

Corporate directors' implicit theories of the roles and duties of boards

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Abstract

Research summary: The question of what boards do, or should do, has remained a central focus in governance research. Much of this research is based on explicit theories or empirical models that impose assumed behaviors onto boards—such as monitoring—that are thought to define their roles and duties. While these explicit perspectives have offered critical insights, we suggest it is time to consider directors' implicit beliefs of their roles and duties to understand their perspective of the board's overall role. We use a grounded theory approach to develop theoretical insights about directors' implicit views of their roles and duties. We integrate information learned from extensive interviews with active directors and executives and find that directors view themselves as strategic partners with their firms' executives.

Managerial summary: How do directors view their work on their boards? This remains a critical question for corporate governance researchers and practitioners alike. To help answer this question, we conducted extensive interviews with current directors and executives. Our analysis of these interviews suggests that directors view their CEOs as generally acting in the best interests of their firms. In turn, directors consider strategically collaborating with their CEOs as critical to their board service. Recognizing the unique perspectives that directors bring to the boardroom has

important implications for governance practices directed toward ensuring overall board effectiveness.

KEY WORDS

board–CEO collaboration, boards of directors, implicit theories, monitoring, qualitative research

1 | INTRODUCTION

Boards of directors shape a variety of organizational outcomes (J. L. Johnson, Ellstrand, & Daily, 1996; Zahra & Pearce II, 1989). Their unique position of working with and working as members of the upper echelon provides them potentially substantial influence in their role as the highest legal authority for public corporations (Finkelstein, Hambrick, & Cannella, 2009). Historically, boards served as a mostly passive “rubber stamp” for managerial initiatives and acted as friendly confidants (Lorsch & MacIver, 1989; Mace, 1971). Changes driven by corporate scandals and evolving social norms, however, have led boards to more actively participate in their firms.

Despite the recognition of the increasing importance of boards, debate remains regarding their role and influence within their firms (Boivie, Bednar, Aguilera, & Andrus, 2016). The question of what boards do, or should do, remains a central focus in governance research from the emergence of modern academic research (Mace, 1971; Zahra & Pearce II, 1989) up to recent refinements in the field (e.g., Hambrick, Misangyi, & Park, 2015; Hillman & Dalziel, 2003; Hoppmann, Naegele, & Girod, 2019). For example, research suggests that a critical role for boards is monitoring executives’ actions to ensure they align with shareholders’ interests (D. R. Dalton, Hitt, Certo, & Dalton, 2007) and curb executive opportunism (Fama & Jensen, 1983). Other research argues that directors offer critical resources, mostly in the form of advice and counsel to the executive team (Hillman & Dalziel, 2003; J. D. Westphal, 1999). Recent research suggests that boards should take a more active role in strategic decision making (Pugliese et al., 2009; Useem & Zelleke, 2006).

In this way, governance research largely relies on explicit academic theories, such as agency theory (Jensen & Meckling, 1976), resource dependence (Pfeffer & Salancik, 1978), or more normative perspectives (Charan, Carey, & Useem, 2014) to describe how boards function and, in turn, achieve effectiveness (e.g., Hillman & Dalziel, 2003; Zahra & Pearce II, 1989). While these explicit theories are important as they direct research and provide a shared understanding of this context (Runco & Bahleda, 1986; Runco, Nemiro, & Walberg, 1998), they may not fully capture the realities of corporate directors and their tacit beliefs about their jobs. For example, the oft relied upon agency theory assumes executives require monitoring and that boards can provide such oversight. Recently, however, scholars have suggested boards have neither the ability nor desire to effectively monitor managers (Boivie et al., 2016; Hambrick et al., 2015).

Given this potential mismatch between what academic theories say boards do and what directors actually do, developing a more grounded understanding of what boards do— informed by directors’ implicit beliefs about their roles and duties in the current governance context—could advance our understanding of boards and their directors. In this regard, our paper builds upon the work of Dweck and colleagues in psychology that focuses on implicit versus explicit theories of intelligence (e.g., Dweck, Chiu, & Hong, 1995a, 1995b; Dweck & Leggett, 1988).

While researchers develop and employ explicit theories, which ground hypothesis development and empirical testing, individuals also hold implicit theories, which reflect “people’s basic assumptions about themselves and their world” (Dweck, 1996, p. 96). Importantly to our research, implicit theories, while often tacit and poorly articulated within an individual, can be examined and made more explicit. To do so, “systematic effort is required on the part of behavioral scientists to identify them and to map out their effects” (Dweck et al., 1995a, p. 267). Applying these ideas to the role of boards of directors, we suggest that examining implicit theories of directors can offer new insights to explicit theories of corporate governance.

In particular, gaining a better understanding of directors’ beliefs about whom they serve, how boards believe they should function, and their perceived challenges when working to be effective can enable governance scholars to develop more accurate theoretical conceptions of board functioning (Forbes & Milliken, 1999), especially as boards become more involved in strategic decision making. Offering insight into directors’ implicit views of their roles and duties also can provide the basis for a more nuanced perspective of the role of boards, thus allowing scholars to develop better prescriptions for directors and executives. Thus, an assessment and evaluation of directors’ implicit beliefs may be critical for this scholarship to move forward. The ultimate goal of most corporate governance research is to better understand how corporate governance structures and practices can help improve the performance and effectiveness of the firm. In our view, if we want to develop a better understanding of board effectiveness, or have more success linking board actions or characteristics to firm performance, our theoretical predictions must be grounded in a realistic perception of what boards actually do and how directors actually think about and approach their role. Thus, we believe that the theoretical insights we develop here are a necessary first step toward developing better theoretical arguments linking boards to firm performance.

We use a grounded theory approach to develop theoretical insights into directors’ implicit views of their roles and functions. While prior research focuses on what boards do or should do, we study two different but complementary questions. Relying on data from in-depth interviews with 50 active corporate executives and public directors, we sought to answer the questions, “How do directors view the roles and duties of the board? and How do those views affect how they act?” Our data analysis reveals that, contrary to extant theories on corporate boards, directors see themselves as strategic partners with the firm’s executive team. In particular, our interviews suggest that while there is significant variance in directors’ implicit views regarding the role of the board, there is significant convergence in their implicit beliefs about how those roles affect director behavior. So, while some directors view the primary role of the board as protecting shareholder interests and other directors believe their primary role is to develop and support management, virtually all directors possess implicit theories that they should work as strategic partners with managers to create shareholder value. This at first appears contradictory: how can there be variance in their views of the board’s role, yet no variance in how they translate that role into action? Importantly, our findings suggest this apparent contradiction is resolved because directors do not hold the implicit view of managerial opportunism described by agency theory. Because they tend to focus on value creation rather than monitoring for managerial opportunism (Donaldson, 1995; Ghoshal, 2005), it is immaterial whether they believe they are serving shareholders or managers as each translates into remarkably similar views of their duties and actions as strategic partners with managers. This insight allows us to build theory beyond the traditional explicit theories of board functions and develops theoretical insights into directors’ implicit views. Because this research attempts to build theory inductively using qualitative data, we begin with a brief overview of prior research that led us to conduct the

present study, and then we move into our methods and findings. In the discussion section, we explore the theoretical contributions of our findings and how the implications of our theorizing help us advance the theoretical conversation on boards, which opens up new avenues for research into understanding board effectiveness.

2 | PRIOR RESEARCH ON BOARD ROLES AND FUNCTIONS

Understanding the roles of directors and boards in corporations (J. L. Johnson et al., 1996; Zahra & Pearce II, 1989) is central to corporate governance research. Mace's (1971, p. 6) early qualitative study of boards suggests, "Business literature is replete with the efforts of businessmen, lawyers, and scholars to define the proper and appropriate roles of board members." Research continues to grapple with this question (Hambrick, Werder, & Zajac, 2008; J. D. Westphal & Zajac, 2013). In developing our study, we sought to understand how scholars frame the board's role and explore the theories and perspectives that guide this research.

Corporate governance scholars primarily use explicit theories related to the board's ability to perform certain functions—largely guided by agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) and its view that boards' primary task is to act in an oversight role to ensure the alignment of management and shareholder interests (D. R. Dalton et al., 2007). This research generally assumes that boards fulfill this oversight role by acting as effective monitors of executives (Baysinger & Hoskisson, 1990). Over time, researchers expanded the proposed board functions by arguing that the board also has a role to provide critical resources to the organization (Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003). Based on resource dependence theory, this work assumes directors can provide firms with a variety of resources, such as advice/counsel, legitimacy, and social connections (Pfeffer & Salancik, 1978). Finally, while initially discussed as an important board function in the academic literature (Zahra & Pearce II, 1989), the board's strategic role has increasingly become a focus for governance advisors (Charan et al., 2014). Before outlining our empirical approach and findings, we briefly summarize the common perspectives used to assess board functions and board effectiveness.

2.1 | The monitoring function

Grounded in agency theory, the monitoring function of the board is generally considered by scholars and practitioners its primary role (Boivie et al., 2016). This function involves directors' oversight of executive actions on behalf of shareholders to reduce the potential for managerial opportunism (D. R. Dalton et al., 2007; Fama & Jensen, 1983) arising from the separation of principals, who own the firm, and agents, who run it on behalf of principals. Agency theory initially talked about the need for oversight because agents' interests may diverge from those of principals (Jensen & Meckling, 1976). However, because of the divergent interests between these two groups, most proponents of agency theory assume "that there is potential for mischief when the interests of owners and those of managers diverge" (D. R. Dalton et al., 2007, p. 2). This potential mischief, or opportunism, creates the agency problem and, in turn, leads to possible agency costs. Agency relationships are prone to moral hazard risks in which executives may shirk their duties in favor of actions that benefit themselves over shareholders (Eisenhardt, 1989). These other actions may take the form of increased diversification, excessive

compensation, and practices such as greenmail and golden parachutes (D. R. Dalton et al., 2007; Eisenhardt, 1989).

Agency theory asserts board monitoring minimizes the potential opportunism and costs arising from the separation of ownership and management by helping align the interests of management and shareholder (J. L. Johnson et al., 1996; Zahra & Pearce II, 1989). Boards monitor executives through two processes: decision control and outcome control (Baysinger & Hoskisson, 1990). As Fama and Jensen (1983, p. 313) note, “The board [...] retains ultimate control over internal agents—including the rights to ratify and monitor major policy initiatives.” Decision control provides that the ultimate ratification of decisions rests with directors rather than executives, whereas outcome control provides that boards can evaluate organizational performance to assess agency issues. These monitoring approaches align with the behavior-oriented and outcome-oriented monitoring derived from broader views of agency theory (Eisenhardt, 1989; Shapiro, 2005). In conjunction with these monitoring approaches, boards can reduce agency costs by selecting the CEO, replacing executives, and setting executives’ compensation to properly incentivize them (Monks & Minow, 2004; Vance, 1983). When decision control and outcome control are not separated from decision management (i.e., the initiation and implementation of decisions), managerial opportunism can emerge (Fama & Jensen, 1983).

Given agency theory’s assumptions about human behavior related to self-interest, bounded rationality, and risk aversion (Eisenhardt, 1989, p. 59), board monitoring is thought to curb these agency issues. Because of the potential for opportunism and moral hazard, directors serve as a “watchdog” overseeing management for shareholders (Demb & Neubauer, 1992, p. 44). Directors are also expected to identify with shareholders, to whom they have a fiduciary responsibility (Hillman, Nicholson, & Shropshire, 2008). As J. H. Davis, Schoorman, and Donaldson (1997, p. 23) explain, “Controlling governance mechanisms are prescribed, because agency theorists assume that agent-principal interests may diverge and that given the opportunity the agent will maximize his or her individual utility at the expense of the principal’s utility.”

Much of the prior corporate governance research stresses monitoring as the primary task of the board. For instance, a recent review of empirical research on boards across the domains of management, finance, and accounting summarized the literature by showing that 200 of 226 studies primarily relied on agency theory logic when describing the role of the board (Boivie et al., 2016). Furthermore, when we reviewed the 26 articles that the authors did not classify monitoring and agency theory as the primary role of the board, we found that 15 of those articles still include agency logic in their theoretical development. Thus, more than 95% of research articles across disciplines use agency theory and suggest monitoring is the board’s primary and most important task (Boivie et al., 2016).

2.2 | Resource provision function

Scholars argue that boards also provide a variety of critical resources to the firm and executive team. Based on resource dependence theory, this role focuses on the link between firms and their environments (Pfeffer & Salancik, 1978) and suggests the board provides several key resources to the firm and top management team. Unlike agency theory, resource dependence theory assumes independence between the board and management team is not a major concern as the board is only an instrument for addressing a firm’s environmental constraints (Pfeffer, 1972).

Resource dependence originally suggested a less hands-on approach with management and strategic decision making. In particular, Pfeffer (1972, p. 220) argued that managers may have little interest in advice from directors in noting, "the notion of whether or not management is making full use of its board cannot be evaluated by board participation in management, but rather by how well important external organizations and groups are being handled" (Pfeffer, 1972, p. 220). Rather than providing resources to meet shareholder interests, the board is considered a tool that enables a firm's survival given its environment (Hillman et al., 2000).

Empirical research largely supports the broad claims of resource dependence, specifically that the board plays a role in linking the focal firm to its environment and provides many important resources to the firm (Pfeffer, 1972, 1973; Provan, 1980). Also, research on board composition supports the notion that board composition is changed to adapt to environmental changes a firm may face (Hillman et al., 2000; Pfeffer, 1972; Pfeffer & Salancik, 1978).

2.3 | The strategic function

Most recently, in a departure from earlier research, scholars have begun to take a more normative position to argue that boards' roles should evolve and include being more actively involved in the strategic decision making of the firm (Charan et al., 2014; Pugliese et al., 2009; Useem & Zelleke, 2006). This focus on the board's strategic influence is reflective of the changing institutional environment and a renewed focus on director contribution (Finkelstein et al., 2009; McNulty & Pettigrew, 1999). For example, a 2012 survey of S&P 500 directors, Spencer Stuart, an executive search firm, found that the most important governance topic by directors was company strategy as opposed to shareholder concerns (Charan et al., 2014).

While empirical research on the board's strategic influence has been slow to accumulate (Zahra & Pearce II, 1989), recent studies highlight boards' more active role in affecting firms' strategic direction (for recent reviews, see Kim, Burns, & Prescott, 2009; Pugliese et al., 2009). For instance, McNulty and Pettigrew (1999) find that boardroom discussions can shape strategic decisions, while Golden and Zajac (2001) find that board structure, demographic characteristics, and power determine a board's ability to influence firm strategy (also see Haynes & Hillman, 2010). Kor and Misangyi (2008) also find that board industry-related experience supplements for top management team (TMT) industry inexperience in young entrepreneurial firms. Garg and Eisenhardt (2016) find that the interaction of CEOs and board members influences decision making in entrepreneurial ventures. Finally, while most studies focus on boards positively influencing strategic change, Hoppmann et al. (2019) find that boards may impede change in firms facing environmental discontinuities due to a lack of overall board renewal to respond to the environment.

Similarly, practitioner-focused research has also emerged on the ideal roles of boards of directors (Charan, 2011; Charan et al., 2014). This research leverages interviews with directors to propose normative implications for the role of boards. For example, in summarizing their perspective, Charan et al. (2014, p. 4) explain:

Increased regulation, shareholder pressures, and governance reforms over the past decade were intended to strengthen the board's oversight function. Yet as boards have become better monitors, they have also become better leaders, delving into a host of other areas that had been delegated to management in earlier times...we anticipate that this should fortify company performance.

These descriptive and normative studies suggest boards influence their firms' strategic direction and are involved with strategy formulation (Finkelstein et al., 2009; Zahra & Pearce II, 1989).

2.4 | A grounded theory perspective

In sum, prior research suggests monitoring executives is the primary role of the board while providing resources and taking active leadership are secondary and tertiary roles. Over time, however, these academic theories may have failed to keep up with the realities of today's boards by ignoring directors' implicit theories regarding how they view their functions and roles. In collecting and analyzing our data, we were open to new ideas and perspectives that derived from assessing how directors viewed their functions while being mindful of prior theory.

We also considered previous qualitative attempts to understand boards and directors. In the 1970s and 1980s, two books were published that shaped corporate governance research that involved the authors talking with corporate directors: Mace (1971) and Lorsch and MacIver (1989). Mace (1971, p. 2) summarized this prior work: "The extent to which the boards were effective depended largely on the desires of the small corporation managements—their desires to include competent men on their boards, and their desires to take advantage of board members' advice and counsel." Lorsch and MacIver (1989) qualitative study asked if boards were pawns or active participants in the governance process. They concluded that boards are particularly important during times of crisis, but less engaged during times of normalcy. Neither study tried to develop theoretical insights regarding directors' implicit theories of board service, however.

We began our study with the broad research question, "How do directors view their roles?" We thus set out to talk with corporate directors about what they actually try to do through their board service, why they serve, and whom they serve. Our goal was to develop theory grounded in the actual experience of directors, rather than building on earlier explicit theorizing. Delving into how directors view their roles and functions on corporate boards may offer critical insights into explicit perspectives dominating governance research.

In particular, directors' implicit theories may be important factors determining how they approach their board role and their exchanges with executives (Engle & Lord, 1997). In part, implicit theories are "core assumptions" that reside in a person's mind that help define "the individual's reality and imparts meaning to events." (Dweck et al., 1995a, p. 268). Psychology and social psychology research recognize an individual's implicit theories influence information processing, judgments, and decision making (Dweck, 2006; Dweck et al., 1995a, 1995b; Dweck & Leggett, 1988). In turn, an individual's implicit theories can impact how she/he views and enacts specific roles and tasks (Braun, Stegmann, Hernandez Bark, Junker, & van Dick, 2017). Specifically, implicit theory reflects an individual's beliefs about specific social groups (Chiu, Hong, & Dweck, 1997). For example, research focusing on implicit leadership theories suggests that such schemas can influence how leaders and followers interact and how they enact their respective roles (Offermann & Coats, 2018).

The term "implicit theory" in this context does not imply that the individual's implicit assumptions cannot be measured or captured. This is different from how the term "implicit" is used in other contexts, such as cognition research, as Lüftenegger and Chen (2017, p. 100) note,

In work on social cognition the term implicit is associated with the inability of people to report the existence or operation of some entity or past experience. But

research exploring implicit theories of intelligence goes against this notion because people are often quite able to report their beliefs.

This is evident in the work measuring implicit theories in educational psychology (Costa & Faria, 2018), which suggests that these implicit theories are not unmeasurable but rather that direct, systematic effort is required to do so (Dweck et al., 1995a). This literature suggests all individuals possess underlying theories they often do not directly articulate; however, research in this area has directly observed and measured these implicit theories (Dweck, 1999, 2006).

Similarly, corporate directors possess implicit theories about their roles and functions, as well as how they should enact them. Building on a series of in-depth interviews, we develop theoretical insights that suggest that directors and boards see their roles primarily in terms of helping managers make better and more informed decisions. As our interviews proceeded, it became clear that the area where there was the biggest gap between prior theoretical treatments of directors and how practicing directors perceive their role involved being *strategic partners* with the CEO. In part, our interviews suggest directors possess different implicit views about whether they are focused on serving primarily to protect shareholders or to support managers. We thus primarily focus on reconceptualizing the role of the board based on board members' views of their role. Then, based on that reconceptualization, we discuss how insights from our data suggest ways to improve research into boards and board effectiveness going forward. Before detailing those findings, we lay out our methodological approach.

3 | METHODOLOGY

Given our interest in understanding how directors view their roles on a board, we undertook an inductive, grounded theory style study to gain deep insight into a phenomenon from the perspective of those living it. This provides the basis for building theoretical explanations of the phenomenon that are not possible with traditional deductive methods. Given that most of the theory and empirical evidence on boards is based on secondary data from boards of publicly traded firms, we also collected data from directors and executives of publicly traded U.S. firms. Grounded theory is an appropriate method for contexts in which established theory has become disconnected from the actual behaviors and actions of real-world entities (individuals or collectives) over time (Charmaz, 2006; Suddaby, 2006). That type of context becomes even more important to examine inductively when the original theoretical foundations were developed conceptually (instead of empirically) and there is disagreement within the field on the appropriateness and applicability of the theory's adaption over time. We believe the grounded theory approach was warranted considering we uncovered perspectives and insights, as well as produced emergent theorizing, heretofore not published in the corporate governance literature.

3.1 | Data collection

In pursuing our research question, we relied on semi-structured interviews with 50 directors and executives. We used the Executive Education centers of two research universities to initially contact the directors. After each interview, we also used a snowball sampling technique by asking the interviewee for referrals to other directors. Finally, we obtained some of our interview subjects through direct email solicitations. All but two of our informants were serving on, or

had served on, the board of a publicly traded company; the other two had been executives of a publicly traded company and had interacted with the board but had not served as a director. During the review process, we also conducted five follow-up interviews with directors from our original sample.

Our informants are a mix of public firms spanning a variety of sizes from small and medium-size firms to large Fortune 100 firms, as well as several industries. This data collection effort is uncommon in the academic literature on corporate governance (for exceptions, see Golden-Biddle & Rao, 1997; Harvey, Currall, & Helland Hammer, 2017; Klarner, Yoshikawa, & Hitt, 2018; Lorsch & MacIver, 1989; Mace, 1971) and provides a unique window into how directors perceive their role on boards. Table 1 provides an overview of our sample in terms of several individual- and board-level characteristics. We matched our sample of directors to BoardEx to collect this information. As shown in Table 1, 24% of our sample was female, which reflects current female representation on public boards in the United States (Diligent Institute, 2020). At the time of our interviews, our sample's average age was 64.10, and they on average served on 2.82 public boards. In terms of our sample's backgrounds, 6% were executives only, 40% were directors currently employed full-time at other firms, 18% were directors only with no other corporate affiliation, and 34% were directors who were current or former CEOs. Again, matching the general population of public board directors, our informants were primarily white, although we also had some African American and Hispanic directors. As part of our purposeful sampling approach (Shah & Corley, 2006), the tenure of our informants varied widely: some directors had more than 30 years of experience across multiple boards, while a few had only been serving on a single board for a few months. We had a variety of industries represented, including consumer goods, oil, gas, chemicals, and retail, in an attempt to, once again, mirror the experience of the general population of public board directors (see Table A.2.1 in Appendix S1 for more details on the industries represented by our sample). The executives and directors interviewed generally fit the pattern of individuals serving on the S&P 500 boards in terms of professional experience, age, and demographic characteristics (Spencer Stuart, 2018).

TABLE 1 Sample characteristics

Characteristic	Mean	Minimum	Maximum
Gender	24% female	—	—
Average age	64.10	50	81
Average time in current board roles	5.91 years	0.30	26.60
Average number of public boards	2.82 boards	1	12
Average number of private boards	3.52 boards	1	10
Average board gender ratio	16.64% female directors	0%	.33%
Average number of directors on current public boards	9.42 boards	4	13
Executives only	0.06	—	—
Directors currently employed full-time at other firms	0.40	—	—
Directors only	0.18	—	—
Directors and current/former CEOs	0.34	—	—

We asked directors a series of broad questions about serving on boards, including questions related to their choice to serve on boards, board effectiveness, as well as their work on board committees. Examples of the types of questions and our broad interview protocol are available in Appendix S1 in Table A2.3. We choose these topics to provide a wide scope for our data collection regarding directors' experiences on boards, using informant-specific follow-up questions to gain deeper insights. Each interview lasted about an hour and was recorded and transcribed verbatim. We added directors to our sample until we reached a point at which each new interview did not provide new insights into our research question.

3.2 | Data analysis

After transcribing the initial interviews, each author coded one interview that was chosen because it was representative of the broader sample. We then met as a team to discuss any disagreements and to establish a standard coding scheme that we then applied to the remaining interviews. The team continued to meet throughout the coding process to discuss necessary adaptations to the coding scheme. These initial coding discussions also helped us refine the protocol for future interviews to better hone in on the emerging themes that were deemed most important by our informants and that held the most potential theoretical impact (Charmaz, 2006).

We followed Gioia, Corley, and Hamilton's (2013) methodological approach to rigorous inductive concept development. To do so, we began open coding (Charmaz, 2006) by focusing on first-order concepts that derived directly from informant terms. These first-order concepts helped us build the foundation of our informants' implicit beliefs as they captured their view of the phenomenon in their own words (Lincoln & Guba, 1985). We then used axial coding to consider higher-level theoretically interesting patterns among the first-order concepts to further reduce the data to more general themes. In examining these second-order themes, we began to ask "whether the emerging themes suggest concepts that might help us describe and explain the phenomena we are observing" (Gioia et al., 2013, p. 20). Analytically distinguishing between those emergent concepts allowed us to aggregate the second-order themes into aggregate dimensions (Gioia & Chittipeddi, 1991), which provided a theoretically interesting view of directors' implicit theories of their board experience. During this process, we iterated between the concepts, themes, and dimensions that emerged from our interviews and the extant literature on corporate boards. This analytical approach provided the foundation for the data structure reported in Figure 1, which was used as the basis for developing an empirically grounded understanding of what directors do and why they do it.

4 | FINDINGS

Our initial goal in analyzing the data was to discover how directors viewed their roles in their firms. A key finding from our analysis was that directors' implicit view of their roles was informed by their view of the agency relationship between shareholders and executives. While this insight may not seem entirely novel, how directors explicitly and implicitly view their roles within this relationship provides clear inferences for understanding board functioning. While all directors agree their job is to protect shareholder value, there is variance in how they do so and whom they need to support to do it. Building on this insight, we next focus on the views of the agency relationship and how they manifest in directors' implicit views about their job.

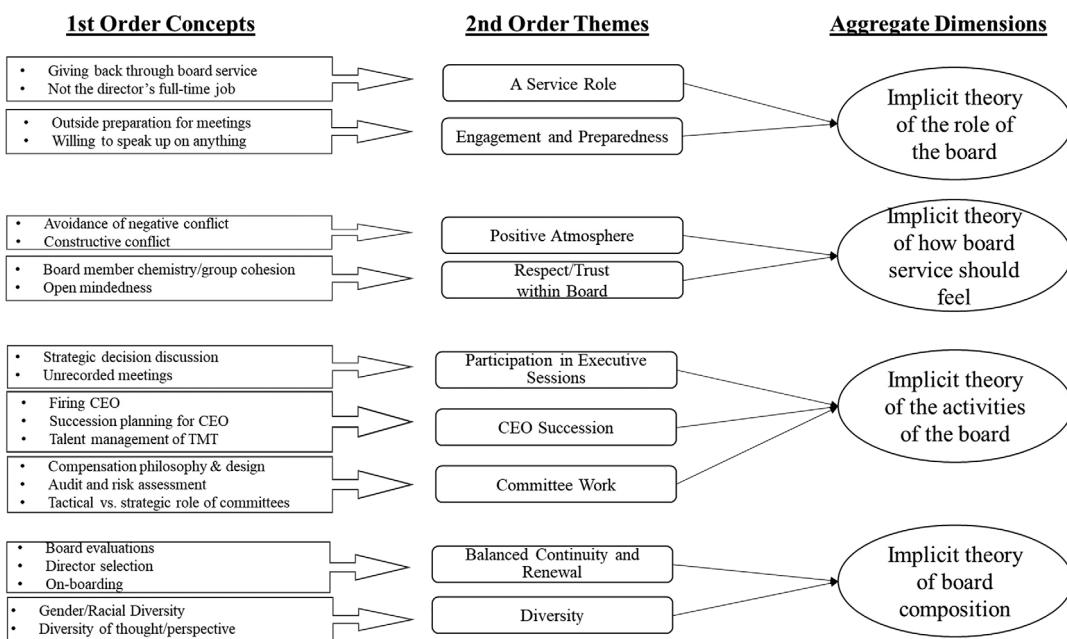


FIGURE 1 Data structure

4.1 | Director assumptions about the agency relationship

Directors varied on their assumption about who they were primarily serving. As one director stated, “We have a fiduciary [...] responsibility to run the company in the interests of the shareholders.” Some directors thus defined this relationship as being an objective third party to represent shareholders. Echoing this perspective, one director explained:

I've always felt like it was kind of important to understand what your board's thinking about, right? The board sort of stands between the guys in the C-suite and the shareholders. They come out from a third-party perspective with a different mentality around risk management, and returns, as they serve the shareholder interests.

Other directors, while not ignoring their fiduciary responsibility to shareholders, focused more on their role as aiding executives in the strategic management process. As one director noted, “I think that the board [has got to] get back on what sort of business value are we adding outside the known fiduciary and compliant state.” Indeed, many directors do not view this duty as needing to explicitly monitor management. One director directly spoke to who should be served:

It's the suppliers; it's the community. And, it turns out, I believe that business is for the benefit of everybody. It is important that we as directors not look just at the shareholders who we are accountable to primarily, but also to all the other people in the food chain....

In discussing this shared responsibility to create broad value, directors consistently told us they view their primary task as helping improve and inform the CEO's decision making. Also, the CEOs

with whom we spoke stressed the need for mutual trust. For example, a CEO stated, “I would like the ability to get [directors’] insights, but I also want their trust.” As one director said,

You don't go back to...the CEO, and say, “You know what, that strategy is wrong. We'd like you to do this strategy.” That's not what you're paying him for. You're paying him to make the decisions. And if he is consistently making wrong decisions, you find somebody else to make the decisions.

This quote shows that directors do not share the implicit view that their job is to protect shareholders by curbing managerial opportunism. Rather, these directors trust and respect the executive team. These differing assumptions drive their view of their roles and how they fulfill these roles. Thus, these directors believe they fulfill their duty to protect shareholder interests by providing advice to improve a CEO's strategy, not by voting down decisions they believe harm shareholder value or represent CEO opportunism. For directors who hold the implicit view that they serve managers to create shareholder value, this role is shaped by a different set of assumptions about executives than is premised by agency theory.

Furthermore, when we probed and directly questioned directors about monitoring, our informants mostly discussed the challenges of monitoring. Specifically, when asked about monitoring directly for potential opportunism, directors not only suggested that they did not believe this was their role, but went beyond that view by explicitly stating they did not believe it was even possible. For instance, one director said:

You can't stop people from doing bad deals, and you can't stop people from doing complicit fraud. Period. Ever...if people are going to screw you, they are going to do it.

Instead, the directors indicated that, because of information asymmetry between the board and CEO, it would be difficult, if not impossible, to assess if a given action was right or wrong for the firm. When discussing this view of directors as watchdogs of managers one director said, “I think there's a misconception a little bit around what you can expect reasonably from a board member.” Furthermore, directors said it is beyond their capacity to engage in traditional monitoring tasks, such as addressing potential fraud and opportunism. To this point a director said:

I can check a box every day and if I make bad business decisions then my stockholders are going to suffer and you know I knew plenty of the people on the Enron board and they were good people but you know management deceived them and they lied to them and there's not a corporate governance scenario when you have people who commit fraud.

As one CEO explained, “At the end of the day, if I wanted to steal fifty million dollars or a hundred billion dollars from the company, all I had to do is get one other person to help me. That's it.” This comment reflected the fact that agency issues are often difficult for the board to address. Relatedly, directors did not believe that it was even possible to *a priori* know enough to approve or disapprove of specific decisions. One director said:

No one asks you a question while your deals good until it goes bad. Then you're stuck. And so, the thing about it is the sort of best practices and all of the regulatory

issues that require minutes and things like that are all interesting and are important, but they overreach and what it really gets down to is making sure that you have the right people and the right structure and you know you can have a board, look at the people that run GE's board now, and GE's what fifteen bucks a share and they were the worst performer on the NYSE and everybody said they used to be the gold standard and now they suck and they're saying what happened to the board? Did they lie to the board? Were they asleep? You know they make bad decisions right they didn't operate effectively and guess what, what happens is that companies that so it's not about the rules set forth with academia with ISS or NACD or NYSE of SEC some people are just going to make bad decisions and make bad business deals and then the shareholders are going to get screwed at the end of the day it's not because the governance, it's because of the people they had on the board and the management team make wrong decisions.

Similarly, another director said:

They all made a lot of decisions, best efforts, and okay granted, they'll always be the outlier, but generally speaking, a lot of deep thought went into that. Is it reasonable that there's a blow-up somewhere and it's, the comp committee head's fault if we're seeking fault here, but that's...They make \$300,000 a year, they go to five meetings a year, and they study and they look and they work hard but is it realistic to think that they own that?

These quotes illustrate a consistent theme in our interviews—that directors and executives recognize the practical challenges of directors monitoring for managerial opportunism.

In sum, our interviews pointed to variance in the implicit views directors possess on how they approach the agency relationship between shareholders and executives. While all of the directors interviewed recognized their fiduciary responsibility to shareholders, there was variance on how they believed this responsibility is carried out. In part, our interviews suggest that a minority of directors focus on their role as serving the interests of shareholders, and in doing so, they sought to keep a more arm's length relationship with management. On the other hand, a substantial majority of the directors we interviewed suggested that to serve shareholders' interests, directors needed to work with and help develop managers to create firm value.

With these implicit views delineated, our next goal was to discover how directors approached their board service. Despite the variance in directors' views of who they were mainly serving, almost universally, directors' idea of participation in strategic decision making and their role as a strategic partner with the executive team was what they described as their primary role. Indeed, even though there was divergence regarding if their primary task was serving shareholders or helping to improve firm strategy, directors nearly uniformly agreed that each goal was best accomplished through acting as a strategic partner working with management to improve strategic decisions. Based on this, several key insights emerged from our analysis.

4.2 | Approaching the relationship as strategic partners

During the interview process, it became clear that many directors, rather than viewing their job as curbing managerial opportunism, viewed their role as strategic partners. Thus, we felt the

need to try to better understand this role and its underlying assumptions because it is a significant departure from conceptions in prior research. Our first concern was understanding if being strategic partners with executives was just another way of describing monitoring executives' decisions or if it was something else. Their consistent conception of participation in strategic decision making was something that did not clearly map on to the traditional roles suggested by prior theory of monitoring or providing advice. Directors instead suggested that boards virtually never seek to vote down management's decisions; they instead try to partner with the executives to provide input to make the decisions better. As one director noted:

They (directors) come to the boardroom...incredibly prepared—ready to dialog or discuss, but not to become management. To be a board of directors, in my mind, you've (got) to understand where management is coming from, but your job is to ask a lot of questions and focus what they are telling you and not to step into the role of management.

In discussing what the CEO wants from the board, one executive provided an example of the strategic involvement of the board:

We are retooling our strategy at [the firm]. After a couple of years of weak performance in the marketplace, we need to undergo a strategic and cultural transformation. And so I have pulled together with my leadership team, all of the different aspects of what that would entail, from priorities and focus to organization structure, to new policies, to the financials around that, all of these different aspects and I've presented that to the board. And I did it in sort of two phases almost. I talked with individual board members first, and I got some kind of one-on-one feedback, where they could read through what I'm thinking and give me advice before I polished it all up. And then I did that where I brought something that was more fully formed to the board in total, and they constructively helped poke holes in it and challenge certain assumptions and ask really good questions.

This quote illustrates that board participation in decision making extends well beyond arm's length advice-giving. It rather suggests that, while the CEO initially formulated the strategy and that the directors did not try to redirect the strategy or voice dissent, they also went beyond simply providing "advice" and instead provided a great deal of input that shaped the ultimate strategy. In part, directors with this view engage more in the decision management process of initiating strategic decisions. Furthermore, what is driving these behaviors is a set of assumptions regarding executives' motivations that differ substantially from the agency theory.

Consequently, what emerged from our analysis is a framework in which directors do not hold the implicit assumption of managerial opportunism. Rather, they approach their board work with an overarching role as a strategic partner with executives rather than as a shareholder watchdog. As illustrated in Figure 1, our framework is derived from the accumulation of directors' implicit theories regarding four broad, but inter-related, dimensions: (a) role of the board, (b) how board service should make them feel, (c) board activities, and (d) board composition. In our interviews, each of these subthemes emerged in directors' discussions of what they perceived as how they approach their board service. In turn, we sought a better understanding of why directors and executives perceived these specific dimensions and themes as particularly important.

4.3 | Implicit theory of the role of the board

Despite the variance among directors' views of who they were primarily there to serve, be it shareholders or executives, directors' views on the role of the board tended to converge on an implicit view of being strategic partners. This view is derived, in part, from how directors approached their board service and what the role of a director meant to them. Directors' implicit theory of the role of the board consists of two specific themes: (a) being a director is a service role and (b) being a director requires preparedness.

4.3.1 | A service role

When discussing the roles they perform based on their view of the board as a strategic partnership, our informants described their role as primarily service-oriented. To be clear, this is different from the service role described by J. L. Johnson et al. (1996) in that our informants suggest their board work was a form of providing a broader, societal service. Viewing this role as a service task, rather than as a job, fundamentally shaped how they approached being a director. As one informant stated:

My experience is people generally are serving on the boards not for money, not for power, but to truly help. And I think they become—if done properly, in my experience—very neutral advocates for the company and shareholders.

In part, several informants discussed their desire to contribute to the firms they represent. For example, one informant explained, “You want the management team, the executive committee, to feel like you’re really helpful and adding value and you’re not just a signature, you’re not just an eye, you’re not just an approval.” Similarly, other directors discussed why they serve on the board as, in part, deriving from the fact that “you feel like you really can make a contribution.”

Although nearly all directors discussed contributing to the firms they serve, most of them view being a director as a secondary role in their lives and careers. As one director noted, “There’s a service aspect of giving back, so to speak, even though you get paid for it. And part of the giving back, I guess, is also using whatever expertise you have.” Thus, directors view their board responsibilities implicitly as a form of public service because, as one executive stated, outside board service “obviously takes time away from your primary job.”

As we examine in the other subthemes, while most directors perceive themselves as strategic partners, this service orientation means that directors are unwilling to tolerate turmoil, disrespect, and strife in the boardroom. Indeed, even though directors may be willing to deal with turmoil in their primary roles as executives, they seem unwilling to deal with it in their director roles. Reflecting both perspectives, one director considering joining a new board explained,

I'm interviewing right now for another board, and what I told them is that I only want to be on the board if the other board members and the management team are very glad that I'm on that board because I'm able to offer a value-added [contribution]. That I'm adding value to the enterprise.

This informant linked the need to contribute with the desire to avoid negative board experience, stating, “Similarly, I don't want to be on the board if it's a bunch of people I don't want to work

with either...if it's toxic." Directors thus view their time in the boardroom as a form of "giving back" that they do not want to be tainted with disagreements and stressful interactions.

4.3.2 | Director engagement and preparedness

Their perspective as strategic partners also influences how directors approach board meetings. Our data suggest directors take their responsibilities seriously and discuss preparation for and engagement in the boardroom as critical to their view of the role of the board. This indicates that, while directors are not the formal decision control agents suggested by agency theory, they are also not the ornaments on the corporate Christmas tree suggested by earlier research (e.g., Mace, 1971).

For example, one director stated, "I try to prepare as much as I possibly could so if there was something that I just wasn't that familiar with and so forth I would try to get a little advance education." Also, if a director was unprepared for or disengaged in a board meeting, they were confronted by other directors. For instance, a director discussed a time when they spoke to a board member they perceived as disengaged, "I made a very specific comment that we can't allow people to be checking their cell phone and sending messages during the meeting." Another director stated how unpreparedness harms the board's ability to serve as strategic partners:

It has to do a lot with the quality of the discussion and the engagement of the directors. Those are the two critical parts. Where I've seen it fail miserably was in situations where part of the board just didn't seem to care, and so they weren't engaged.

The value directors' place on being a strategic partner makes such engagement and preparedness a requirement for them to effectively fulfill this role.

This emphasis on preparedness, in turn, influences how directors evaluate one another. One informant explained, through a hypothetical situation, an instance in which the board would reprimand a director. This individual explained that it is obvious when "[a director was] coming to the board meeting unprepared. He's not really giving insights. Did you notice that in his particular area of expertise when we're discussing that, there was no input?" Without proper preparedness, directors cannot serve and contribute to the board discussions and, in turn, cannot fulfill their role as strategic partners. The norms of director engagement and preparedness are thus critical components that enable directors to approach their roles as strategic partners. Taken together, these two second-order themes shape directors' implicit theory regarding their role and the board's overall role as a strategic partner with the executive team, regardless of whether they view their primary duty as serving shareholders or the CEO.

4.4 | Implicit theory of how board service should feel

Flowing out of directors' view that being a director is a secondary service role that requires preparation, we found that directors developed implicit theories about how the board interactions should feel. When asked to describe bad board experiences, directors nearly always offered examples that reflected disruptions or violations of expected board norms. In their words, bad directors are those who do not respect other directors. Similarly, they often described bad directors as those that violated norms of deference toward the CEO or who challenged the CEO too

aggressively, which made board meetings uncomfortable. From their perspectives, these directors were not able to provide their input respectfully and find ways to compromise. Based on these descriptions, two specific subthemes emerged regarding the fact that directors believe that boards should have: (a) a positive atmosphere and (b) respect and trust within the board.

4.4.1 | Positive atmosphere

For directors with an implicit view that they are strategic partners, a positive atmosphere on the board is critical. As we noted, these directors also have an implicit view that their board work is “giving back” or a form of service. They thus seek and highly value positive experiences from their board service. As one director stated, “almost without exception the people I worked on boards with were really first-class people that work together as a team.” Board members also noted that the focus on a positive atmosphere did not mean boards avoid conflict and deep discussion (as we will discuss); however, they emphasized the need for healthy and constructive conflict. When we probed about potential board conflicts, one director noted:

Not to say, “there's not disagreements,” but I haven't seen any fights or anything like that if that's what you're asking. But there can be disagreements on how people feel about things. Or, you know are we doing this fast enough? Is it deep enough? Are we making the right decisions? And, those are healthy debates.

Thus, directors value the way that discussions happen, and they want these interactions to be positive. Directors considered violations of this norm as a form of board dysfunction. For instance, one director told the story of another director too aggressively challenging a CEO on a particular topic, he described this as, “That's not good etiquette, that's not good behavior.” A different director, in describing why the board on which she/he served was *effective*, described the atmosphere as one in which, “it's okay to go to laugh in a boardroom. I think those tend to be the best experiences for everyone. They're friendly, they are not afraid to speak their mind....”

Given many directors are also executives who regularly experience conflict in their regular jobs, we sought to probe more deeply to understand why a positive atmosphere is critical to directors. The analysis of our interview data suggests that an environment of trust and constructive conflict may be ideal for creating a boardroom dynamic that enables the strategic partnership between the board and the executive team. As one director explained:

It's like [the film] “Twelve Angry Men.” I mean, you want Henry Fonda to change eleven people over time. And so, what you don't want is an individual that goes, “You're not listening to me. I think that's a bad idea, and if you guys are still going to go ahead with this, I'm going to pull my vote, or I'll go along with you but reluctantly.” Well, that hasn't helped the quality of the debate or discussion; so, you need someone with the art, the skill, with the intellectual capacity to be more thoughtful in getting their point across to help a group.

It is this type of open dialogue, which only comes from a positive environment, and enables the board to collaborate as a strategic partner with the executive team. As another director explained, “If you got a bunch of guys (sic) just nodding heads, then you're not gonna be effective. So, push it around, do it in a way that doesn't get personal, but expresses points of view, have the ability to

stand-up and articulate why you believe what you do, and that [is] very healthy." This individual then placed the discussion of conflict in the context of strategic decision making:

One [example] is always, when you're talking about strategy, with a view of the market, "What's happening in the larger market?" And depending on what you do and where you're coming from, that can be very, very different. And so, one person's, "Hey, [a strategic factor] is sitting here at [the price of] 45, and it's never coming back." That's gonna influence how somebody feels about a strategy for aggressively investing for growth.

This positive atmosphere with open dialogue and constructive conflict enables the type of board–executive team collaboration in which strategic decision making is refined and improved.

4.4.2 | Respect and trust within the board

Our informants also emphasized respect and trust within the board as critical. As we noted, for discussions and disagreements to occur within a positive atmosphere, the board members need to trust and respect one another. As a director noted in discussing their conception of board norms, "I mean a willingness to agree and disagree with each other; a willingness to challenge me." In the minds of directors, trust and respect are critical for the functioning of a board. As one of our informants stated:

I'll tell you where [a board is] effective is where you see the board members respect each other. Okay, there's a level of respect that says, "You have an expertise and an experience set that I don't have so let me listen to you as to why this particular issue is yellow, right, and I think it's red, and ultimately, we may have come out with green as the decision."

This informant went on to describe times in the boardroom where trust and respect were absent:

By the way, where I've seen it fail is where directors will dismiss each other. I've seen that happen, too, sure. I saw it as management as well. A member of management with an issue I brought to the board, and to hear one director's dissenting view and then have another director basically just dismiss it as, "your company is inconsequential." That's where you begin to see a dysfunctional board, right? Because when the chemistry is right is because you trust and value each other okay and you're willing to listen to each other.

Directors thus perceive respect and trust as necessary for their board experience because each facilitates the open discussion of ideas and opinions so they can create value for their firms. This is not to suggest, however, that board meetings are conflict-free. As one director stated,

This is not "Kumbaya," everyone sitting around holding hands in agreement. It is finding individuals that have developed the ability to have mutual respect for differences of opinions about learning, about working together, and how an

individual presents their differences of opinion or argument and you can learn how to work together.

This trust ensures that, while board members can probe and challenge the CEO on assumptions related to strategic issues, the CEO also knows this interaction will be respectful and that directors will not vote down specific decisions. As one of our informants explained:

You're leaving them (the firm's executives) in charge of the company, you've gotta trust their judgements around a lot of things. You understand how they arrived at conclusions, but to challenge them, diminish them, do things like that in front of their team is not a productive approach.

In part, having an open dialogue in the boardroom that allows for dissent and diverse opinions is critical for those directors working to create value through their board service. This carries over to instances when they question the CEO or other executives about their strategic imperatives. At the same time, these beliefs are in sharp contrast to the opportunistic behavioral assumptions in agency theory. Directors' baseline assumption, unless provided strong performance evidence to the contrary, is that they should trust the judgment of a CEO as it relates to strategic decisions.

Given that directors view their role as being service-oriented, and that they implicitly believe that board service and the interaction between directors should be positive and based on mutual respect, this informs directors' implicit theories about what boards should actually do.

4.5 | Implicit theory of the activities of the board

Before we provide additional detail on some of the novel board activities, we want to clarify an issue. Specifically, we do not claim that by being strategic partners no monitoring occurs. Our findings rather suggest that directors do not view themselves as monitors and that they do not view monitoring as one of their primary activities. In fact, we reviewed over 1,000 pages of transcribed interviews and not once did an informant use the word monitoring, or other terms such as control, to describe their duties. Instead, our findings suggest that directors' implicit theories of their duties cast them as collaborators with the CEO in improving the quality of firm strategic actions, but not in the role of approving or disapproving particular decisions. In this regard, three novel themes emerged under the board activities dimension: (a) participation in executive sessions, (b) CEO succession, and (c) committee work.

4.5.1 | Participation in executive sessions

One specific type of action that our informants mentioned and something that indicates how the board views itself as being strategic partners with executives were "executive sessions." The topic of executive sessions is not often discussed in the board literature (C. M. Dalton & Dalton, 2005), but is viewed by directors as having unique importance in shaping how the board interacts with the CEO. Executive sessions are meetings where only the CEO and

the board are present (although most boards also have some sessions where the CEO is also excluded) with no other corporate officers present, even corporate counsel. These meetings are not recorded, which allows the board and the CEO to bring up sensitive issues. Executive sessions without the CEO ensure that board members do not have concerns about the firm and its leadership. In discussing their prominence, a director stated, “the board always has an executive session of every board I’ve ever been around or seen, sometimes more than twice during a meeting but often at the end of the meeting.”

From the CEO’s perspective, the executive session can be critical. As one executive stated, “if we’re doing something that is a discussion about, say an acquisition, we’ll do that in an executive session because I don’t want to minute it.” Beyond these executive sessions, several directors also discussed calls and meetings with the CEO outside of the board meeting context as a way to manage the proper culture around interactions with the CEO. In fact, some directors reported interacting with the CEO at least every other week, most often through phone calls, to ensure there are no surprises in their boardroom discussions.

4.5.2 | CEO succession

The next major function that directors described as important to their role was CEO succession. This function reflects a seemingly contradictory relationship between many directors’ views of being a strategic partner and their responsibility to, when necessary, replace the CEO. One informant spoke directly to this idea:

I see it...at two levels. The very best boards look at themselves and are looked at by the CEO as a resource. Not as a bunch of guys that are looking over his neck or trying to make him do things they want to do. And there are many boards like that, that want to control him, but they’re a resource and nothing more. So that’s at the lower level, but then, they also have to recognize that they have ultimate responsibility. So, at the higher level, if things go awry, they got to have the courage to step up and say, “You’re fired, and we’ll replace you.”

In this regard, despite their view of acting as strategic partners with the executives, boards do focus much of their attention on ensuring that the right person is leading the firm. As one informant noted, “We’re here to make sure that we, on the one side, protect the shareholders and, on the other side, support and develop our leadership. At the end of the day, the board exists to protect the shareholders, hire and fire the CEO, and ensure that there’s a succession plan.” Another informant extended this point by stating, “Are we happy with the leadership we have in the company and the strategic direction? which gets me back to the point is, if you don’t like the strategic direction, change the CEO.” Thus, depending on the view of the board of the firm’s current direction, executive succession is sometimes necessary to redirect a firm’s strategy.

Much of what we learned about the board’s role in CEO succession planning was in line with prior research and so, rather than repeat it, instead we focus on the findings related to succession that are more novel. Going beyond these more confirmatory findings, our data revealed that the board’s view of themselves as strategic partners with the executive team has its limits. When the firm is under-performing, succession planning is more challenging for directors because they view their strategic partner as failing. Reflecting on this point, a director explained:

Now there are times when you have to face the fact that the CEO is not performing to the level that you need them to perform, right. And, that can be over time you have seen that or that can actually be a behavioral pattern that emerges kind of suddenly, and you say, "you know what, this person no longer has the values that we as a board need to have in a CEO," right? That's the really tough one because then you're scrambling.

Another informant explained how performance is only one indicator, and a board has to consider whether the underlying issue is the strategic direction of the firm:

You have to evaluate why there's a lack of performance. [...] Every year a board analyzes the company's strategic plan and gives the company direction. If [the executives] weren't meeting the goals that have been set not because of market conditions but because of lack of management vision or right decision making [and] the CEO was unable to achieve those strategic goals, that's a very different situation, right?

Interestingly, the CEO is often actively involved in the discussions about succession planning, especially in planning executive team changes. As one director explained:

The CEO has a good feel for the people within the business. He knows which VP is ready to be promoted, can handle more responsibility and we'll talk about that towards the end of the year about who's ready for what assignment. Or if he thinks one of the VPs is nearing the retirement age then he'll say here's our plan to backfill this person, here's the candidate that we think is the most viable.

This director went on to say, "you begin to evaluate where the CEO is falling short and I would tell you after year two if those have not been addressed, that's when you go back and say it's time to start a search." From the director's view as a strategic partner, when the CEO is not fulfilling his/her role in the partnership, succession becomes a consequence. As a director stated:

Boards evaluate CEO performance, right? That's extremely important. That's one of things that as a board, you have to understand and it's not just for compensation purposes. If you have a CEO who is doing a mediocre job—they're getting the job done but they're not taking the company strategically or performance wise where the board deems it should be—then they're not really maximizing value for the shareholder, right?

Our findings underscore the complexity of the CEO–board relationship and these types of decisions. While prior research suggests that hiring and replacing the CEO is a critical board task, the underlying dynamic in which most board members are balancing the need to support and develop the CEO to a point, while still being willing to replace the CEO when they determine that is in the best interests of the firm and its shareholders has garnered little attention. As one director succinctly summed these points up by stating, "the job of the Board is to support the

CEO until the point where you need to replace them, and then, that's the only real job the board has is [to] replace the CEO."

4.5.3 | Committee work

The third novel function that directors described in this area related to their work on committees. Since the passage of Sarbanes-Oxley (SOX), regulations and stock exchanges have mandated the presence of committees. Most researchers and theorists conclude that committees are becomingly an increasingly important contributor to overall board effectiveness. Our findings, however, suggest a more limited view of committee work overall strategic importance and in the importance in directors' view of their overall role as strategic partners.

Directors do not view the work of committees as being part of their core mission, or an essential contribution to the board's strategic role. Instead, they tend to view committee work as necessary, but more rote in nature. This contrasts with most of the recent work in the accounting and finance literatures that suggests much of the board's work is accomplished in committees (Brick & Chidambaran, 2010). For the sake of transparency, when we began our interviews, we expected that committees would be where boards performed much of their work. Our data, however, suggest that board members view the committees as only important for carrying out necessary, tactical board activities, and checking the boxes needed for regulatory compliance.

Indeed, directors noted that if a strategic concern came up during a committee meeting, it is relayed to the full board. In describing this dynamic, one informant noted, "The committees are digging into the details of comp, of audit, and of nominating-governance, and they're getting into the weeds. And at the board, you're typically dealing with much more general, broader, more strategic things." Another director discussed the protocol for strategic issues that arise during the committee meetings: "Each committee chair would report out to the entire board. Sometimes there are resolutions that need to be voted on by the entire board." Similarly, many directors acknowledged that following SOX, the audit committee was tasked with many important responsibilities; however, over time, these became more "box-checking" activities. As one informant explained:

The SOX sort of overwhelmed them, because you had all these boxes to check and all of those requirements. And they said, "But we feel like now that audit committees have been able to figure out how to do some of that semi-offline so that they can now focus on more strategic issues, again, in addition to just fulfilling all the requirements of SOX."

Committee structures varied widely, with some smaller boards having all members serving on all committees, while large boards often had concurrent board committee meetings occurring. In terms of the concurrent meetings, some boards had committees meet all at once, whereas others still met one after another. The latter approach allowed non-committee members to attend other committee meetings. Relevant (non-CEO) executives often attend committee meetings. For example, the CFO or chief accounting officer generally attends the audit meeting.

4.6 | Implicit theory of board composition

Finally, our analysis found that directors' implicit theory regarding the board as strategic partners also influences board composition. When asked what an ideal board would look like or what it would do, directors' responses were largely in line with prior research. Given the limited novelty of directors' comments in this regard, we only offer our findings here in Appendix S1.

5 | DISCUSSION AND IMPLICATIONS FOR FUTURE RESEARCH

We sought to better understand board roles and functions based on the implicit theories of corporate directors. Explicit theories, such as agency theory and resource dependence theory, have dominated much of the research on boards of directors. Agency theory, in particular, has become the dominant underlying logic for many of the corporate governance practices and regulations in the United States (G. F. Davis, 2005; J. Westphal & Park, 2020; J. D. Westphal & Zajac, 2013). Despite these strong explicit theoretical perspectives on board functions, the empirical findings linking board characteristics with important firm outcomes, like firm performance, have been mixed at best (Bhagat & Black, 2002; D. R. Dalton, Daily, Ellstrand, & Johnson, 1998; D. R. Dalton, Daily, Johnson, & Ellstrand, 1999). If these explicit perspectives do not fully reflect the reality of the boardroom, then subsequent empirical research focused on certain board characteristics may be misspecified.

Using a grounded theory approach, we examined how directors viewed their primary roles intending to develop a new theoretical understanding of the implicit views of directors concerning how they approach their board services. The data from our first-order analysis of interviews led to key patterns at the second-order level of how directors view their work regarding the overall role of the board in governance, how board service should feel, the key activities of the board, and how the board should be composed. We suggest this inductive approach to considering the question of what boards do complements existing explicit theories to offer a more nuanced theoretical picture of board service. Developing an understanding of the implicit theories directors bring with them to boards can shape future research on board processes and outcomes that leverage and extend traditional explicit theories. We find that some directors hold the implicit view that their primary focus is on protecting shareholders whereas other directors hold the view that their primary focus is supporting managers and helping them make the best strategic decisions to benefit the entire firm. Despite these divergent implicit views on who they serve, directors have a more unified stance on their implicit view that they should approach their board service as a strategic partner with the executive team. This derives partly from our other finding that directors hold an implicit view that assumes managers are trustworthy partners and not primarily opportunistic. This thus allows directors to serve shareholder interests by working with management to improve the firm's strategy.

5.1 | Contributions

Our study makes several important theoretical contributions. One primary contribution is the insight that directors do not operate from the assumption that their job is to protect against

managerial opportunism. Instead, directors tend to possess an implicit view that their role is as strategic partners with the CEO and executive team. Agency theory assumes that the potential for managerial opportunism is the underlying factor that drives agency costs and leads to misalignment between shareholders and executives. In turn, independent directors are assumed to be capable of providing critical monitoring and oversight to ensure the alignment of principal and agent interests (D. R. Dalton et al., 2007).

Our work is not the first to question the underlying assumptions of agency theory (J. H. Davis et al., 1997). Speaking directly to the theory's focus and in turn, its predictive power Ghoshal (2005) also questioned whether agency theory truly had the power to lead to predictions that improved firm performance. Our qualitative findings regarding director's implicit theories, however, suggest some disconnect with this understanding of directors' relationships with their executive team. Our findings suggest that directors recognize their fiduciary responsibility to shareholders, but they believe they share this responsibility with management as each is tasked with creating value for shareholders. This insight suggests instances in which the agency-based logic that often drives regulatory changes and best-practices recommendations (G. F. Davis, 2005; J. D. Westphal & Zajac, 2013) could potentially lead to a board's inability to implement their strategic role. In part, the data from our interviews suggest that many directors are often concerned that "box-checking" activities can hamper their ability to create shareholder value.

For example, while research based on agency theory often suggests CEO duality can be problematic (Krause, Semadeni, & Cannella, 2014), our research suggests that given the implicit view of the directors, the broader question may be whether or not the CEO enables and leverages the board as a strategic partner and resource. In this way, promoting or hiring a CEO with prior board experience may inform and amplify their ability to leverage the strategic partnership with the board. At the same time, simply increasing board independence without considering the expertise of the directors may lead to boards that are less capable strategic partners (Hambrick et al., 2015). Conversely, if the board simply focuses on the monitoring function without recognizing the strategic partnership with the CEO, the board may create the context for distrust and suppressed collaboration (Sundaramurthy & Lewis, 2003). Thus, understanding directors' implicit views about the agency relationship is important as research continues to invoke and extend agency theory in the context of the board's role in governance.

Our research also suggests that some monitoring occurs in the boardroom, but this may be only indirectly focused on managerial opportunism. As we noted in the discussion of our first-order results, directors are willing to replace CEOs who are not fulfilling their strategic role in the partnership. Our research also uncovered a more subtle form of monitoring. In particular, directors indirectly monitor through an "invisible hand" for which executives feel the need to prepare for board meetings with due diligence given the expectations of deep discussion and probing from the board on strategic issues. While directors do not view themselves as directly monitoring executive decisions to limit opportunism in the agency theory sense, firms' executives seem to recognize that monitoring occurs in this more indirect fashion because of director preparedness for board meetings. Executives thus work to ensure strategic decisions are well supported and they come ready to deeply delve into strategic issues they present to the board, knowing that this exchange requires preparation. Directors are thus not approaching board discussions in a way that follows the explicit assumptions of agency theory, yet executives are guided to make more informed decisions as they ensure they can explain and defend their strategic choices to the board.

The implicit view of directors as strategic partners rather than monitors is also important because it offers insights into the limited or equivocal findings regarding board characteristics and firm outcomes. Our findings suggest that directors implicitly trust CEOs and other executives to make the proper decisions until evidence suggests otherwise. The implicit view may be an important bridge connecting the recent theorizing on whether directors monitor (e.g., Hambrick et al., 2015) or face several barriers that limit their ability to do so (e.g., Boivie et al., 2016). Our research thus suggests having directors with expertise and motivation to ask strategically relevant questions during board meetings can be an important mechanism to board effectiveness. Specifically, future research should focus more on if director characteristics or composition enhance a director's ability to ask relevant questions or provide useful information that the management team does not already possess. In this sense, a director's experience as a CEO or related industry experience may possess more construct validity as indicators of director preparedness to assess strategic decisions than commonly used indicators such as independence.

While we have emphasized the agency perspective given the underlying assumptions of this explicit theory relative to the implicit theory we observed in our interviews, our work also provides insights into the resource dependence view of the board as well as the board's strategic function. From the resource dependence perspective, much of the early work in this area focused on how boards may help organizations manage environmental uncertainty and dependencies (Hillman, Withers, & Collins, 2009). More recently, the governance literature has used resource dependence theory in a more expansive way to explain how boards contribute to firms via the resources that directors bring to their board service (e.g., Hillman & Dalziel, 2003; S. G. Johnson, Schnatterly, & Hill, 2013; Kor & Misangyi, 2008). Our theory and findings suggest that the latter approach appears to be more aligned with how individual directors perceive their work. Our results also suggest that directors provide these resources through their active collaboration with the executive team, rather than more simply providing advice and counsel. In part, directors bring their prior experience and knowledge to board discussions, which enables them to enact the resource provisioning function directly (Tuggle, Schnatterly, & Johnson, 2010).

Our findings also have important implications for the perspective that boards should engage in a strategic function (Charan et al., 2014; Useem & Zelleke, 2006). The recent work in this area is more normative and argues that boards should be more active participants in the board and should be directly involved in setting strategy. While at first glance this seems similar to our finding that directors view themselves as strategic partners with managers, in reality, our findings are quite different from the strategic function perspective. Our findings suggest that directors already view themselves as active participants, but they do not fully embrace the perspective of direct strategic involvement, or helping to set strategy or policy. As one director explained, "The board's job is to make sure the company's well-managed; not to manage it well." From this perspective, the board sees their role in helping management create value, but they often work to avoid directly making active strategic decisions. Relatedly, our finding regarding boards' view of a collaborative approach to their partnership with managers speaks to a tension that arises when directors possess an implicit view that their role is to support the CEO. CEO selection is recognized as an important way for boards to influence strategy (J. D. Westphal & Fredrickson, 2001), and the research on boards' strategic function highlights the importance of succession planning (Charan et al., 2014; Useem & Zelleke, 2006). By focusing on the implicit views directors possess, our work underscores a missing aspect of this strategic function: examining how boards balance the ability to support CEOs while also needing to sometimes replace the CEO. Our study also has important implications for understanding how

boards balance information gathering with their CEOs and executive teams against providing strategic advice and counsel. This insight has important implications for understanding how the board functions as well as the board's role in succession planning and CEO dismissal.

Our findings also suggest that directors view board service as if it were truly service to the profession, business community, and society in general. Directors emphasize the "service" aspect of the work and seek a generally positive environment in the boardroom. We did not anticipate how central these implicit theories would be before we started our interviews. Yet nearly all directors brought up the importance of the service or "giving back" as a contribution of their director position and, thus, the necessity of a positive and supportive culture. As we noted, this does not mean that directors avoid productive conflict, but rather that they feel a positive environment is more conducive to collaborative decision making. These implicit views directors carry with them into the boardroom shape their actions based on what they feel is appropriate.

The focus on cohesion and "getting along" is in direct opposition to the supposed monitoring benefits of independent directors (J. D. Westphal & Khanna, 2003; J. D. Westphal & Zajac, 2013). According to the agency theory perspective, which dominates research and recent regulatory changes, independent directors are thought to more effectively monitor CEOs because they are not beholden to the CEO. Our interviews revealed, however, that new directors are almost always known to the board and have prior social relations with sitting directors. Indeed, directors tend to only select new directors whom they already know and are confident will conform to the board's culture. Understanding that directors view their roles as providing service to the business community should change future research on understanding director motivation. This underlying motivation of "service" and "giving back" suggests theories of value-based or intrinsic motivation may be more predictive of director performance and related outcomes than agency theory or other theories that suggest punishment or "settling up" explains director action.

Finally, our findings contribute to the broader literature on how boards of directors function (J. L. Johnson et al., 1996; Zahra & Pearce II, 1989). Prior work emphasizes the role of committee work as well as the need for board meeting management to be independent from the CEO (Krause, Withers, & Semadeni, 2017). Our interviews suggest, however, that directors view committee work as rote tasks as any strategic decisions arising in a committee are brought to the entire board for consideration and discussion. This is in contrast with most of the recent work in the accounting and finance literatures, which suggests much of the board's work is often accomplished in the committees (Brick & Chidambaran, 2010).

We also found that CEOs still primarily control board meetings. In doing so, we found CEOs continue to have a substantial influence over meeting agendas, as well as what information the board receives. Our findings also suggest that the interface between a board of directors and the executives of that firm is more complex than previously conceptualized. In contrast to recent work on CEO-only insider boards (Joseph, Ocasio, & McDonnell, 2014; Zorn, Shropshire, Martin, Combs, & Ketchen, 2017), our interviews suggest that, even when the CEO is the only insider on the board, board members continue to interact with non-CEO executives during the board and committee meetings. This contact between board members and non-CEO executives, however, is controlled by the CEO who decides which executives are allowed to present to the board and/or interact socially after board meetings. Future research may want to consider other top executives as being part of board meetings, even if they are not formally on the board. This also has implications for the symbolic management perspective on boards recently articulated by J. Westphal and Park (2020).

5.2 | Limitations

While we have tried to follow best practices for qualitative research to ensure the trustworthiness of our research (Shah & Corley, 2006), as with all studies, there are important limitations to our study. In particular, while we provide strong evidence regarding the implicit views of corporate directors, our methodological approach does not allow us to delve directly into the boardroom and examine how these implicit views manifest themselves in directors' behavior during board meetings (Lawrence, 1997). In turn, our study, as with most board studies, is not able to capture the dynamic nature of board involvement in the strategic decision making process given disclosure concerns. However, our work does suggest future research should more directly consider directors' implicit views when examining such dynamics either through observations or in a lab context. Finally, while engaged in a sampling approach to reach theoretical saturation (Gioia et al., 2013), our study only consisted of 50 corporate directors. Relatedly, because of the focus on corporate directors in the United States, our findings may not generalize to boards for nonprofit or private firms or boards outside of the United States. Future research could seek to examine the transferability of our findings to larger samples of directors as well as samples of directors from other governance contexts.

5.3 | Future research

Beyond our study's theoretical contributions, our findings also offer a rich array of promising areas for future research. While implicit theories are difficult to capture with secondary data, our research suggests that scholars should look for new ways to capture directors' underlying perspectives. For example, future research could examine how an individual's time since his/her first board appointment is an indicator of entrenchment rather than using the traditional measure of board tenure (Vafeas, 2003). Individuals with extensive board experience, even if they have only been on a focal board for a short time, may be more embedded within the system of social board norms (Khurana & Pick, 2004). While fewer individuals are serving on multiple boards (Chu & Davis, 2016), the appointment of individuals with prior board service may be a mechanism that perpetuates the inner circle and existing board norms at the system level (Useem, 2015; J. Westphal & Park, 2020). Conversely, the appointment of first-time directors, who may not yet be embedded in these broad norms of director engagement and limited conflict, may be a better indicator of director independence and board renewal. In this way, future research may consider whether boards composed of individuals with limited prior board service may reflect a board designed to be more strategically involved and open to change. This idea is contrary to more recent studies that suggest that new directors have less ability to contribute to good governance, because fewer new directors have direct experience at top strategic leadership levels (J. Westphal & Park, 2020). Exploring this tension is promising ground for new research.

Relatedly, when directors fail to secure a second directorship it may suggest that they are not following board norms. Indeed, once a director receives his/her first nomination, this signals to other boards that they are aware of board norms; however, failing to secure subsequent board seats may suggest that, among the tightly knit group of directors, it is known they are not adhering to these norms. Conversely, a director who quickly adds multiple board seats following their initial appointment to a board may suggest this director bought into the existing board norms. Future research examining these ideas may open a new area of governance research.

Our finding that directors see themselves as strategic partners also provides the foundation for several important research questions. First, if board members try to engage as strategic partners with the executive team, a board's breadth of experience should improve decision making and, in turn, firm performance (Haynes & Hillman, 2010; Kor & Misangyi, 2008). Indeed, our findings suggest that if the board can impact performance, director experience and engagement should be more predictive than traditional indicators of independence or monitoring. Second, as our findings suggest boards seek to be strategic partners, the concept of board independence may need reconceptualization. As D. R. Dalton et al. (2007, p. 9) eloquently state, "there remains a serious disconnect in the conceptual/theoretical foundations on which one might rely with regard to board independence." Recognizing that boards are operating from an implicit view that assumes executives are trying to carry out their fiduciary duty and the board's objective is to aid in that process, independence may no longer provide the same benefit as when boards were assumed to be objectively disengaged. This suggests that, rather than independence fueling a director's ability to contribute to board processes, strategic preparedness may be a more informative indicator. Specifically, a board member who is or has been a CEO or has strategic knowledge of the industry will likely have a more informed opinion that results in more input into the strategic direction of the firm.

Third, as variance in board independence has declined in firms listed on the major stock exchanges, other director and board indicators are necessary to capture the strategic role our research highlights (e.g., J. L. Johnson et al., 2013). In the debate about the relationship between boards of directors and firm performance, future research may need to reevaluate the board characteristics it examines (for recent example in the context of the board chair, see Krause, 2017). Indeed, if directors are primarily trying to collaborate rather than control (Sundaramurthy & Lewis, 2003), future research may focus on factors that should lead to executive–board collaboration and, in turn, whether these factors improve firm performance. Furthermore, given the prominence of being a strategic partner with executives, future research may also wish to examine if long-tenured boards, much like CEOs, become "stale-in-saddle" in terms of losing their ability to provide strategic advice when there is a lack of board turnover.

Fourth, our findings provide a more nuanced perspective on the interaction between boards and executives, which suggests several areas for future study. Our research indicates that CEOs and their orientation toward the board may be an important determinant of board involvement, in general, and within the meetings in particular. For example, how trust develops between CEOs and their boards remains an important topic. Similarly, how conflict is addressed, especially as it relates to the strategic direction of the firm, may offer critical insights into this partnership. The level of CEO involvement suggested by our data indicates that we need future studies of director selection that pay more attention to the characteristics and preferences of the CEO. In particular, the influence that CEO preferences have on director selection, despite the ubiquitous independent selection committee, remains an important topic given its implications for board composition and functioning (Hermalin & Weisbach, 1998; J. Westphal & Park, 2020; J. D. Westphal & Zajac, 1995). Furthermore, given its prominence as a strategic partner with executives, future research may wish to examine if changes in board composition, in terms of the functional or industry experience, may be a harbinger of a firm's longer-term intended strategic changes.

Despite CEOs' continued influence over the board, our work also suggests directors recognize CEO succession as an important component of their job (Schepker, Nyberg, Ulrich, & Wright, 2018). In this case, we should expect a stronger link between board characteristics and CEO dismissal, which in turn would inform research on executive succession and organizational outcomes. Another promising area of future research is the development of theoretical

arguments that take into consideration the role of executive sessions and informal discussions between executives and directors. The literature provides a scant discussion of the role executive sessions play in the boardroom (Hale, 2006), yet our interviews suggest these discussions outside the formal board minutes are very important, especially when sensitive organizational decisions are made. Furthermore, while empirical research may not be able to fully capture dynamics of executive sessions or informal discussions, this may be an important boundary condition to board research that needs to be more explicitly discussed and theorized about to fully capture the board phenomenon.

Finally, researchers should continue to develop theory and find empirical ways to capture the internal dynamics of the board room. Our findings suggest that directors perceive their work as a form of service. More research is thus needed on the individual motivations that provide them with the incentive to engage in board service and serve as a strategic partner to an outside firm (Boivie, Graffin, & Pollock, 2012; Hillman et al., 2008). The role of trust within the boardroom, both among directors and among directors and executives, is critical to the functioning of the strategic partnership (Garg, Li, & Shaw, 2018). As such, questions regarding how boards build internal trust and how respect given and received within boards could be fruitful areas of future research (Khurana & Pick, 2004). The role of the executive sessions, again, may be an important topic to use to examine the development and maintenance of board trust. Finally, our study suggests that qualitative research that relies on direct interviews with directors may not be as difficult to achieve as has historically been considered, especially if those interactions are couched as part of directors' service to improving boards and board performance.

6 | CONCLUSION

How do directors view their roles? To address this question, we employed a grounded theory approach to develop an implicit theory perspective of board service. Our findings from the analysis of interviews with 50 corporate directors suggest that directors view their strategic collaboration with the CEO as critical to their board service, while not perceiving the monitoring of the CEO as their focus. Rather, monitoring emerges more implicitly through the efforts of the board to help the CEO and executive team shape the strategic direction of the firm. Our findings suggest that most directors have an implicit theory that the CEO is acting in the best interests of their firms. Our examination of directors' implicit theories has important implications for future research examining the functioning and effectiveness of corporate boards.

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DATA AVAILABILITY STATEMENT

As required by the Institutional Review Board that authorized this research, the qualitative data are not publicly available due to privacy restrictions.

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