in the model, the estimated path weight once again was not significant (-.006, p< .4).

These hospital contexts reflecting ownership, system affiliation, and size did not have an

impact on the involvement of board members in strategic decision making in this study.

Table 10 shows the path weights for the control variables.

With that background, I will discuss the findings regarding the study hypotheses next. The first two hypotheses, depicted graphically in figures 6 and 7, relate to the influence of the human capital board members bring to the boardroom.

Hypothesis 1: Board members with greater human capital (i.e., board-level experience, business work experience, educational experience, and experience with different business strategies) are more likely to participate in strategic decision making by raising or clarifying issues, generating or evaluating alternatives, or choosing strategies.

The analysis of the data relating to human capital and board member involvement in the stages of strategic decision making resulted in a highly significant estimate (.804, p<.001), providing strong support for Hypothesis 1.

Hypothesis 2: Board members with greater human capital (i.e., board-level experience, business work experience, educational experience, and experience with different business strategies) are more likely to characterize their boards as highly focused on organizational strategic decision making.

The analysis of the data regarding the influence of human capital on board focus resulted in a path weight that was not significant (-.063, p<.60). Hypothesis 2 was not supported.

The next two hypotheses, depicted in figures 8 and 9, relate to the influence of the social capital board members bring to the boardroom.

Hypothesis 3: Boards characterized by greater social capital (i.e., networks with other board members and collaborative relationships with their CEOs) are more likely to participate in strategic decision making by raising or clarifying issues, generating or evaluating alternatives, or choosing strategies.

The analysis of the data relating to social capital and board member involvement in the stages of strategic decision making resulted in a highly significant estimate (.593, p<.001), providing strong support for Hypothesis 3.

Hypothesis 4: Board members with greater social capital (i.e., networks with other board members and collaborative relationships with their CEOs) are more likely to characterize their boards as highly focused on organizational strategic decision making.

The analysis of the data regarding the influence of social capital on board focus resulted in an estimate (-.305, p<.05) that was negative (i.e., not in the expected direction). Hypothesis 4 was not supported.

The next two hypotheses, depicted in figures 10 and 11, relate to the influence of the Board Capital (i.e., the sum of human capital and social capital) that board members bring to the boardroom.

Hypothesis 5: Boards characterized by greater Board Capital (i.e., greater human capital plus greater social capital in concert) are more likely to participate in strategic decision making by raising or clarifying issues, generating or evaluating alternatives, or choosing strategies than boards with human capital or social capital alone.

The analysis of the data relating to Board Capital and board member involvement in the stages of strategic decision making resulted in a highly significant estimate (1.397, p<.001), providing strong support for Hypothesis 5. When I ran the model with human capital alone (i.e., social capital was not included in the model), the path estimate between human capital and board member involvement in strategic decision making was .999 (p<.001). When I ran the model with social capital alone (i.e., human capital was not included in the model), the path estimate between social capital and board member

involvement in strategic decision making was .913 (p<.001). Therefore this analysis supports the hypothesis that board members with Board Capital are more likely to participate in strategic decision making than board members with either human capital or social capital alone.

Hypothesis 6: Board members with greater Board Capital (i.e., greater human capital plus greater social capital in concert) are more likely to characterize their boards as highly focused on organizational strategic decision making than boards with human capital or social capital alone.

The analysis of the data regarding the influence of Board Capital on board focus resulted in an estimate (-.368, p<.001) that was negative (i.e., not in the expected direction). Hypothesis 6 was not supported.

The last two hypotheses, depicted in figures 12 and 13, relate to the outcomes of board member involvement in forming strategy.

Hypothesis 7: When boards participate in one or more of the stages of strategic decision making by raising issues, clarifying issues, generating or evaluating alternatives, or choosing strategies, the resulting strategic decisions are more likely to be implemented.

All thirty respondents indicated the decisions they considered in answering the questions on the survey were ultimately implemented.

In order to assess this hypothesis from an independent perspective, I also asked the CEOs on the Hospital CEO Survey to tell me the percentage of decisions typically implemented if their boards were involved at each decision stage. Fifty-seven (57%) of the CEOs responded that the decisions were typically implemented if their boards were involved in raising issues, 86% said the decisions were implemented if their boards were involved in clarifying issues, 64% said the decisions were implemented if their boards

were involved in generating alternatives, 79% said the decisions were implemented if their boards were involved in evaluating alternatives, and 71% said the decisions were implemented if their boards were involved in choosing alternatives. Looking across the five decision stages, 71% of the CEOs' responses were something greater than zero as the percentage typically implemented. The average percentage of the decisions the CEOs said were typically implemented when their boards were involved in one or more of the decision stages was 68%. These data from the board members and the CEOs therefore provide support for Hypothesis 7.

Hypothesis 8: When boards participate in one or more of the stages of strategic decision making by raising issues, clarifying issues, generating or evaluating alternatives, or choosing strategies, the implemented strategic decisions are more likely to result in positive financial outcomes.

The analysis of the data relating to the financial outcomes of implemented decisions resulted in a highly significant estimate (19.399, p<.001), providing strong support for Hypothesis 8.

Again for an independent perspective, I also asked the CEOs on the Hospital CEO Survey to tell me the typical financial outcomes of implemented decisions if their boards were involved at each decision stage. Thirty-six percent (36%) of the CEOs responded that the financial outcomes were positive if their boards were involved in raising issues, 43% said the financial outcomes were positive if their boards were involved in clarifying issues, 50% said the financial outcomes were positive if their boards were involved in generating alternatives, 64% said the financial outcomes were positive if their boards were involved in evaluating alternatives, and 57% said the financial outcomes were positive if their boards were involved in evaluating alternatives, and 57% said the financial outcomes were

decision stages, 50% of the CEOs' responses indicated neutral financial outcomes and 50% indicated positive outcomes. No CEOs indicated negative financial outcomes. These data from the CEOs therefore provide additional support for Hypothesis 8. Table 11 shows the percentages of the CEOs' responses at each point on the scale from negative 5 indicating the extreme negative end of the scale to positive 5 indicating the extreme positive end of the scale.

The analysis of these data indicates that the involvement of board members in the strategic decision making process mediates the relationship between the human capital and social capital of board members and the financial outcomes of the implemented decisions. I performed additional analyses of this mediation to determine whether it represented full or partial mediation by including direct paths from human capital to financial outcomes and from social capital to financial outcomes. These additional analyses revealed that involvement in strategic decision making represents partial rather than full mediation since the direct paths from human capital and social capital to financial outcomes were also significant.

Figure 14 is a graphical depiction of the model showing all five supported hypotheses with their estimated path weights. Table 12 summarizes the standardized regression weights for the paths related to all eight hypotheses. Table 13 provides the means and standard deviations of the variables in the study, and Table 14 provides the correlations among the variables in the study.

This chapter presented the results of the analyses of the data using structural equation modeling. The next chapter provides a discussion of these findings and the practical implications.

# CHAPTER 5 DISCUSSION AND PRACTICAL IMPLICATIONS

By looking at boards as strategy makers, this study expands our understanding of the role of boards in forming strategy for their organizations rather than acting only in their traditional roles as monitors or advisors. The results of the surveys of board members and chief executive officers show that some board members *are* involved in forming strategy, evidenced by their participation in the stages of strategic decision making including raising issues, clarifying issues, generating alternatives, evaluating alternatives, and making choices. These board members are indeed directly involved in forming strategy rather than being relegated to the periphery of the decision making process when they only review the CEO's recommendations and accept or reject those recommendations.

This study shows that when board members bring greater human capital or social capital to the boardroom, they are significantly more likely to be involved in forming organizational strategy. When board members bring more human capital and social capital in concert, this Board Capital implies an even greater likelihood that they will be involved in forming strategy than when they bring either form of capital alone. These forms of capital increase the capabilities of board members to act as strategy makers rather than serving only as monitors or advisors.

These hospital board members and CEOs have also shown that strategic decisions are more often implemented when board members have participated directly in making them. Board members have the opportunity to be more thoroughly familiar with the

issues and context when they participate early in the stages of strategic decision making, and this familiarity will lead to a deeper understanding of the appropriateness of the strategy for a given situation. When board members recognize a match between the strategy and the situation, they are more likely to approve implementation of the strategy.

One could ask "So what?" The crucial piece of this equation is that the results of the board member and CEO surveys in this study have also shown a strong positive relationship between the implemented decisions and their financial outcomes when board members are involved in the early stages of strategic decision making. Savvy CEOs will recognize the importance of tapping into this valuable resource by creating opportunities for board members to participate early in the strategic decision making process rather than attempting to "manage" their boards into unthinkingly following the CEOs' recommendations. Savvy CEOs will also seek the counsel of their board members whenever strategic decisions are under consideration and will communicate information fully and freely to their boards in order to enhance their board members' capacity to apply their knowledge and skills to the specific situation at hand. These respondents have shown that board members, as a result of their human capital and social capital, bring insights to the process of forming organizational strategy that pay off in terms of the financial outcomes of those strategies. Although many other factors can intercede between individual strategic decisions and overall organizational performance, it is reasonable to think that an overall pattern of implementing effective decisions will flow through to improve overall organizational performance.

The results of this study have shown that the involvement of board members in the strategic decision making process partially mediates the link between the human capital, social capital, or Board Capital they bring to the organization and the financial outcomes of the decisions they make. That is, the human capital and social capital of the board members have some direct influence on the financial outcomes of strategic decisions, but it is the board member involvement in forming strategy that has a highly significant positive effect on the financial outcomes of the decisions. So organizations that focus attention on ensuring that their boards are comprised of individuals with human capital and social capital still fall short of recognizing the true value of their boards when compared to organizations that not only form these capable boards but also ensure the involvement of their boards early in the strategic decision making process.

The respondents clearly indicated a highly significant relationship between the forms of capital and the involvement of board members directly in the strategic decision making process, evidenced by their efforts in raising and clarifying issues, and generating, evaluating, and choosing alternatives. On the other hand, the presence of more human capital, social capital, or Board Capital was not related to the board members' perceptions of the primary focus for their boards. It is noteworthy that these board members did not simply respond that their boards were highly focused on all three of the primary roles for hospital boards. These boards do have different degrees of focus on the roles within their hospitals. But it appears that the overall focus of the hospital board is being determined by factors other than the human capital, social capital or Board Capital the members bring to the boardroom. It could be that the primary focus for the board is mandated by higher levels of governance within hospital systems or at the corporate level for investor-owned hospitals. The primary focus of the board may also be based on the historical focus of the board or on public demands. So essentially boards

may be more highly focused on building relationships with the external community or overseeing the performance of the top management team rather than on establishing the strategic direction of the hospital for reasons like these regardless of the human capital or social capital that the board members bring to their organizations.

The limitations of this study invite future research in several areas. Board members and CEOs who are currently making decisions within the contexts of twentytwo hospitals in one state in the southeastern United States participated in this study so we should be cautious about generalizing these results to all hospitals or to other types of organizations. Future research that includes responses from a larger sample of people making decisions in hospitals and other organizations in other parts of the United States or the world would add confidence that the conclusions of this study are appropriate in other geographical and organizational contexts. Respondents in this study reflected on strategic decisions they had participated in making in the past in order to resolve confidentiality concerns and to incorporate lag time between the time the decisions were made and when they were implemented and between the implementation of the decisions and the financial outcomes of the implementation. This approach has obvious benefits; however, incorporating this lag time also leads to potential problems of inaccurate recall of events that took place some time ago. Future research that addresses decisions being made by board members at the present time will likely provide additional insights. Furthermore, additional insights will undoubtedly be gleaned from researchers observing first hand the decision making process as it takes place in the boardroom rather than relying on survey instruments.

#### **Practical Implications**

The results of research studies often provide information about factors that may lead to improved organizational performance, but these factors are then not under the control of organizational members or are simply not actionable. This is not the case with this study. Rather, this study has a number of practical implications, suggesting several steps that the committees charged with nominating board members can take in their organizations to improve the outcomes of strategic decisions.

The results of this study suggest that selecting board members who bring human capital to the decision making process will be more likely to aid the organization in forming strategy. This human capital may be in the form of board-level service or work and educational experience, all of which can be ascertained by those charged with nominating board members. The results of this study provide even more guidelines, however, beyond the board, work, and educational experience of potential board members. These results show that the most important characteristics in determining board members' human capital is long tenure on other boards on which the individual is currently serving, exposure to different competitive strategies through other board service currently and in the past, and experience with competitive strategies in the individual's home firm. Therefore, nominating committees can narrow their focus to selecting board members who have more years serving on their current boards and more diverse experience with competitive strategies rather than necessarily attempting to find individuals with all of the components of human capital as it is defined here. That is, the results of this study indicate these are more important sources of human capital than are longer tenure on boards in the past, business-related backgrounds, or more education.

Similarly, board members who bring more social capital to the decision making process will be more likely to be involved early in the strategic decision making process. Social capital in the form of networks with other board members and collaborative relationships with the organization's executives is an important consideration. Once again, however, the results of this study indicate even more finely-tuned actions that nominating committees may take. The results of this study indicate that the most important forms of social capital are long tenure on the focal board and collaborative relationships with their CEOs, relationships where board members freely offer advice and CEOs frequently seek their counsel. These are observable characteristics that can be assessed as part of the process of selecting individuals to serve on the board.

The findings of this study not only have ramifications in terms of selecting individuals to serve on the board but also on board policies and processes. Since longer tenure on boards is an important antecedent to board member involvement in strategic decision making, board policies that restrict the number of years an individual may serve on the focal board are potentially doing more harm than good. Similarly, board policies that restrict the number of other boards on which the individual is currently serving may negatively affect the board member's ability to participate in the decision making process. Also board policies that attempt to structure board composition to maintain as much board member independence from management as possible may be sacrificing board member effectiveness in strategic decision making that comes as a result of collaborative relationships with management.

This study suggests that board processes should also be designed to enhance opportunities for board members to offer advice freely and for CEOs to seek the advice

and counsel of their boards. Friendship ties among board members and between board members and their CEOs are more important in these findings than the number of formal board meetings for example. Board retreats and other mechanisms for creating opportunities for the exchange of ideas outside of formal board meetings are examples of these board processes, and this study provides evidence that these opportunities are important to the strategic decision making process and its outcomes.

The results of this study have also shown that selecting board members with both human capital and social capital, or Board Capital, is better still in terms of the involvement of the board in forming organizational strategy. Therefore, focusing on individuals who bring more tenure on the focal board and other boards currently, more experience with competitive strategies, and a disposition to share a collaborative relationship with organizational executives will have the best potential for setting the stage for more involvement by board members in the strategic decision making process.

This greater involvement by board members in forming strategy then increases the potential for strategies to be implemented and for these implemented strategies to have positive financial outcomes. Such outcomes are certainly worthy of considerable attention in the process of nominating and selecting board members. An organizational strategic decision making process that too often results in a lot of talk and no action is a waste of some of the most valuable resources for any organization: the time and intellect of the individuals involved in meetings and discussions about plans that never come to fruition. This study provides evidence that basing selections of board members on the specific forms of human capital and social capital they will bring to the organizational

strategic decision making process will enhance the opportunities for the organization to attain such outcomes as implementing more – and more effective – strategic decisions.

### CHAPTER 6 CONCLUSION

This study took an in-depth look at the inner workings of decision making that is taking place in the boardrooms of hospitals today. People who are currently making these decisions reflected on actual decisions they have participated in making for their hospitals and provided details of the decision making process for these real decisions. Rather than coming into the strategic decision making process only at the end to either approve or reject the CEO's recommendations, these board members indicated they are involved in raising issues, generating alternatives, and the other early stages of the process as well. When they have human capital (particularly in the form of longer tenure on other boards and experience with diverse competitive strategies) or social capital (particularly in the form of longer tenure on the focal board and collaborative relationships with their CEOs), or better yet, when they have Board Capital (both human capital and social capital in concert), these board members are capable of participating directly in forming strategy for their hospitals. And they do. And when they are directly involved, the decisions are more likely to be implemented and the financial outcomes associated with the implemented decisions are more likely to be positive.

Board members are important boundary spanners for organizations and as such are crucial resources. Their experiences with decision making at the board level – at the apex of the organization – and their experiences with the competitive strategies of their home organizations and other organizations for which they serve on the board mean that board members come to the focal board with experiences that are valuable resources in the strategic decision making process. Their abilities to draw upon their networks with

others serving as board members and collaborate with the management team of the focal organization puts board members in the position to offer sound advice in the strategic decision making process, another valuable resource. Board members are important conduits for gaining access to information, experiences with strategic options, and connections in the organization's environment.

This dissertation opened with a quote from the book *Inside the Boardroom* (2005) in which authors Richard Leblanc and James Gillies suggest that we have learned relatively little over the last century about the ways board members make decisions.

These respondents have provided important illumination of what happens inside the boardroom. This study has also shown that there are identifiable antecedents and positive consequences of boards acting as strategy makers.

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## **APPENDICES**

## APPENDIX A Tables

**Table 1. Research Variables and Associated Survey Items** 

RESEARCH VARIABLES	SURVEY ITEMS				
Human capital:					
Board experience	Approximately how long (total years combined) have you been a member of the <u>hospital</u> boards you are currently serving on? For example, if you have served on one board for 2 years and another board for 5 years, you would answer 7 total years combined here.				
	Approximately how long (total years combined) have you been a member of the <u>non-hospital</u> boards you are currently serving on?				
	Approximately how long (total years combined) were you a member of the <u>hospital</u> boards in the past?				
	Approximately how long (total years combined) were you a member of these <u>non-hospital</u> boards in the past?				
Work/educational experience	Please indicate which one of the following best describes your primary functional background (if you are retired, please indicate your prior primary functional background):				
	amedicine bhealthcare organization administration cfinance daccounting emarketing fplanning ghuman resources hlaw iinformation systems jgeneral management kinternational management lpublic affairs mreligious nagriculture oother (please describe)				

**Table 1. Continued** 

RESEARCH VARIABLES	SURVEY ITEMS
Human capital:	
Work/educational experience (cont.)	Please indicate your highest educational degree:  aless than high school bhigh school cassociate degree (major: ) dundergraduate degree (major: ) emaster degree (major: ) fgraduate degree above master:

**Table 1. Continued** 

RESEARCH VARIABLES	SURVEY ITEMS		
Human capital:			
Work/educational experience (cont.)	ORGANIZATION C makes relatively frequent changes in its set of products/services. Organization C tries to be the "first mover" with new products/services and responds rapidly to early signals of market needs and opportunities.  ORGANIZATION D cannot be clearly characterized in terms of its approach to changing its products/services. It does not have a consistent pattern.  Which organization above is most similar to your "home" organization (the organization where you are currently employed or where you were employed before retirement)?  Organization (A, B, C, or D)		
	If you currently serve on other boards, do any of those organizations resemble:		
	a. Organization A Yes No b. Organization B Yes No c. Organization C Yes No d. Organization D Yes No  If you served on other boards in the past, did any of those organizations resemble:		
	a. Organization A Yes No b. Organization B Yes No c. Organization C Yes No d. Organization D Yes No		

**Table 1. Continued** 

RESEARCH VARIABLES	SURVEY ITEMS
Social capital:	
Networks	How many other <u>hospital</u> boards are you currently serving on?
	How many <u>non-hospital</u> boards are you currently serving on?
	How many other <u>hospital</u> boards have you served on in the past?
	How many <u>non-hospital</u> boards have you served on in the past?
	I consider 50% or more of the other board members to be personal friends of mine (strongly disagree=1; strongly agree=5)
	How long have you been a member of this hospital board?
Collaborative relationship with	How many times per year does the full board meet?
CEO	I frequently meet with the CEO to discuss hospital business outside of board meetings (strongly disagree=1; strongly agree=5)
	I consider the CEO to be a personal friend of mine (strongly disagree=1; strongly agree=5)
	Board members frequently offer advice to the CEO about important decisions (strongly disagree=1; strongly agree=5)
	The CEO frequently seeks advice from board members when making important decisions (strongly disagree=1; strongly agree=5)

**Table 1. Continued** 

RESEARCH VARIABLES	SURVEY ITEMS
Board Involvement in Strategy Formation	Please think about a major strategic decision that has been considered at your hospital during your time on the board. Such a decision would have a long-term impact that affects the entire or very nearly the entire hospital, usually involves a large investment of time, money, and energy, and has large potential consequences. Examples of major strategic decisions would be deciding to focus on cancer treatment by opening a cancer center or deciding to consolidate pediatric services with another hospital in a cooperative arrangement.  Focusing on this example, indicate your participation in this decision. Check as many of these activities as appropriate.  araising the issue initially bclarifying the issue cgenerating alternatives devaluating alternatives echoosing alternatives freviewing/questioning the CEO's recommendation gaccepting or rejecting the CEO's recommendation
Board Focus	Many would agree that hospital boards fulfill three roles: establishing the hospital's mission and strategic direction, building and maintaining external relationships, and overseeing the hospital's management team and performance. Hospital boards can take different strategic approaches to their own focus and involvement when guiding the hospital. For example, boards can focus to a low, medium, or high degree on each of these roles. No strategic approach is inherently good or bad.  How would you characterize this hospital board's focus on: a. establishing the hospital's mission and strategic direction (low, medium, or high)

**Table 1. Continued** 

RESEARCH VARIABLES	SURVEY ITEMS
Board Focus	b. building and maintaining external relationships (low, medium, or high) c. overseeing the hospital's management team and performance (low, medium, or high)
Performance Outcomes:	
Decisions implemented	Was this strategic decision implemented by your hospital?  Considering strategic decisions in your hospital generally, what percentage of the decisions are typically implemented if your hospital board participates in:  a. raising the issue initially (percentage from 0 to 100)  b. clarifying the issue (percentage from 0 to 100)  c. generating alternatives (percentage from 0 to 100)  d. evaluating alternatives (percentage from 0 to 100)  e. choosing alternatives (percentage from 0 to 100)  f. reviewing/questioning the CEO's recommendation (percentage from 0 to 100)  g. accepting or rejecting the CEO's recommendation (percentage from 0 to 100)
Financial outcomes	What were the financial outcomes of the implemented decision on the following scale: (eleven point scale from -5 = negative to +5 = positive)

**Table 2. Summary of Hospitals Represented in Sample** 

DESCRIPTION	BOARD MEMBER SAMPLE	CEO SAMPLE	COMBINED SAMPLE
Number of Participants	30	14	44
Number of Hospitals Represented	15	14	22
Parcentage of	13%	12%	19%
Percentage of Hospitals in State	1370	1270	1970

**Table 3. Demographics of Participating Board Members** 

DEMOGRAPHIC	BOARD MEMBERS	PERCENTAGE OF SAMPLE
Male	26	87%
Female	4	13%
Black/African American	1	3%
White	28	93%
Not reported	1	3%
Highest Degree:		
Associate	1	3%
Undergraduate	14	47%
Master	3	10%
M.D.	9	30%
Ph.D.	1	3%
J.D.	2	7%
Age:		
30-39	2	7%
40-49	7	23%
50-59	9	30%
60-69	8	27%
70-79	4	13%

**Table 4. Tenure of Participating Board Members on Focal Board** 

YEARS ON FOCAL BOARD	BOARD MEMBERS	PERCENTAGE OF SAMPLE
Years on Focal Board:		
1-5	16	53%
6-10	11	37%
11-15	1	3%
16-20	0	0%
21-25	2	7%

**Table 5. Participation of Board Members in Decision Stages** 

DECISION STAGES	BOARD MEMBERS	PERCENTAGE OF SAMPLE
As Strategy Makers:		
raising issues initially	4	13%
clarifying issues	15	50%
generating alternatives	3	10%
evaluating alternatives	18	60%
choosing alternatives	9	30%
As Monitors/Advisors:		
reviewing and questioning	23	77%
CEO's recommendations		
accepting or rejecting CEO's recommendations	21	70%

## Table 6. Financial Outcomes on the Scale -5 = Very Negative Outcomes to +5 = Very Positive Outcomes

SCALE	BOARD MEMBERS	PERCENTAGE OF SAMPLE		
-5 = very negative outcome	1	3.3%		
-4	0	0		
-3	0	0		
-2	1	3.3%		
-1	1	3.3%		
0 = neutral outcome	11	37.0%		
1	1	3.3%		
2	2	6.7%		
3	5	16.7%		
4	4	13.3%		
5 = very positive outcome	4	13.3%		

Table 7. Percentages of Respondents Reporting Levels of Agreement with Statements Regarding their Relationships with the CEO and Other Board Members

STATEMENTS ON BOARD SURVEY		RESPONSE SCALE <sup>a</sup>		a	
	SD	D	N	A	SA
the CEO seeks alternative viewpoints from board members when making important decisions		10%	3%	47%	40%
board members participate extensively during board meetings by voicing their viewpoints and concerns		13%	10%	37%	40%
board members frequently offer advice to the CEO about important decisions		7%	13%	50%	30%
the CEO frequently seeks advice from board members when making important decisions		3%	23%	40%	33%
I consider the CEO to be a personal friend of mine		7%	20%	47%	27%
I consider 50% or more of the other board members to be personal friends of mine	3%	40%	23%	27%	7%
I frequently meet with the CEO to discuss hospital business outside of board meetings		37%	20%	27%	17%
I frequently meet with other board members to discuss hospital business outside of board meetings	3%	50%	23%	13%	10%
I frequently see the CEO outside of board meetings in social activities that are not related to the hospital or my work	7%	37%	17%	30%	10%
I frequently see other board members outside of board meetings in social activities that are not related to the hospital or my work		27%	23%	43%	7%

<sup>&</sup>lt;sup>a</sup> SD = Strongly Disagree, D = Disagree, N = Neutral, A = Agree, SA = Strongly Agree

Table 8. Formative Latent Variables, Indicators, and Standardized Regression Weights

LATENT VARIABLES	FORMATIVE INDICATORS	ESTIMATE	P
Human capital:			
Board experience	number of years serving on other hospital and non-hospital boards currently	.692	***
	number of years serving on other hospital and non- hospital boards in the past	110	N.S.
Work/ educational experience	business-related functional work background	199	**
	highest educational degree	153	*
	experience with multiple strategic approaches as a result of serving on other boards currently and in the past	565	***
	experience with the Miles and Snow Defender, Analyzer, or Prospector strategic approaches in the home firms	.354	***

<sup>\*\*\*</sup> significant at the .001 level; \*\* significant at the .01 level; \* significant at the .05 level; N.S. = Non-Significant

**Table 8. Continued** 

LATENT VARIABLES	FORMATIVE INDICATORS	ESTIMATE	P
Social capital:			
Networks	number of other hospital and non-hospital boards currently	.097	N.S.
	number of other hospital and non-hospital boards in the past	111	N.S.
	consider 50% or more of other members of focal board to be personal friends	.227	**
	tenure on focal board	358	***
Collaborative relationship with CEO	number of formal board meetings per year	.075	N.S.
	frequently meet with CEO regarding hospital business outside of formal board meetings	.002	N.S.
	frequently offer advice to CEO about important decisions	592	***
	CEO frequently seeks advice about important decisions	.443	***
	consider the CEO to be a personal friend	493	***

<sup>\*\*\*</sup> significant at the .001 level; \*\* significant at the .01 level; \* significant at the .05 level; N.S. = Non-Significant

Table 9. Reflective Latent Variables, Indicators, and Standardized Regression Weights

LATENT VARIABLES	REFLECTIVE INDICATORS	ESTIMATE	P
Board involvement in strategic decision making	participate in raising the issue initially	.919	***
	participate in clarifying the issue	859	***
	participate in generating alternatives	888	***
	participate in evaluating alternatives	736	***
	participate in choosing alternatives	380	*
Board focus	characterize the board focus on establishing the hospital's mission and strategic direction	1.408	***

<sup>\*\*\*</sup> significant at the .001 level; \*\* significant at the .01 level; \* significant at the .05 level; N.S. = Non-Significant

**Table 10. Control Variables** and Standardized Regression Weights

CONTROL VARIABLES	ESTIMATE	P
Ownership Type	002	N.S.
System Affiliation	003	N.S.
Hospital Size	006	N.S.

<sup>\*\*\*</sup> significant at the .001 level; \*\* significant at the .01 level; \* significant at the .05 level; N.S. = Non-Significant

Table 11. Percentage of CEOs Reporting Financial Outcomes When Board Members are Involved in the Decision Stages on the Scale -5 = Very Negative Outcomes to +5 = Very Positive Outcomes

DECISION STAGE	SCALE	PERCENTAGE OF CEOs
participate in	-5 = very negative outcome	0
raising the issue initially		
	-4	0
	-3	0
	-2	0
	-1	0
	0 = neutral outcome	64.3%
	1	7.1%
	2	7.1%
	3	7.1%
	4	7.1%
	5 = very positive outcome	7.1%

**Table 11. Continued** 

DECISION STAGE	SCALE	PERCENTAGE OF CEOs
participate in clarifying the issue	-5 = very negative outcome	0
	-4	0
	-3	0
	-2	0
	-1	0
	0 = neutral outcome	57.1%
	1	7.1%
	2	0
	3	21.4%
	4	7.1%
	5 = very positive outcome	7.1%

**Table 11. Continued** 

DECISION STAGE	SCALE	PERCENTAGE OF CEOs
participate in	-5 = very negative outcome	0
generating		
alternatives		
	-4	0
	-3	0
	-2	0
	-1	0
	0 = neutral outcome	50.0%
	1	0
	2	21.4%
	3	14.3%
	4	7.1%
	5 = very positive outcome	7.1%

**Table 11. Continued** 

DECISION STAGE	SCALE	PERCENTAGE OF CEOs
participate in	-5 = very negative outcome	0
evaluating		
alternatives		
	-4	0
	-3	0
	-2	0
	-1	0
	0 = neutral outcome	35.7%
	1	7.1%
	2	14.3%
	3	28.6%
	4	7.1%
	5 = very positive outcome	7.1%

**Table 11. Continued** 

DECISION STAGE	SCALE	PERCENTAGE OF CEOs
participate in	-5 = very negative outcome	0
choosing		
alternatives		
	-4	0
	-3	0
	-2	0
	-1	0
	0 = neutral outcome	42.9%
	1	14.3%
	2	14.3%
	3	14.3%
	4	7.1%
	5 = very positive outcome	7.1%

**Table 12. Standardized Regression Weights for Paths Related to Hypotheses** 

HYPOTHESIS	PATH	ESTIMATE	P
H 1	Human capital → Involvement	.804	***
H 2	Human capital → Focus	063	N.S.
H 3	Social capital → Involvement	.593	***
H 4	Social capital → Focus	305	*
H 5	Human capital + Social capital → Involvement	1.397	***
H 6	Human capital + Social capital → Focus	368	***
H 7	Involvement → Implemented	N/A	N/A
H 8	Involvement → Financial Outcomes	19.399	***

<sup>\*\*\*</sup> significant at the .001 level; \*\* significant at the .01 level; \* significant at the .05 level; N.S. = Non-Significant

N/A = Not Available since 100% of the decisions were implemented (i.e., constant)

Table 13. Means and Standard Deviations of Variables in the Study<sup>a</sup>

VARIABLE	М.	S.D.
Number of years on other boards currently	13.367	15.971
Number of years on other boards in past	11.733	15.744
Business-related functional work background <sup>b</sup>	.533	.507
Highest educational degree <sup>c</sup>	4.867	1.008
Experience with strategic approaches on boards <sup>d</sup>	1.700	1.822
Experience with strategic approaches at home firm <sup>e</sup>	1.967	.183
Number of other boards currently	1.567	1.654
Number of other boards in past	2.033	2.205
Consider ≥50% of focal board members to be friends <sup>f</sup>	2.930	1.048
Tenure on focal board	6.130	5.144
Number of formal board meetings per year	9.270	3.473
Frequently meet with CEO outside of board meetings <sup>f</sup>	3.230	1.135
Frequently offer advice to CEO <sup>f</sup>	4.030	.850
CEO frequently seeks advice <sup>f</sup>	4.030	.850
Consider CEO to be friend <sup>†</sup>	3.930	.868
Participate in raising the issue initially <sup>g</sup>	.130	.346
Participate in clarifying the issue <sup>g</sup>	.500	.509
Participate in generating alternatives <sup>g</sup>	.100	.305
Participate in evaluating alternatives <sup>g</sup>	.600	.498
Participate in choosing alternatives <sup>g</sup>	.300	.466
Characterize board focus on strategic direction <sup>h</sup>	2.370	.718
Strategic decision implemented <sup>1</sup>	1.000	.000
Financial outcomes <sup>j</sup>	7.600	2.430
Ownership <sup>k</sup>	1.970	.718
System affiliation <sup>g</sup>	.730	.450
Size <sup>1</sup>	258.630	148.961

 $<sup>^{</sup>a}$  n=30

<sup>&</sup>lt;sup>b</sup> business-related = 1; other = 0

cless than high school = 1 through M.D./Ph.D./J.D. = 6

d no experience with Miles/Snow four strategy types = 0 through experience with all = 4 e similar to Miles/Snow "reactor" strategy = 1; otherwise = 2

f strongly disagree = 1 through strongly agree = 5

 $<sup>^{</sup>g}$  no = 0; yes = 1

 $<sup>^{\</sup>rm h}$  low = 1; medium = 2; high = 3

<sup>&</sup>lt;sup>i</sup> all decisions were implemented (constant) so cannot be computed

<sup>&</sup>lt;sup>j</sup>-5 (very negative outcome) = 1 through +5 (very positive outcome) = 11

k non-governmental not-for-profit = 1; investor-owned = 2; governmental = 3

<sup>&</sup>lt;sup>1</sup>number of staffed beds

Table 14. Correlations Among Variables in the Study<sup>a</sup>

VARIABLE	1	2	3
Number of years on other boards currently			
2. Number of years on other boards in past	.442*		
3. Business-related functional work background	.162	.161	
4. Highest educational degree	123	078	800**
5. Experience with strategic approaches on boards	.481**	.265	.142
6. Experience with strategic approaches at home firm	220	.069	.199
7. Number of other boards currently	.689**	.279	.120
8. Number of other boards in past	.383*	.698**	.138
9. Consider ≥50% of focal board members to be friends	038	083	061
10. Tenure on focal board	.105	.439*	.368*
11. Number of formal board meetings per year	.189	.313	.151
12. Frequently meet with CEO outside of board meetings	134	332	283
13. Frequently offer advice to CEO	.136	.191	043
14. CEO frequently seeks advice	.047	.341	043
15. Consider CEO to be friend	003	044	073
16. Participate in raising the issue initially	.372*	.222	.170
17. Participate in clarifying the issue	265	.009	134
18. Participate in generating alternatives	093	.243	.312
19. Participate in evaluating alternatives	.162	089	.055
20. Participate in choosing alternatives	.128	092	.029
21. Characterize board focus on strategic direction	063	073	177
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes	232	.155	.067
24. Ownership	.217	.161	233
25. System affiliation	308	419*	111
26. Size	.154	228	094

an=30; \*\* significant at the .01 level; \* significant at the .05 level all decisions were implemented (constant) so cannot be computed

**Table 14. Continued** 

VARIABLE	4	5	6
1. Number of years on other boards currently			
2. Number of years on other boards in past			
3. Business-related functional work background			
4. Highest educational degree			
5. Experience with strategic approaches on boards	041		
6. Experience with strategic approaches at home firm	212	.073	
7. Number of other boards currently	.006	.733**	049
8. Number of other boards in past	.049	.518**	.003
9. Consider ≥50% of focal board members to be friends	302	336	.168
10. Tenure on focal board	316	058	032
11. Number of formal board meetings per year	088	.013	149
12. Frequently meet with CEO outside of board meetings	.058	182	.039
13. Frequently offer advice to CEO	196	305	.230
14. CEO frequently seeks advice	035	105	.230
15. Consider CEO to be friend	168	405*	.421*
16. Participate in raising the issue initially	145	.175	.073
17. Participate in clarifying the issue	.202	130	186
18. Participate in generating alternatives	291	.118	.062
19. Participate in evaluating alternatives	041	.205	152
20. Participate in choosing alternatives	.015	.231	.122
21. Characterize board focus on strategic direction	025	097	.096
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes	107	.003	.513**
24. Ownership	.279	.097	272
25. System affiliation	.071	101	.308
26. Size	.122	.120	021

<sup>&</sup>lt;sup>a</sup> n=30; \*\* significant at the .01 level; \* significant at the .05 level <sup>b</sup> all decisions were implemented (constant) so cannot be computed

**Table 14. Continued** 

VARIABLE	7	8	9
Number of years on other boards currently			
2. Number of years on other boards in past			
3. Business-related functional work background			
4. Highest educational degree			
5. Experience with strategic approaches on boards			
6. Experience with strategic approaches at home firm			
7. Number of other boards currently			
8. Number of other boards in past	.477**		
9. Consider ≥50% of focal board members to be friends	097	268	
10. Tenure on focal board	098	.261	.040
11. Number of formal board meetings per year	.189	.242	165
12. Frequently meet with CEO outside of board meetings	165	320	.303
13. Frequently offer advice to CEO	014	093	.467**
14. CEO frequently seeks advice	.060	.183	.119
15. Consider CEO to be friend	141	233	.601**
16. Participate in raising the issue initially	.104	.265	165
17. Participate in clarifying the issue	225	.108	129
18. Participate in generating alternatives	116	.200	086
19. Participate in evaluating alternatives	.326	.169	.013
20. Participate in choosing alternatives	.398*	.057	169
21. Characterize board focus on strategic direction	123	.014	.125
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes	139	.125	079
24. Ownership	.103	.153	461*
25. System affiliation	161	373*	.327
26. Size	.094	077	058

<sup>&</sup>lt;sup>a</sup> n=30; \*\* significant at the .01 level; \* significant at the .05 level <sup>b</sup> all decisions were implemented (constant) so cannot be computed

**Table 14. Continued** 

VARIABLE	10	11	12
Number of years on other boards currently			
2. Number of years on other boards in past			
3. Business-related functional work background			
4. Highest educational degree			
5. Experience with strategic approaches on boards			
6. Experience with strategic approaches at home firm			
7. Number of other boards currently			
8. Number of other boards in past			
9. Consider ≥50% of focal board members to be friends			
10. Tenure on focal board			
11. Number of formal board meetings per year	.098		
12. Frequently meet with CEO outside of board meetings	041	086	
13. Frequently offer advice to CEO	.164	.312	.385*
14. CEO frequently seeks advice	.291	.335	.242
15. Consider CEO to be friend	.002	165	.471**
16. Participate in raising the issue initially	.358	.113	.094
17. Participate in clarifying the issue	.185	273	.090
18. Participate in generating alternatives	.716**	026	.129
19. Participate in evaluating alternatives	.277	.004	.110
20. Participate in choosing alternatives	.012	.183	.189
21. Characterize board focus on strategic direction	.052	.111	.357
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes	.236	016	.173
24. Ownership	148	.543**	075
25. System affiliation	357	483**	.059
26. Size	005	452*	.276

<sup>&</sup>lt;sup>a</sup> n=30; \*\* significant at the .01 level; \* significant at the .05 level <sup>b</sup> all decisions were implemented (constant) so cannot be computed

**Table 14. Continued** 

VARIABLE	13	14	15
Number of years on other boards currently			
2. Number of years on other boards in past			
3. Business-related functional work background			
4. Highest educational degree			
5. Experience with strategic approaches on boards			
6. Experience with strategic approaches at home firm			
7. Number of other boards currently			
8. Number of other boards in past			
9. Consider ≥50% of focal board members to be friends			
10. Tenure on focal board			
11. Number of formal board meetings per year			
12. Frequently meet with CEO outside of board meetings			
13. Frequently offer advice to CEO			
14. CEO frequently seeks advice	.618**		
15. Consider CEO to be friend	.610**	.423*	
16. Participate in raising the issue initially	.102	.102	.031
17. Participate in clarifying the issue	040	199	078
18. Participate in generating alternatives	013	013	104
19. Participate in evaluating alternatives	.195	049	.016
20. Participate in choosing alternatives	.148	.061	.136
21. Characterize board focus on strategic direction	.374*	.262	.262
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes	.290	.357	.183
24. Ownership	.115	.115	280
25. System affiliation	337	337	.129
26. Size	095	.013	.133

an=30; \*\* significant at the .01 level; \* significant at the .05 level all decisions were implemented (constant) so cannot be computed

**Table 14. Continued** 

VARIABLE	16	17	18
Number of years on other boards currently			
2. Number of years on other boards in past			
3. Business-related functional work background			
4. Highest educational degree			
5. Experience with strategic approaches on boards			
6. Experience with strategic approaches at home firm			
7. Number of other boards currently			
8. Number of other boards in past			
9. Consider ≥50% of focal board members to be friends			
10. Tenure on focal board			
11. Number of formal board meetings per year			
12. Frequently meet with CEO outside of board meetings			
13. Frequently offer advice to CEO			
14. CEO frequently seeks advice			
15. Consider CEO to be friend			
16. Participate in raising the issue initially			
17. Participate in clarifying the issue	.196		
18. Participate in generating alternatives	.523**	.333	
19. Participate in evaluating alternatives	.120	.272	.272
20. Participate in choosing alternatives	.385*	.073	.267
21. Characterize board focus on strategic direction	.074	.047	016
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes	.025	.084	.149
24. Ownership	.296	.142	142
25. System affiliation	429*	302	302
26. Size	092	.028	102

<sup>&</sup>lt;sup>a</sup> n=30; \*\* significant at the .01 level; \* significant at the .05 level <sup>b</sup> all decisions were implemented (constant) so cannot be computed

**Table 14. Continued** 

VARIABLE	19	20	21
1. Number of years on other boards currently			
2. Number of years on other boards in past			
3. Business-related functional work background			
4. Highest educational degree			
5. Experience with strategic approaches on boards			
6. Experience with strategic approaches at home firm			
7. Number of other boards currently			
8. Number of other boards in past			
9. Consider ≥50% of focal board members to be friends			
10. Tenure on focal board			
11. Number of formal board meetings per year			
12. Frequently meet with CEO outside of board meetings			
13. Frequently offer advice to CEO			
14. CEO frequently seeks advice			
15. Consider CEO to be friend			
16. Participate in raising the issue initially			
17. Participate in clarifying the issue			
18. Participate in generating alternatives			
19. Participate in evaluating alternatives			
20. Participate in choosing alternatives	.535**		
21. Characterize board focus on strategic direction	.520**	.278	
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes	.234	.140	.502**
24. Ownership	.058	.237	.292
25. System affiliation	339	263	221
26. Size	.098	.040	.248

an=30; \*\* significant at the .01 level; \* significant at the .05 level all decisions were implemented (constant) so cannot be computed

**Table 14. Continued** 

VARIABLE	23	24	25
1. Number of years on other boards currently			
2. Number of years on other boards in past			
3. Business-related functional work background			
4. Highest educational degree			
5. Experience with strategic approaches on boards			
6. Experience with strategic approaches at home firm			
7. Number of other boards currently			
8. Number of other boards in past			
9. Consider ≥50% of focal board members to be friends			
10. Tenure on focal board			
11. Number of formal board meetings per year			
12. Frequently meet with CEO outside of board meetings			
13. Frequently offer advice to CEO			
14. CEO frequently seeks advice			
15. Consider CEO to be friend			
16. Participate in raising the issue initially			
17. Participate in clarifying the issue			
18. Participate in generating alternatives			
19. Participate in evaluating alternatives			
20. Participate in choosing alternatives			
21. Characterize board focus on strategic direction			
22. Strategic decision implemented <sup>b</sup>			
23. Financial outcomes			
24. Ownership	.071		
25. System affiliation	227	669**	
26. Size	016	206	.283

<sup>&</sup>lt;sup>a</sup> n=30; \*\* significant at the .01 level; \* significant at the .05 level <sup>b</sup> all decisions were implemented (constant) so cannot be computed

## APPENDIX B Figures

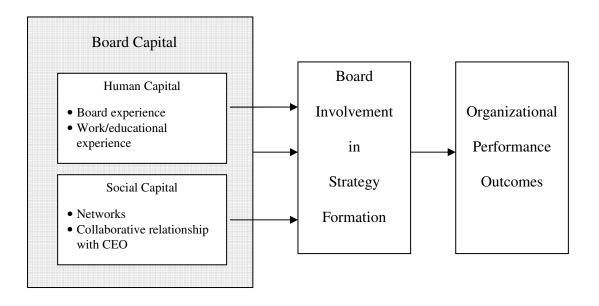


Figure 1. Conceptual Model of the Antecedents and Consequences of Board Involvement in Strategic Decision Making



Figure 2. Conceptual Model of Board Capital

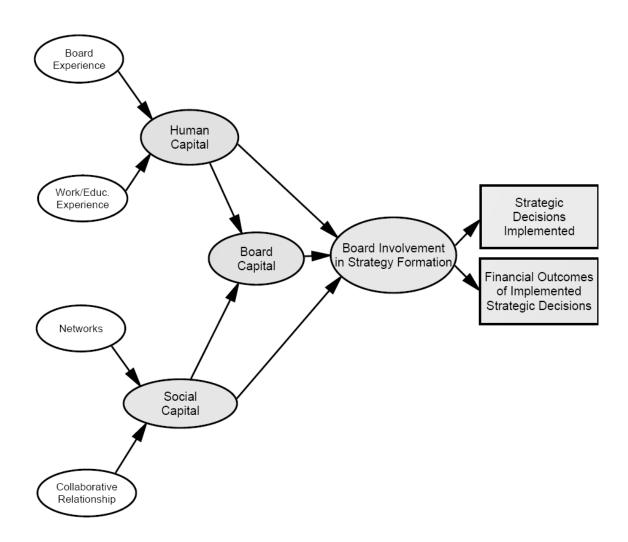


Figure 3. Conceptual Model of Hypothesized Relationships

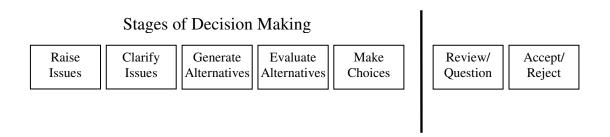
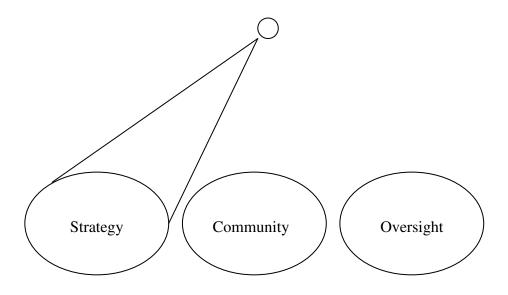


Figure 4. Conceptual Model of the Stages of Decision Making



**Figure 5. Conceptual Model of Board Focus** 

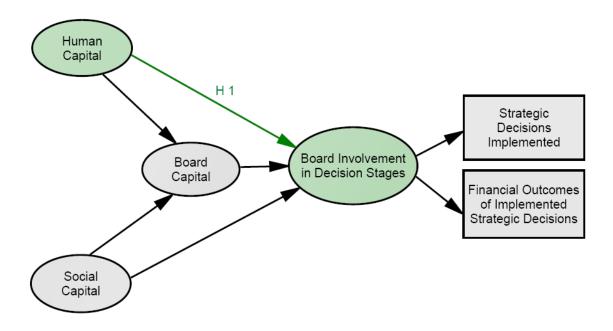


Figure 6. Graphical Depiction of Hypothesis 1

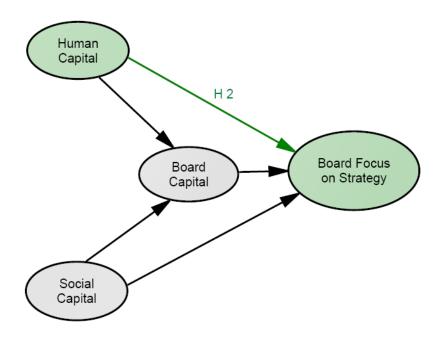


Figure 7. Graphical Depiction of Hypothesis 2

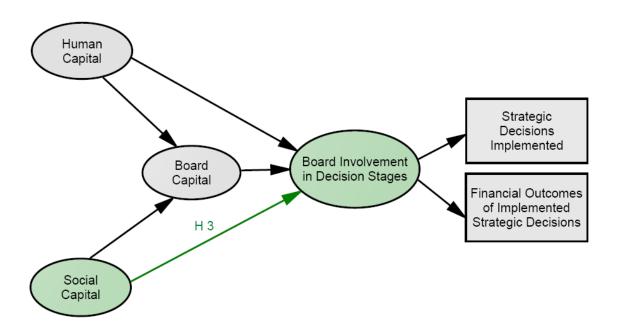


Figure 8. Graphical Depiction of Hypothesis 3

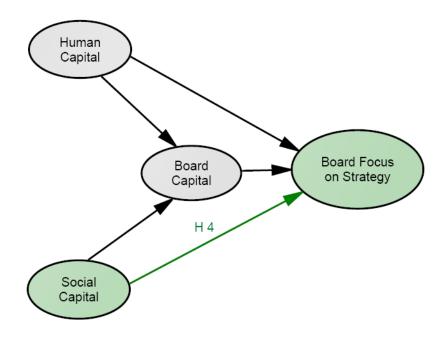


Figure 9. Graphical Depiction of Hypothesis 4

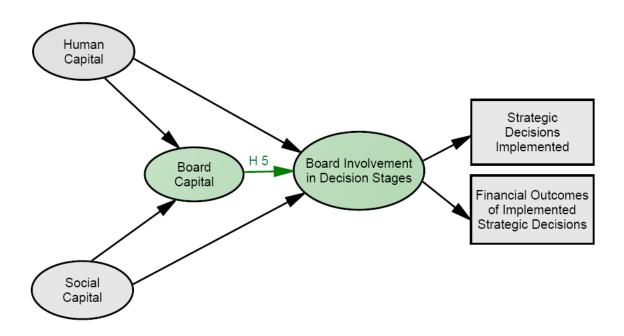


Figure 10. Graphical Depiction of Hypothesis 5

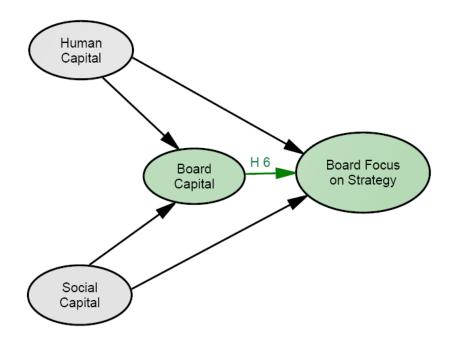


Figure 11. Graphical Depiction of Hypothesis 6

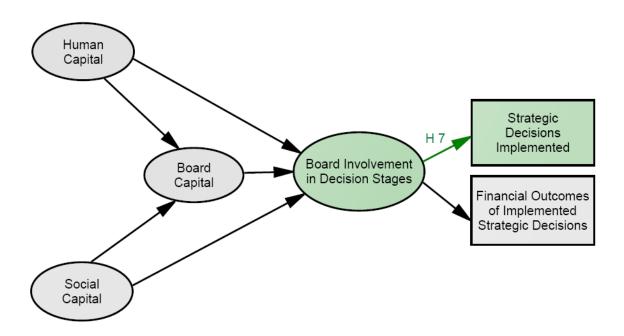


Figure 12. Graphical Depiction of Hypothesis 7

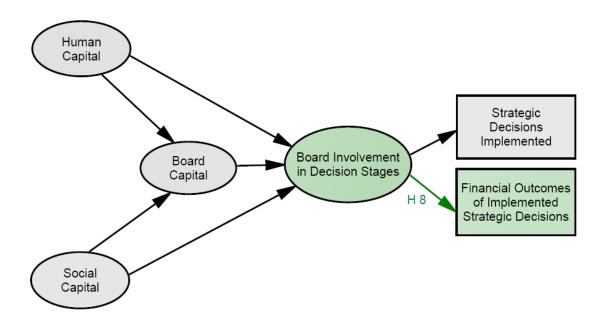


Figure 13. Graphical Depiction of Hypothesis 8

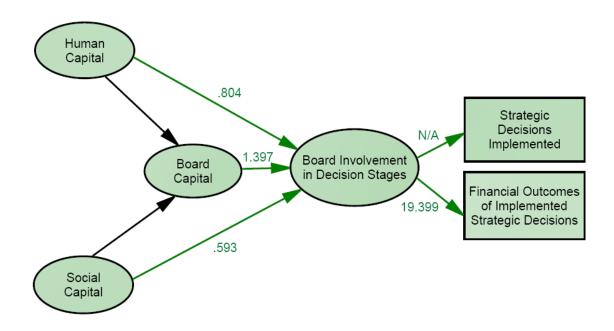


Figure 14. Graphical Depiction of the Five Supported Hypotheses

## **VITA**

Karen Ford Eickhoff was born in Paducah, Kentucky, and she moved as a child with her parents Bob and Nell Ford to Chattanooga, Tennessee, the city that was to be home for many years. In 1979, she graduated *Summa Cum Laude* from the University of Tennessee at Chattanooga with an undergraduate degree in history education. Karen married Hank Eickhoff in 1979, and they made Ringgold, Georgia their home. She earned the M.B.A. degree from UT-Chattanooga in 1983.

It was always Karen's dream to pursue the Ph.D., and in 2012 this dream was realized as Karen earned the Ph.D. in Business Administration: Organizations and Strategy at the University of Tennessee, Knoxville.