Director Networks/Director Selection: Keys to the Strategic Role of the Board of Directors

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ABSTRACT

The strategic role of the board of directors is gaining renewed research attention. It may be significantly influenced by the process of selecting directors and by multiple board memberships (interlocks). A pilot research project is described in which a series of personal interviews with board members offers new insights into the board's strategic role.
INTRODUCTION

The role of the board of directors in corporate governance has been abundantly discussed in the Finance (Burt, 1983, Jensen, 1989, 1991), Economic (Berle and Means, 1932, Williamson, 1985), Legal (Fama and Jensen, 1983) and, to a lesser extent, Business Policy and Strategy (Porter, 1980, Vance, 1983) literature. The hostile takeovers of the 1980s drew increasing attention to the role of boards, and to the question of whether or not they were diligently performing what was perceived to be their primary fiduciary responsibility, namely, overseeing shareholder interests and maximizing shareholder wealth.

There is general agreement that the board has three primary roles - control, advise/counsel, and strategy (Mace, 1971, Andrews, 1987). The roles of control and advise/counsel have been widely discussed, but the board's strategic role has been either completely ignored or mentioned only in passing.

In addition, although it is widely acknowledged that many directors serve on more than one board, little attention has been addressed to the strategic role and impact of directors serving simultaneously on multiple boards, except from the perspective of their potential for facilitating cooperation between competing firms (Pfeffer, 1972, Pennings, 1980, Zahra and Pearce, 1987). "Networks" and "networking" will be generally be utilized in this paper, when referring to multiple-board service, rather than the somewhat questionable term "interlocking directorships".

A profusion of literature on the corporate governance process (Berle and Means, 1932, Burt, 1983, Williamson, 1985) and on boards of directors (Mace, 1971, Vance, 1983, Andrews, 1987) examines in great detail how boards are supposed to work, but provides very little information on how board processes actually function. To help illuminate this area a pilot study was designed to explore board processes from the perspective of those who actually serve on boards.

A diagram depicting important elements in the board configuration process is provided to serve as a frame of reference. It is intended to illustrate
cause-and-effect relationships between important input variables and the
director-selection process, and between the director-selection process and
corporate outputs, notably those indicative of performance.

This paper first reviews the literature and examines research issues,
then describes and discusses the findings of the research study. This is
followed by a summary of findings and implications for further study.

LITERATURE REVIEW

This section highlights the literature that appears most relevant to
director selection, director networking, and the strategic role of the board.
A summary in tabular form is presented in the first column of Table 1.

Boards of Directors. Mace (1971) lists three generally-accepted roles of the
board, namely, asking discerning questions, selecting the president, and
establishing basic objectives, corporate strategies, and board policies for
the firm. Implicit in these roles are the tasks of advising, monitoring, and
evaluating the performance of top management, in its pursuit of corporate
objectives. Andrews (1987) suggests that the central function of a working
board includes reviewing management's formulation and implementation of
strategy, assuring adherence to established objectives and policy, and
contributing constructively to management's recommendation for change.

Most boards consist of both inside directors (corporate executives) and
outside directors (non-employees of the corporation). Insiders are viewed as
being selected for their availability to answer questions in their areas of
expertise (a comfort-zone for the CEO) (Mace, 1971) or, as Baysinger and
Hoskisson (1990) suggest, in an attempt to improve the control of decisions,
by overcoming problems of information processing.

Selection of outside directors is heavily weighted in favor of those with position and title as leaders in their field. Eaton (1990) notes that the favorite choice of CEOs is other CEOs, and that at least 80% of all directors are themselves chief executives of other companies.

Mace (1971) addresses what he sees as the general ineffectiveness of boards in performing their primary roles: asking discerning questions - most board members feel these types of questions should never be asked at board meetings (reasons given include "corporate manners", "professional courtesy", and not wanting to look like idiots, due to information asymmetry); selecting the president - apparently only occurs in crisis situations ("...the only real decision-making job the board has, the rest is all 'fluff'"); otherwise the CEO almost always chooses his/her successor; establishing basic objectives, corporate strategies, and board policies - most boards do not perform these functions, nor are they even involved in them.

Outside directors are generally perceived as more independent than insiders, but in many boardrooms it is assumed that even the independent (outside) directors will support the CEO until it is necessary to remove him/her (Andrews, 1987). Andrews argues that this attitude of reluctance to fire is compounded by the fact that these outside directors owe their board membership to the CEO. In other words, selection of directors by a CEO, whose favorite choice of outside directors is other CEOs, can lead to a board that is "reluctant to rock a captain of industry's boat lest their own ships get swamped in return" (Eaton, 1990).

In any event, it seems the intentions of the person or group responsible for selecting directors may have more to do with how the board is utilized than whether directors are from inside or outside, or whether they are active or inactive. Since directors are most often selected by the CEO, Andrews' (1987) observation perhaps sums it up best: "The caliber and strategic usefulness of a board of directors will nonetheless remain the option of the chief executives, who usually determine its function. How much they use their
boards for improving the quality of corporate strategy and planning turns, as usual, on the sincerity of their interest and skill".

**Director Networks.** Pfeffer (1972) portrays boards as mechanisms through which firms coopt important external organizations on which they are dependent. Zahra and Pearce (1989) suggest, in fact, that this resource dependence perspective of the organization emerged from research on interlocks.

Interlocking directorates link companies in essentially three ways: ownership, in which two organizations are jointly controlled by one board; direct interlocks, in which two organizations share one or more board members; and indirect interlocks, in which directors of two firms both serve, for example, on a third firm's board. Other examples of indirect interlocks include third-party financial institutions serving as brokers between two organizations; or members of two different boards who are associated through mutual professional interests or social activities (e.g., private club memberships).

Burt (1983) describes interlocks as increasing the organization's ability to improve access to competitive information, through identifying advantageous trade partners; analyzing risks of trade partners as suppliers or consumers; predicting future developments; and anticipating responses to potential price/product changes.

Researchers view interlocks as mutually-beneficial interorganizational relationships, with the advantages of, inter alia, increased interorganizational coordination; reduced transaction costs; access to vital information and resources; horizontal coordination among firms along the same value chain; vertical coordination among firms and their suppliers and customers; enhanced corporate reputation; and enhanced status in the business community (Zahra and Pearce 1989). The overall result of these advantages is reduced uncertainty. Schoorman, Bazerman and Atkin (1981) add experience and expertise gained from parallel experience to the list of factors that reduce environmental uncertainty.
Pennings (1980) suggests that multiple directorships increase the power of both the individual and the firm that (s)he represents, since multiple interlocks may represent multiple accesses to resources and information. Pennings emphasizes that the most important question regarding interlocks is that of linkage direction; that is, by whom is the director employed, and who initiated the interlock?

The Strategic Role of the Board. "Strategic management comes to its culmination in the chairmanship of effective boards." (Andrews, 1987). Zahra and Pearce (1989) describe the strategic role of boards (which they say is in its infancy as a topic of study) as boundary-spanners, with access to information vital to diagnosis of opportunities and threats. Pennings (1980) suggests that organizations use interlocking directorates, among other mechanisms, to actively manipulate their environments to assure a continuing supply of resources. In somewhat the same vein, Baysinger and Hoskisson (1990) see board composition possibly having important strategic implications. Kanter (1989) sets the stage for an even broader role, visualizing the "corporation as a switchboard", in which the firm acts as a central information center and command point for a network of other organizations.

This brief overview of selected portions of the literature is intended more to emphasize areas that have not been illuminated by previous research than to elaborate on those that have been. What boards are supposed to do and what they actually do are both discussed from a variety of perspectives but, almost without exception, the analyses are based on secondary data rather than from any inside perspective. The gap between theory and reality is even more noticeable in the director selection process, about which much has been written, but virtually none of it is from the inside perspective of how the process of director selection really operates. Director networks are frequently discussed from such perspectives as their potential for facilitating cooperation between competing firms (Burt, 1983, Zahra and Pearce, 1989), and for assuring access to critical resources (Pfeffer, 1972,
Pennings, 1980), but almost never regarding their role in director selection. With reference to Figure 1, the areas labeled "Board's Role", "Director Selection", and "Director Networks" have been almost entirely ignored by research, or examined in a relatively cursory manner, relying principally on secondary data.

RESEARCH ISSUES

Although the literature review tends to confirm prior impressions that board networks may play a significant role in some board actions, it doesn't shed much light on the more strategic types of board involvement. This, therefore, leads to a focus on the overriding question "What roles do director networks play in board actions?" Since this is a question unlikely to be adequately answered by secondary data, a pilot study of directors seemed a logical means of gathering first-hand information. Rather than pre-empting their impressions, it seemed important to learn, from directors' perspectives, what they think are the most important board issues. Accordingly personal interviews were conducted with a sample of 18 directors who serve, or have recently served, on the boards of for-profit companies.

With the intention of gaining entry to at least six boards, each in a different industry, ten directors were initially contacted through introductory letters, resulting in nine interviews. The initial interviews ultimately led to nine additional interviews, with members of those same boards. Interviews were more ethnographic (Spradley, 1979) than focused, utilizing only selected open-ended questions, and then only when necessary to stimulate conversation, rather than to seek answers. Although finding answers to specific questions was desirable, the research intent was to let the interviewees describe their culture, and take the conversation into areas they feel are important rather than those felt important by the researcher. In this context the research study hoped to not just find answers, but perhaps
also to identify other important questions that may not have been previously considered in the literature.

The directors interviewed speak from the combined experience of 55 directorships (32 current and 23 former), on 46 boards (23 current and 23 former) of for-profit organizations. Their firms cover a broad spectrum of sizes - from a few million dollars in annual revenue to several billion - and industries, including manufacturing, communications, utilities, banking, education, transportation, healthcare, insurance, and construction. Both public and private companies are represented.

Although, or perhaps because, the subject of multiple board memberships has been the object of a large volume of research, the list of questions without answers is long and provocative. So much so that, for purposes of this project, the research was designed to illuminate the following areas which were felt to be most significant in examining the strategic role of boards: board responsibilities, composition, selection, reasons for accepting directorships, director networks, and the role of the board chairman. The key research questions are reviewed in Table 2.

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Insert Table 2 about here
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Although the list in Table 2 is far from exhaustive, it adds the study of new issues, beyond those of previous research, in order to more closely focus and target the direction of future research.

This research was designed around the principle of ethnography, which is defined as "the work of describing a culture" (Spradley, 1979:30). As such, an interview would ideally involve the subject describing a particular culture entirely from his/her individual perspective, largely without being influenced by the interviewer. Since, in this case, the subjects were being interviewed to learn about their roles as directors, the desired culture was that of boards of directors. The list of key research questions (Table 2) was intended to be utilized in a contingency mode, to be asked only if time
permitted after the interviewee felt (s)he had discussed everything relevant to the subject. From this perspective, all areas of Figure 1 were open to discussion, depending on the interviewees' perceptions of the issues that seemed most important, or interesting, to individual board members.

As it happened, some interviewees, perhaps concerned that they would not discuss the things the researcher deemed important, requested questions to which they could respond. Usually a single non-specific question was sufficient to trigger a substantial amount of dialogue, and it seldom took more than one or two questions to elicit an hour or more of discussion. Although there was never sufficient time to ask the full list of questions, most, if not all, were usually spontaneously answered during the course of the interview.

Since the detailed results of this survey, conducted during mid-1992, are much too comprehensive to be addressed in their entirety in this paper, the findings have been condensed here, for readers' convenience, to those associated with director selection, director networks, and the strategic role of the board. The three columns of Table 1 provide a framework for linking research issues with the literature review, and survey findings with research issues.

OBSERVATIONS

Although the sample survey results described focus primarily on director selection and director networks, two additional issues that seem significant to the strategic role of boards - responsibilities and composition - are also briefly addressed.

Selection

How are directors selected?; Who is responsible for selection?; What are the selection criteria?; How are candidates identified?; To what extent do corporate strategies influence the selection process?; To what extent do memberships on other boards influence selection?
Although selection is, in most cases, clearly the responsibility of the CEO/Chairman, in those situations where the Chairman is an outside director rather than the CEO the issue is somewhat hazier: sometimes the Chairman selects the directors; in one case the CEO selected them, including an outside Chairman; and in another a director who is also the majority owner of the firm selected the directors and appointed an outside director as the Chairman. One director suggested that the board, itself, should not only select directors, but the Chairman as well.

Selection Criteria. Recruiting directors appears, in most cases, to start with rather subjective requirements such as compatibility with existing board members, collegiality, high visibility, business success, good background, insightfulness, character, integrity, and image. Of these somewhat vague criteria, compatibility was repeatedly mentioned first, and seems to stand out among these directors' most important concerns. More objective and measureable criteria, such as balancing the mix of institutions, geographic areas, experience, constituencies, expertise, ages, business backgrounds, contacts, and leadership strengths seemed of secondary importance.

The perceived importance of compatibility of directors and board cohesion appear to support a prevailing feeling among participants that teamwork is a key to board effectiveness, and that it is not in a firm's best interests for its board to be adversarial.

Identification of Candidates. Those interviewed insist that director selection is one of the most critical issues facing boards, and a process that is changing, from cronyism and good-old-boy networks to expertise-based selection. Yet, the only examples offered of directors recruited on the open market (e.g., using search firms) were two who were selected to be the first women on their respective boards. Otherwise, identification of candidates appears to be almost exclusively through directors' personal, professional, and social networks, with board nominating committees relying almost totally
on the recommendations of current board members.

Some chairmen emphasize the value of keeping a list of people with whom they are familiar - people they know they can work with, and who will maintain the collegiality that is so important - as prospects for future board seats. Most boards want the top people from other companies on their boards, for their leadership, knowledge, and independence. Since there is often great demand for these individuals, and a practical limit to the number of board invitations one person can accept, a common selection strategy, particularly for larger companies, is picking tomorrow's "comers". This means, in effect, gambling on which second-tier person in another company is most likely to be that firm's next CEO. Offering a directorship to the heir-apparent may thus be an attractive alternative when a desired high-profile CEO is over-solicited for board memberships.

One director describes the selection process as similar to asking "Who do we marry? Do we start out looking for a particular person, or do we bump into somebody in our experiences? We don't start out looking for a certain height, weight, etc., but are introduced to somebody and ultimately these things lead to a more meaningful relationship". This may aptly summarize the past and, in many companies, current, state-of-the-art in director selection.

Accepting Directorships. The number of boards on which the directors in our sample currently serve (including their own) ranges from a minimum of 1 to a maximum of 4, with an average of approximately 1 3/4. Most describe 3 as the maximum number of outside directorships to which they could do justice without diminishing the returns to their own business. With that in mind, many directors have more directorship invitations than they can possibly accept, which allows them to be more selective as to which board invitations they will accept. One director, for example, confided that 2 or 3 companies have told him "when you are ready, we would like you to come on the board". In such cases, what are the criteria by which candidates determine which board invitations to accept?
Those interviewed list several acceptance criteria, with the opportunity to learn from other companies, industries, and board members mentioned most frequently, followed closely by the importance of a feeling of having something to contribute. Other reasons include the opportunity to gain experience that can help in one's own business; networking opportunities; honor/prestige (for some, though now somewhat offset by increasing liability); the opportunity to work with a particular kind of management group or a particular type of board; a good extension of a business career; and the opportunity for candid peer relationships (particularly for CEOs, who often find it lonely at the top).

Also emphasized were the importance of feeling that the company and its management are honest; that one will be treated as an independent and will feel comfortable saying "I vote no"; comments will be received constructively, and valued; directors will have a real say; and that the board operates as a team.

The most important factor in acceptance or rejection decisions can, perhaps, be best described under the rubric of the risk–return ratio - what are the potential benefits to the director and his/her company, and what is the likely cost? Aside from the previously-discussed diminishing returns to one's own firm from serving on too many boards, the amount of time involved in being a director can be a critical constraint in other ways. As one director describes it "In this day of being a diligent director, you can find yourself in certain committee assignments, or in a frequency of meetings that is hard to digest, in terms of your own schedule". As a result, directorship candidates tend to avoid those boards which may involve an inordinate amount of time, and potential liability. This means that boards of troubled companies are likely to have more difficulty attracting directors, since crises not only involve increased liability, but also require board members to be more active, and spend more time than they may have originally intended. In addition, being identified with a relatively unsuccessful company goes against the grain of a director's personal pride, and may be a blight on his track record. In other
words, most directors would much rather be associated with a successful company than a troubled one, from standpoints of time, liability, and reputation.

Additional influences in the rejection of directorships may be government regulation - the illegality of serving on the board of a competitor - or donor-company policies limiting the boards on which their officers may serve (e.g., no very large customers, influential suppliers, banks, or financial institutions).

Overall, recruiting board members is becoming more of a challenge, as fewer people feel the benefits outweigh the liabilities, and the degree of difficulty is likely to be inversely correlated with the relative success of the company.

With reference to liability risk, one director questions why anybody in their right mind would agree to serve as a director unless they had substantial ownership interests in the company.

**Director Networks**

What are the implications, for directors, and their boards, of serving on more than one board?; to what extent do multiple board memberships play a role in key strategic decisions?

Other than one director's observation that the opportunities for networking (which he referred to as a "business socialization process") are a key reason for accepting directorships, the role of multiple board memberships was never addressed directly. Its influence was, however, ubiquitous throughout the interviews, particularly in the processes of identification and selection of directors. In fact it seems that networking may be such a pervasive and long-standing part of board processes that it may have become more of a norm than a conscious strategy - unconscious, and nearly invisible.

This is perhaps due in part to the fact that networks are more frequently utilized in ways, and for purposes, that are not usually considered part of corporate strategy. This is evident in descriptions of specific situations in
which individual directors, through their networks, were able to benefit their firms more by the good fortune of having contacts which later became useful than because they were deliberately selected for their ability to utilize these contacts. In other words, the directors were not strategically selected because of their networking potential, but were able to utilize their networks to the advantage of the firm that had selected them - perhaps analogous to what Mintzberg (1978) describes as an emergent strategy.

And this process may work both ways. Just as a board may not select directors because of their specific networking potential, executives may often accept directorships with no particular strategy for which boards they hope to join. In fact, one director suggested, and this was implicit in the reasons several other directors offered for accepting board seats, that director-candidates should not be too selective in turning down their first board invitation. Acceptance may be the key not only to board experience, but also to greater networking opportunities, and to additional directorships.

Additional impetus to the pervasiveness of director networks is provided by CEOs suggesting their top executives as substitutes for the board seats they themselves are unable to accept. Primary benefits of company executives serving on outside boards include building alliances with, and learning more about, other industries or capabilities that are important to the success of their company. For example, an executive of an automobile manufacturer serving on the board of a petroleum company can be beneficial to the latter’s understanding of what is important to the former, and vice versa. Another benefit, particularly to companies headquartered in more remote locations, is the opportunity to remain in the mainstream of information and technology. This can be accomplished not only by a firm’s executives serving on other boards, but also by inviting executives from more cosmopolitan areas to serve on a local firm’s board. This may be an especially effective strategy for

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1 Mintzberg suggests that a strategy is more than what a firm intends to do; it also includes what the firm actually does. A firm’s total strategy is, then, the product of whatever intended strategies are actually realized and any (unplanned) strategies that emerge.
linking subsidiary boards with their corporate mainstreams. Maintaining community ties is suggested as an important board responsibility, particularly for banks and utility companies, frequently accomplished through board memberships.

Overall, it is apparent that director networking plays a dominant role in the identification and selection of directors. Virtually all directors interviewed, and most others to whom they referred, were offered board seats through networking rather than through the recruiting channels that would be considered primary in the selection of corporate executives. Networks most frequently mentioned included school ties, family ties, social contacts, professional associations, personal acquaintances, and board memberships.

Responsibilities

Since the roles of the board as a unit and the directors as individuals involve responsibilities and perceptions at two different levels, it will be more informative to analyze them as separate sub-categories.

Board. Maximizing shareholder wealth is mentioned first by virtually every director as the primary responsibility of the board. Although only one director specifically amends that responsibility by adding "over the long-term", the context in which it is discussed by most directors implied that philosophy. By the same token, the emphasis by two directors (both from the same board) on the importance of balancing the interests of four stakeholder groups - shareholders, customers, community, and employees - is implicit in the discussions of several of the others interviewed. Other board responsibilities most frequently mentioned are listed in Table 3 (in order of the frequency with which they were mentioned).

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Frequency</th>
</tr>
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<tbody>
<tr>
<td>Maximizing shareholder wealth</td>
<td>1</td>
</tr>
<tr>
<td>Balancing interests of four stakeholder groups</td>
<td>2</td>
</tr>
<tr>
<td>Other responsibilities</td>
<td>3</td>
</tr>
</tbody>
</table>

Although the emphasis on the importance of these perceived responsibilities
varied considerably, to the extent that some seem contradictory, most can be subsumed under the heading of "maximizing shareholder wealth", and necessary, though not sufficient, to that end.

**Individual Directors.** There appears to be more consensus on the responsibilities of the individual director than on those of the board, with general agreement that a director's first responsibility is to learn enough about the corporation to be a useful and effective participant in board discussions, as quickly as possible. Next, although it seems intuitive, most feel a director should bring something to the board - business experience, outside perspective, individual competences - in other words, be able to make a contribution. Perhaps the counter-intuitiveness of having to even suggest something that seems so obvious is an indication of the relative inactivity of some board members, either of their own volition or because they are expected to be passive rather than active. This is hinted at in the common observation that a director's responsibilities include an expectation to behave in certain ways, and one observation that a director's responsibility is to "fit in". Other perspectives were quite the opposite, seeing as primary responsibilities accepting a directorship for the right reasons, and exercising sound judgement in weighty matters.

Other responsibilities include keeping current on the company's products, services, markets, and competition. As one director put it, the most difficult part of being a director is knowing enough about the nuances of the company and its industry to be useful. This may explain why directors' perceptions of how long it takes to become effective as board members range from less than a year to as long as six years, depending on the complexity of the organization and how different it is from their previous experience. Another responsibility is mentioned in two different contexts: one, that individual directors have an obligation to be loyal to the chairman, or resign from the board; the other that, if management is resistant to change, directors should resign, and state why. A final admonition, openly stated by
some directors, but implicit in the discussions of most, is a director's responsibility not to be a "rubber stamp" - to speak up, and ask questions, particularly "what are you doing?" and "why?" and, if (s)he doesn't understand an issue, to not be afraid to abstain from voting.

Board Composition

The opinion is strongly-stated, and near-unanimous, that boards should be heavily weighted with outside directors, with the only apparent non-consensus surrounding how many inside directors, and who they should be. Although the numbers suggested range from none to several, most feel it should be between one and three, depending on the board's perception of the benefits of officers also serving as directors. If one insider, it should be the CEO; if two, the CEO and the President; if three, the CEO, the President, and either the CFO, or an heir-apparent. At one end of the spectrum of opinions is the perception that any management people at all on the board will diminish the degree of tension between the board and management that is necessary to objectivity. At the other extreme is the perception that limiting the number of inside directors may place too severe a limitation on the basis of fact and opinion on which outside directors make decisions. This is the view that the presence of inside directors gives comfort to the outside directors that the entire inside input does not come from just one source. A supporting view is that it would be grossly unfair to the next CEO not to have had board experience. Opinions on inside directorships as a means of grooming successors are both supportive and opposed, with the latter position justified by the observations: one doesn't have to be a (voting) board member to get board experience; the board's role is to provide policy direction, not day to day management; and the greater the presence of insiders, the greater the tendency of the board to micro-manage.

Although those representing closely-held, majority-owned, or private companies do not attach the same importance to having a majority of outside directors on their boards (less possibility for separation between ownership
and control), most have, in recent years, added outsiders for a variety of reasons, including increasing board activity/involvement, broadening the firm's perspective, and adding new business skills.

DISCUSSION

Other issues were emphasized by those interviewed as major board concerns. Some of these may be generalizable while others are more company- or board-specific.

Micro-management. A tendency for directors to become too deeply involved in what may be best described as operational (vs. strategic) issues, is a continuing challenge. This is particularly evident in personnel and compensation matters, which may be largely attributable to the difficulty of keeping personalities out of decisions involving individual characteristics and performance.

Involvement. Most directors in this sample, once they have agreed to serve on a board, want and expect to be actively involved. Several specifically mention a desire to know more about, and be more involved in, corporate strategy formulation. Those who made mention of this appear to be on boards of companies whose strategies are currently formulated internally, then passed on to the board for comment and ratification.

Retirement. How long should CEOs and other inside directors remain on the board after retirement? The policies and ages currently vary from company to company, ranging from age 65 to 72. Some boards see advantages ("living history") and others disadvantages (an intimidating influence on successors) to keeping retired directors on the board. It appears that retired executives may offer a board the added advantage of an insider's knowledge of the company/industry, but more objectivity and independence, with respect to management, than they had before retirement. The retirement issue does,
however, appear to be one of those cases in which CEO-duality may be perceived as an opportunity to be self-serving.

Management Succession. Although most directors interviewed list "assuring management succession" as a primary board responsibility, one portrays the issue as "overblown". He feels it may have been justifiably important 10 or 20 years ago, when businesses were more autonomous and self-sufficient, but not anymore. Companies can't afford to "stockpile" talent and still be competitive. And, in any event, key people will not wait indefinitely for promotion - those with mobility will leave. However, this director feels there is no lack of good talent out there, it just takes effort to locate it.

Following are a number of issues that, although not stressed by directors during their individual interviews, seem, from an overview of the entire sample, to have important implications for boards and directors. To varying degrees these perspectives may echo, augment, or contradict some of those previously discussed but, more often, they will either view some of the same issues from different perspectives or focus on different issues altogether.

Networking. Individual networking was one of the least directly-addressed of the issues discussed. Yet, networking appears to be one of the most pervasive, and perhaps most influential, forces at work in and among directors and the boards on which they serve. Although most evident, and currently probably most influential, in non-strategic applications, the potential of networking in strategic applications appears to be significant. Davis (1991) offers an example, portraying a director interlock system which acts as a diffusion mechanism for information and strategies. He supports the existence of such a network through an empirical analysis of the diffusion of the adoption of poison-pill amendments among U.S. corporations.

Selection. Selection of directors is the most obvious means through which
networking is currently influential, and is possibly also one of the areas with the most strategic potential.

Involvement. Evolution of board structure and composition, from comparatively uninvolved/inactive boards toward more involved/assertive boards, appears to have been on the increase in recent years. This is particularly noticeable in privately-owned companies which have added outside directors to their boards. This possibly represents a changing attitude: that successful businesses, public and private, cannot compete successfully in isolation - they increasingly need outside inputs to maintain corporate viability. This is perhaps induced by such forces as increasing government involvement, increased competitiveness, increased complexity, expansion and globalization of markets, and information-processing needs.

In the United States an increased awareness of, and interest in, corporate governance is exemplified by the active involvement of institutional investors in analyzing board performance as well as corporate performance. CALPERS (California Public Employees' Retirement System), the largest institutional fund in this country with investments exceeding 70 billion dollars, is a leader in what has been termed the "political" (Pound, 1992) or "democratic" model of corporate governance (Pound, 1993). This model involves "relationship investing", in which large investors become actively involved in two-way communication with the CEOs and boards of the corporations in which they take ownership positions. By seeking "...friendly, ongoing conversations with management and the board about corporate policy and the makeup of the board of directors" institutional investors can "...provide corporations with a reliable and friendly focal point in the market from whom to receive feedback" (Pound, 1993). Increasing interest in this approach is evident in its current popularity as a topic of discussion in business publications.

In the United Kingdom the Committee on the Financial Aspects of Corporate Governance (the Cadbury committee) was commissioned, by the Financial Reporting Council, the London Stock Exchange, and the accountancy profession,
to address the financial aspects of corporate governance (Cadbury, 1992). This was due to a low level of confidence in financial reporting, and lack of adequate auditing safeguards.

Overall, the trend toward more active boards may be recognition that no matter how self-contained a business may seem, it can only live in isolation until the environment around it changes, and when that happens it is affected, whether or not its board chooses to recognize the fact.

Although it is inherent in the responsibilities of a board that it be actively involved in overseeing the effectiveness of the company, the actual degree of involvement of any board is seen by this sample of directors as a function of how active their chairman wants them to be. It is also apparent from their comments that the chairmen of the boards represented by these directors are overwhelmingly in favor of active boards, and that several have consciously added directors and changed board procedures to encourage greater involvement. Their feelings may have been voiced by one chairman's comment to the effect that, if you look at all the talent represented around the board room, "who in their right mind wouldn't want to have some advice from them?". This attitude seems prevalent in our sample, in which several of the boards represented have taken deliberate measures in recent years to evolve from CEO- or chairman- domination to actively promoting more involvement in corporate issues (as opposed to micro-issues).

These interviews reveal descriptions of boards that became active only after a crisis began threatening the survival of the company, but then performed admirably. Yet it is also evident that the directors interviewed, to a person, want to be actively involved in the boards on which they serve, and in some cases mention their desire to be even more actively involved than they currently are. As previously mentioned, involvement may, to a large extent, be a function of the amount, quality, and timeliness of the information provided to board members. In fact keeping the directors well informed may be the chairman's most effective means of communicating a genuine desire for the board to be actively involved in the company.
Involvement of the board can be a function of the chairman's proactivity in keeping them active, or because of any number of crisis-induced situations, including: negative corporate performance, in which case board activity may be motivated more by the directors' desire to protect both their reputation and their personal assets (against liability); or a negative economy, which often provides many of the same inducements.

Also mentioned as important to involvement were: board size - the smaller the more involved; and boardroom layout and table arrangement - which may either enhance or inhibit participation. Yet, overall, the impression left by these interviews is that the primary keys to board involvement are whether or not, and to what degree, the chairman wants the board involved, and the information provided to board members.

Board Tenure. An interesting aspect of the appointment of directors is the apparent permanence of board seats. Asking a director to step down appears to be a rare occurrence. This, in effect, takes away a large degree of the board's discretion as far as board composition is concerned. When it becomes apparent that a director was a bad choice, boards commonly choose to live with their decision, even though it may mean living with it until the director reaches retirement age. This was given as the reason candidates who are younger than their early to middle 50s should not be considered for board seats - if you make a mistake you will have to live with it too long. How then can, as one director suggested, the mix of board members depend on the company's immediate situation? Although it is clear that board composition may need to change as a firm's situation changes, just how "immediately" can the composition of a board with what seems to equate to lifetime tenure be changed? And, considering the difficulty of spotting the beginning of problems in any company, but especially in one that has been traditionally successful, how effectively can a tenured board - one whose directors are insulated from the prospect of dismissal - be expected to execute its fiduciary responsibility of protecting the interests of the owners?
SUMMARY

As increased corporate complexity has led to dramatic increases in delegation and decentralization, the role of the board of directors has become increasingly complex. Yet, although board structure, composition, selection, and utilization have changed to some degree, it appears to have been more often due to reaction than by design, and frequently in response to crisis. Mintzberg, Raisinghani, and Theoret (1976) describe a continuum of stimuli that evoke decisions, ranging from opportunity decisions at one extreme to crisis decisions at the other. Opportunity decisions are described as those initiated on a purely voluntary basis, to improve an already secure position. Crisis decisions are made when organizations respond to intense pressures. Significant changes in boards of directors seem to be made much more frequently in response to intense pressures than to capitalize on opportunities. This has, no doubt, contributed substantially to the perceived ineffectiveness of boards in general. Calls for revitalization of the board as the overseer of corporate responsibility have, however, seldom been accompanied by realistic suggestions of how this might be effectively accomplished in today’s environment.

Although it seems elementary that we cannot expect boards to operate effectively today using the same structure and procedures that were effective 50, or even 20 years ago, there appears to have been little real change. For example, as outlined in Table 1., most directors, particularly outside directors, still seem to be selected for their general knowledge rather than for specific capabilities needed by the firm. Yet how many corporate executive teams are made up of generalists? Most appear to be predominantly staffed by specialists - experts in relatively limited areas of expertise.

Why, then, aren’t individual directors selected for the particular unique contributions they can make toward specific corporate needs, based on their individual distinctive competences? This would seem to offer significantly more to board effectiveness than selection of directors based primarily on reputation, stature, social relationships, or other currently-dominant
The implications for improving the quality of corporate strategy offer even more potential for multinational corporations than for domestic firms. Aldrich and Herker (1981) discuss the extent to which "boundary roles" can influence the degree of organizational autonomy through information processing. Information from external sources enters the organization through boundary roles, and through external representation, in which boundary roles link the organizational structure to environmental elements, by buffering, moderating, and/or influencing the environment. They view the environment as information available to the organization through search and exposure, and boundary role occupants as those who are exposed to large amounts of potentially-relevant information.

The optimal board of any large firm might then consist of the minimum number of inside directors necessary to allow integration of strategic internal and external information, and a majority of carefully-chosen outside directors, selected for their potential as boundary-spanners in particular areas of environmental uncertainty. Their strategic inputs may come from their own knowledge, or from their potential to network with local governments, regulatory agencies, other companies, suppliers, customers, stockholders, employees, or any other of a firm's stakeholders. Boards configured by these means might be appropriately categorized as strategic boards - those whose primary role includes active involvement in evaluating top management performance and in analyzing corporate strategy, as well as advising and counseling top management. Traditional boards, on the other hand, are those whose primary role is perceived as advising and counseling top management.

As depicted in Figure 1, director selection is potentially one of the key determinants of a board's independence, and in its degree of involvement. An independent, involved board is likely to engage in a higher degree of dialectic discussion, leading to inputs to corporate strategy that represent a broader range of perspectives and a wider variety of alternatives. The resulting corporate strategy is likely to be superior to strategy based on
narrower perspectives and should, in turn, contribute more positively to corporate performance.

Although the original responsibility of the board of directors - assuring maximization of shareholder wealth - remains a primary concern, it has long since ceased being the only concern. Corporate social responsibility in its many forms is now a central issue and becomes more so as a firm grows, thus affecting more constituencies. To ignore the social and cultural effects of its actions jeopardizes not only a firm's profitability but possibly even its survival. The Community Reinvestment Act (CRA), for example, has had a major influence on the banking industry in the U.S., by monitoring and controlling how and to whom banks make real estate loans. Multinational corporations are even more vulnerable than domestic firms to the social responsibility concerns of the countries in which they do business.

Strategic selection of directors has, therefore, the potential to make the board of directors a significant force in reducing organizational uncertainty for corporations. The boundary-spanning potential of this heretofore underutilized resource has dramatic strategic implications, which may well make the difference between success and failure of corporations, particularly in the global arena.

Metcalfe (1981) suggests a perspective that illustrates the importance of boundary spanning: viewing organizational environments as consisting mainly of networks of other organizations, in which it is unclear where the organization ends and the environment begins. Viewed in this perspective, how can organizations which hope to survive and prosper realistically expect to do so without taking a holistic view of their role in not only the business world but in society as well?

This paper, in examining board processes, through personal interviews as well as literature review, argues that the composition of boards of directors has not changed to keep pace with the increasing complexity and the increasing need for strategic flexibility in the corporations they are charged with monitoring and controlling. A tenure system, in which appointment to a board
often amounts to a lifetime membership regardless of performance, coupled with a director selection process driven largely by personal or professional networks, has led to boards that tend to be permanent, complacent, and ingrown. Although the responsibilities of the board have become much broader due to increased concern for corporate social responsibility and globalization of business, selection of directors has not kept pace, continuing to be based primarily on the principles of collegiality and compatibility, rather than the specific expertise needed to guide the corporation. In the future, organizational prosperity, and perhaps survival, will become even more dependent upon the organization's ability to reduce uncertainty by effective boundary spanning. The quality of organizational boundary spanning can be maximized by selecting directors based on the expertise needed to complement corporate strategy, and by the quality of information provided to and by the board of directors.

IMPLICATIONS

This project, as might be expected of one designed more to seek questions than answers, suggests tentative answers to a few questions, while raising many more. Yet it serves several important purposes, including: opening the door to the boardroom a bit further; learning what directors think are the important issues; learning more about the process of director selection and retention; and, perhaps most important, shedding more light on director networks - their pervasiveness, how they work, how they are utilized, and how they may be more strategically utilized.

One finding that was particularly interesting, though perhaps from a firm-heterogeneity perspective it should have been intuitive, is that boards may be as heterogeneous as the firms they govern. In fact, if they are to govern effectively it seems logical that boards should be tailored to their individual firms, at least as far as the capabilities they represent. In other words, boards should be more like their own firms than like other boards. Yet, in some ways, such as composition, structure, and particularly director
selection, boards seem to be more alike than they are different.

A number of questions arising from or spotlighted by this research may have significant implications, not only for boards of directors, but also for corporate executives and the various stakeholders they represent. Some of the more prominent examples of such questions are described below, each followed by a brief elaboration of some of the primary concerns addressed.

- How can the processes involved in selection of directors be changed to assure maximizing board effectiveness and involvement?

Selection may be the board process that has, or can have, the most significant influence on board involvement, objectivity, effectiveness and, as a result, company performance. Yet, with few exceptions, it continues to be accomplished by a traditional process driven more by social than by strategic ramifications.

- How can a director tenure system that, in effect, guarantees (perhaps "mandates" is more appropriate) long-term board membership, even when individual performance should dictate removal of a director, continue to exist in a corporate environment that increasingly calls out for more organizational flexibility and corporate responsiveness?

To some degree this may be a by-product of board protocol - sort of an unwritten code that, once appointed, asking for a director's resignation, regardless of his performance, just isn't done. As stated by more than one of those interviewed "We live with our mistakes", although they feel this should change. Unfortunately, this philosophy appears to have carried over into CEO-succession to some degree, as evidenced by those boards that become the last to acknowledge that their CEO's performance has deteriorated to the point where replacement is critical to the survival of the firm. Digital Equipment, IBM, General Motors, Westinghouse, and American Express are highly visible current examples.

- How might networking between directors, boards, and executives be more effectively utilized to help companies successfully achieve their strategic objectives?

These networks, already heavily relied upon by
corporations, particularly in identification of director candidates, do not yet appear to have been utilized to even a fraction of their potential in any of the areas of strategic importance previously described. For selection of directors, for instance, the current processes would require very little change - perhaps as simple as more specific criteria-specification, and prioritization based more on expertise than on collegiality. Although this may require broadening the base from which candidate recommendations are drawn, there is no reason the networks that currently exist could not be effectively utilized in this context.

- To what degree should boards of directors be involved in the formulation of corporate strategies?

Although it seems intuitive that the strategy of any firm should be able to benefit from the broader range of perspectives inherent in a well-balanced, strategically-selected board, the answer may be embedded, instead, in answers to such questions as: "To what degree is corporate strategy a consideration in the selection of directors?", "To what degree is the board actively involved in guiding the company?", and "To what degree does the chairman intend for the board to be involved?". Parker (1992) offers an interesting perspective on the importance of board involvement in corporate strategy. He suggests the analogy that all companies can be divided into two categories: "day-sailors" which follow the prevailing winds and return to their moorings at night; and "ocean-racers" which have a definite objective and course to follow, competitors to beat, and are out to win. However, unlike ocean-racing, for companies there is no race committee to set the objectives - that responsibility falls to the board. Parker feels that a board which simply acts as a rubber-stamp for management's plans instead of actively participating in strategy formulation comes "dangerously close to day-sailing".

Although the list could be extended substantially, these questions seem to strike at the heart of major issues affecting the performance of boards of directors, and are offered here more as a guide to areas that may prove fruitful for further research than to solicit immediate answers. The answers undoubtedly reside at the source of the questions - the board itself - and will likely be found only by seeking a deeper understanding of boards and directors, by examining their perspectives through personal interviews, and by studying their actions, first-hand.

Strong support for the importance of more direct observation of boards and directors is offered in Pettigrew's (1992) critical synthesis of research
on managerial elites. In examining three "often quite separated areas of intellectual inquiry" (1992: 164), each of which is relevant to this paper, he describes a common limitation. The research streams are boards of directors, interlocking directorates, and top management teams. Their shared limitation is that what boards are supposed to do and what they actually do are discussed from a variety of perspectives, but findings are almost always based on analysis of secondary data rather from any inside perspective. Pettigrew suggests that "Tilting research on managerial elites towards processual studies on interlocking networks, boards, and top management teams in action is surely no longer a nice to have, but now an essential" (1992: 177).
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INPUTS
Contingent variables

- Firm - size
- ownership
- Industry - type (industrial/service)
- competitiveness
- Environment - stable/turbulent

THROUGHPUTS
My research
(The board configuration process)

- Board Structure
  - size (no. of dir's)
  - chairmanship (CEO vs outsider)
  - committees
  - support staff

- Board's Role - advise
  - control
  - strategy

- Director Selection
  - criteria
  - acceptance
  - evaluation

- Director Networks

OUTPUTS

- Board Composition
- Board Heterogeneity

- Board Independence

- Board Involvement

- Quality of Debate

- Quality of Strategy

- Corporate Performance
  - profitability
  - competitiveness
  - reputation

FIGURE 1: BOARD CONFIGURATION PROCESS
DIRECTOR SELECTION (Mace, Eaton)

- How (by whom) selected?
- Selection criteria?
- How recruited?
- Role of strategy?

SURVEY FINDINGS
- Chairman (if CEO)
  (varies if chmn
 is outsider)
- primarily subjective
  (compatibility,
 collegiality, etc)
- mostly top people
- some "comers"
- primarily networking
- not evident
- talk of changing to
  more expertise-based
  selection
  (from "cronyism" and
  "good-old-boy"
  networks),
  but little evidence
- dominant force in
director selection
- seems "invisible"
to those involved

DIRECTOR NETWORKS (Pfeffer, Burt, Zahra & Pearce, Pennings, Schoorman, et al)

- Implications of multiple-board service?

STRATEGIC ROLES of the Board (Andrews, Zahra & Pearce, Baysinger & Hoskisson)

- What are they, or have they been?
- What could they be?
- How?

- primarily "emergent" strategies:
  - intra-industry "learning"
  - inter-industry cooperation
- more deliberate (planned) strategies:
  - strategic alliances
  - information &
    technology "mainstreaming"
  - boundary spanning
  - stakeholder n'working
  - environmental "buffering"
  - uncertainty reduction
- strategic selection of directors

TABLE 1: LITERATURE - RESEARCH ISSUES - FINDINGS

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RESPONSIBILITIES: - of the board - as perceived by: - the chairman? - individual directors?
- of individual directors - as perceived by:
  - the chairman?
  - individual directors?

COMPOSITION: - inside directors - advantages/disadvantages, as perceived by:
  - the chairman?
  - individual directors?
- outside directors - advantages/disadvantages, as perceived by:
  - the chairman?
  - individual directors?

SELECTION: - how are directors selected?
  - who is responsible for selection?
  - what are the selection criteria?
  - how are candidates identified?
  - how do corporate strategies influence selection?
  - how do memberships on other boards influence selection?

ACCEPTING DIRECTORSHIPS: - what are the reasons people agree to serve on boards?

DIRECTOR NETWORKS: - advantages/disadvantages of serving on more than 1 board:
  - to individual directors?
  - to their firms?
  - how do multiple-board memberships influence key strategic decisions?

BOARD CHAIRMEN: - advantages/disadvantages of chairman who is an:
  - inside director (CEO)?
  - outside director?

TABLE 2: RESEARCH QUESTIONS
CONTROL:
- management succession
- management performance evaluation
- management compensation
- balancing management's responsibility & authority

ADVISE/COUNSEL:
- advise/counsel management
  - provide/oversee policy
  - assure company's good name/well-being
  - provide feedback
  - serve as corporate legal entity

STRATEGY:
- create/implement strategy
  - analyze/ratify strategic plans/goals
  - assure management's long-term vision
  - assure ongoing corporate purpose
  - set direction of company
  - anticipate/manage change/uncertainty
  - recognize corporate social obligations
  - provide public relations

TABLE 3: BOARD RESPONSIBILITIES