

DIFFERING PERCEPTIONS OF
NON-EXECUTIVE DIRECTORS' ROLES
IN PRIVATELY OWNED
UNITED KINGDOM SMALL AND
MEDIUM-SIZED ENTERPRISES

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DIFFERING PERCEPTIONS OF
NON-EXECUTIVE DIRECTORS' ROLES
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UK SMALL AND MEDIUM-SIZED
ENTERPRISES

ROSEMARY JANE BOXER

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Abstract

This thesis explores differences in the role of non-executive directors (NEDs) in small and medium-sized enterprises (SMEs): between the literature and SME practice and between the perceptions of SME NEDs and their managing directors (MDs). The explanation of these differences contributes to a richer understanding of the development of NED role trust in UK SMEs, identified as a gap in our understanding. Extending earlier research by Berry and Perren, the thesis makes a contribution to knowledge by developing a theory to explore and explain the temporal and contextual nature of the dyadic relationship between NEDs and MDs in SMEs.

Adopting a critical realist ontology and a qualitative methodology, equal value is assigned to the collection, analysis and reporting of data from both sides of the MD-NED relationship. The analysis framework incorporates conceptual models based on working relationship trust development and Attribution Theory bias. This reveals the *causal laws* and the previously inaccessible structures of reality that create partner differences. The Case Dyad partners' individual experiences are mapped against a NED role trust typology: NED *tells*, NED *advises*, NED *acts*. NED role trust development is temporal and unique to each dyad; however, different composite patterns emerge for MDs and NEDs. These composite patterns are generated by the dyad partners oscillating between Actor and Observer, causing unmet NED role expectations, relationship tension and temporary losses of trust. The NED role ends when a loss of trust is perceived as irreparable for one or both partners.

The thesis develops a NED role process theory by demonstrating how the dyad partners create, maintain and repair trust in separate, temporal trust spirals. Each spiral reflects the partner's unique history, their Actor role expectations and self image. The pairs of spirals are bound by the partners' interaction and are analogous to a double helix.

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This thesis is dedicated to the memory of my parents
Edward and Maisie Boxer

Life is painting a picture, not doing a sum

Oliver Wendell Holmes Jnr.

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Travel in the younger sort, is part of education; in the elder, a part of experience. He that travelleth into a country before he hath some entrance into the language, goeth to school, and not to travel. (Francis Bacon, 1561-1626)

The process of pursuing a doctorate was described to me as a journey and as an apprenticeship. This thesis was journey on which I not only gained an education and honed my research skills but also, through the generosity of others' time, I gained access to new experience. This access helped me learn the language of social science research and so I extend my thanks to the following:

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Author Declaration

I declare that the research contained in this thesis, unless otherwise formally indicated within the text, is the original work of the author. The thesis has not been previously submitted to this or any other university for a degree, and does not incorporate any material already submitted for a degree.

Signed

Dated

Chapter One: Thesis Introduction

1.1 Chapter Introduction

This chapter sets the thesis in its small firms' advisor and corporate governance contexts and explains the links to the antecedent work by Berry and Perren (see Berry & Perren, 1999; 2000a; 2000b; 2001). It describes why the topic was selected and summarises how it was investigated. It presents a thesis map and includes the thesis research aims. The chapter concludes with an overview of Chapters Two to Eight.

1.2 The Thesis in Context

This thesis is set within the contexts of the UK small firms' advice sector and the Anglo-American corporate governance activity since the 1970s.

1.2.1 Small Business Advice

In the early 1970s the sudden growth in small businesses in the UK took many by surprise (Curran & Blackburn, 1991). By the 1980s the significance of the small business sector to the UK economy was a recurrent theme in UK Government economic policies and initiatives. However, in the early 1990s, there was a shift away from strategies that encouraged small business start-ups *per se* towards ways of helping established small firms with growth potential (Burns & Dewhurst, 1996). This was reflected in Government policy.

The priority for the Government's policy towards smaller firms is to give selective help to those with the management will and the business potential to grow (DTI, 1995)

The economic development and wealth creation potential of small and medium-sized enterprises (SMEs) was recognised (Storey, 1994; Burns & Dewhurst, 1996; Marlow & Gray, 2005) and became the main vehicle for recovery from the early 1990s recession (Deakins, 1996). In 1993 Business Links were piloted (Deakins, 1996) and became a national network of not-for-profit one-stop-shops for small business advice (Mole, 2002 & 2004). They were tasked to develop long-term relationships with SME clients through services such as the Personal Business Advisor (PBA). These offered generic 'independent diagnostic advice' (Deakins, 1996; Graham & O'Neill, 1997) and signposted clients to individually tailored

business advice from consultants (Mole, 2002) to develop the skills and expertise of the owner manager. At the end of the decade the Department of Trade and Industry (DTI)¹ launched the Small Business Service (SBS) to integrate the different types of support within a single service promoting “customer-driven, not supply-led” SME advisory services (Mole, 2004). Alongside this quasi-public sector provision there also operates a private-sector business consultancy industry, largely unregulated and growing fast (Bennett & Robson, 1999a; 1999b; 2004b).

1.2.2 Corporate Governance

The early 1970s saw the first reports suggesting that NEDs would be a desirable addition to UK company boards, followed in the late 1970s by the report by Tricker (1978), the first major contribution to the UK corporate governance literature (Slinn & Spira, 2002). In the early 1990s, around the same time that the Government was targeting high growth SMEs, the UK witnessed another series of spectacular publicly listed company (PLC) collapses including Maxwell, BCCI and Polly Peck. These high profile corporate governance ‘failures’ (Roberts *et al*, 2005:10) were covered in the mainstream as well as the financial media. They prompted a series of London Stock Exchange (LSE) regulatory reviews chaired by Cadbury, Greenbury and Hampel. These reviews culminated in the publication of the 1998 LSE Principles of Good Governance and Code of Best Practice, known as ‘the Combined Code’. In 1999 guidance to directors on internal control, the Turnbull Report, was published and in 2000 another UK company, Tompkins, hit the headlines over the alleged financial misconduct of its Chief Executive Officer (CEO). In the early 2000s American corporate governance scandals, including Enron, World Com, Tyco and Xerox, prompted the Sarbanes Oxley Act in 2002. In the same year the UK Government commissioned a review the role of the non-executive director (NED) and this report was published by the DTI (Higgs, 2003). The current financial crisis has prompted the UK Government to commission a review of the corporate governance in UK banks and the financial industry. In July 2009 an interim report was published for consultation; a final version is to be published after October 2009 (Walker, 2009). Alongside these corporate governance reviews, in 1998 the UK Government commenced the Company Law Review, which concluded in 2001 and after much consultation evolved into the Companies Act, 2006. The majority of this Act comes into force in October 2009.

¹ This department was replaced in 2005 by the Department of Business, Enterprise and Regulatory Reform (BERR) and in 2009 by the Department for Business, Innovation and Skills (DBIS)

1.2.3 Association of Chartered and Certified Accountants (ACCA) Research

Figure 1.1 *The Research Fieldwork Timeline in Context* illustrates the corporate governance and SME environments preceding and during the ACCA fieldwork and the thesis semi-structured interviews.

| UK SME sector events 1992-2003 plus ACCA research & thesis fieldwork | UK corporate governance events 1991-2003 plus USA corporate governance events |
|---|---|
| | 1991 (UK) <i>Maxwell Corporation; BCCI scandals</i> |
| 1993 DTI establish Business Link and Personal Business Adviser (PBA) services for SMEs | 1992 (UK) Cadbury Report: 'Financial Aspects of Corporate Governance' |
| | 1993 (UK) <i>Polly Peck scandal</i> |
| 1995 DTI publishes 'Competitiveness: Forging Ahead' and 'Competitiveness: Helping Smaller Firms' | 1995 (UK) <i>British Gas 'fat cat' director salaries</i> |
| | 1995 (UK) Greenbury Report: 'Directors' Remuneration' |
| 1997-98 SME mentor & NED research commissioned by ACCA | 1998 (UK) Hampel Report: 'Corporate Governance' LSE 'Combined Code' published 'Company Law Review' commenced |
| 1999 DTI launch the Small Business Service | 1999 (UK) Turnbull Report: 'Internal Control' |
| 1999 ACCA survey of SME MDs (Berry & Perren, 1999; 2000a; 2000b; 2001) | 2000 (UK) <i>Tompkins PLC scandal</i> |
| 2000 ACCA survey of SME NEDs (Perren, Boxer & Berry, 2000) (Boxer, Berry & Perren, 2005) | 2001 (UK) 'Company Law Review' concluded |
| 2000 - 2002 Thesis 1 st interviews (Boxer, Perren & Berry, 2001) ACCA interviews (Berry, Holmes & Boxer, 2001) | 2001 - 2002 (USA) <i>World Com; Enron; Tyco; Xerox scandals</i> |
| 2002 - 2003 Thesis 2 nd interviews | 2002 (USA) Sarbanes Oxley Act |
| | 2003 (UK) Higgs Report: 'Review of the Role and effectiveness of Non-Executive Directors' |

Figure 1.1: The Research Fieldwork Timeline in Context

In 1997 the ACCA proposed research on the NEDs and mentors in SMEs as part of their organisational priority to support the growth and success of small firms (ACCA, 1997). They commissioned two studies the following year (ACCA, 1998). The ACCA's timing reflected national and international developments in the fields of small business support and corporate governance regulation. This thesis is grounded in the work of Berry and Perren and their successful bid for the ACCA research contract to investigate the role of NEDs in UK SMEs (see Berry & Perren, 1999; 2000a; 2000b; 2001). Their review of the literature showed that little empirically based research had been conducted into the NED role. It was this gap that Berry and Perren sought to address by conducting the two surveys *Directors and their advisers* and *The role of the non-executive director*. Berry and Perren proposed that qualitative interviews would 'provide a well-grounded account of the role of NEDs/mentors in the stakeholders' own words' (ACCA, 1998). References to the most recent corporate governance scandals and the Business Link's small business advisory services featured in the interviews throughout the fieldwork.

1.3 Why Study Non-Executive Directors in UK SMEs?

Jokes and jibes at the expense of NEDs were widespread and often repeated in the media. One respondent even took the time to contact the researcher after the fieldwork was concluded to repeat the latest NED joke they had heard.

Non-executive directors are as useful as baubles on a Christmas tree.
(Attributed to Tiny Rowland whilst a director of Lonrho pre 1994)

Boardrooms contained potted plants and non-executives - and in my experience potted plants were often more useful.

(Attributed to Tiny Rowland post 1994)

Cadbury's chocolate soldiers

'they are the CEO's creatures and mates, mostly directors of other companies.... drawing fees for an acquiescent complacency often indistinguishable from sleep'

(Mitchell & Sikka, 1996)

Non-execs are like bidets. No one knows what they're there for but they add some class.

(Sir Michael Grade, 2001 cited in Slinn & Spira, 2002 and Pye & Camm, 2003)

The definition of a non-executive director: An honest day's work for a full week's pay.

(Martin Henry, ISBA 2001, Leicester)

Non-executives have traditionally been regarded rather like knitted toilet-roll covers – there for decoration, rather than function

(Paul Coggan, *Financial Times* April 27, 2002)

What is the difference between a non-executive director and a shopping trolley?

A shopping trolley has a mind of its own.

(Anonymous: supplied by respondent BNED, 2003)

What is the difference between a non-executive director and a shopping trolley?
You can get more drink in a non-executive director.
(*PM programme, BBC Radio 4, July 2009*)

These disparaging views of the NED role, the critical media coverage of director 'fat-cat' salaries and the perceived lack of NED action in corporate governance failures contrasted with the actions of privately owned UK SMEs. Despite the bad press, these firms were choosing to make NED appointments². PLCs on the LSE were bound by the Combined Code and were expected to appoint at least three independent³ NEDs. Privately owned companies were not bound by the listing regulations unless seeking an Initial Public Offering (IPO).

As part of the ACCA study, an analysis of matched responses to the surveys of SME Managing Directors (MDs) with a single NED and their associated NED's response⁴ was undertaken. This analysis indicated that these survey dyad partners had differing perceptions of how the NED had helped the company (Perren, Boxer & Berry, 2000). The early ACCA fieldwork interviews with dyad partners confirmed this difference, despite the directors' apparent shared company experience (Boxer, Berry & Perren, 2001). The NEDs interviewed were also at pains to dissociate their SME NED behaviour from a 'fat cat' style stereotype based on the latest revelations linked to PLC corporate governance malpractice. This portrayed a NED as someone who turned up once a month for the board meeting without undertaking any preparation, who ate lunch and contributed little other than to vote their executive director friends excellent perks. The NED then claimed excessive expenses and disappeared until the next lunch. MDs recounted a similar stereotype as a model for unacceptable NED behaviour.

The decisions by UK SME to appoint NEDs during a period of public debate questioning their effectiveness, and the uncovering of ACCA survey dyad partner differences, were interesting. These prompted the thesis research aims.

² Berry and Perren (2000) reported that 20 percent of SMEs with 1 - 50 employees were choosing to make NED appointments. This figure rises to 38 percent of SMEs with 50 – 199 employees.

³ Defined as 'apart from their directors' fees and shareholdings, they should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement' (Cadbury, 1992:22).

⁴ These matched responses are referred to as ACCA survey dyads.

1.4 Thesis Research Aims

Arising from research into the dynamics of small company boards in Norway, Huse (1998) commented on the lack of research into the 'role, structures and processes' of small firm boards and that new, creative studies of director relationships were unusual (Huse, 1998:219). This echoed a comment made by Pettigrew (1992) when he identified that there was a lack of knowledge of the 'relational dynamics in and around the boardroom' (Pettigrew, 1992:178). One conclusion from the initial ACCA research analysis was that multiple realities existed across the key players within a small business (Perren *et al*, 2000). Three of the ACCA survey dyads agreed to be interviewed as part of the ACCA study⁵ and the MD and NED response differences were explored. Some of the survey differences were easily explained once set in context; others remained and new partner differences emerged. It was the lack of empirical research into the UK SME NED role, the findings from the ACCA survey dyads and the initial analysis of these early interviews with survey dyad respondents that influenced the thesis research aims:

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs;

To develop a model of dyadic working relationship trust development for managing directors and NEDs in UK SMEs, and

To develop an understanding of the complex patterns of relationships and processes of the NED role in UK privately-owned small and medium-sized enterprises, in particular,

- Why do the MDs and NEDs of privately-owned UK SMEs have different perceptions of the role of a NED?
- Where such differences of perception exist, how do these affect the partners' dyadic working relationship?

The above questions led to the choice of case study method, advanced by Yin (1994) as being suitable when 'how' and 'why' questions were posed about 'contemporary phenomenon' (Yin, 1994:6).

⁵ These three ACCA survey dyads also agreed to participate in the thesis research

The first tranche of thesis fieldwork was conducted in parallel with the ACCA study of SME NEDs. In SMEs where the MD and a NED were interviewed, these respondents were invited to participate in the thesis research. These interviews aimed to capture the role of the NED as practised in UK SMEs. The questions were guided by the NED role literature; however the semi structured format explored the respondents' individual experiences of the NED role in the specific company. Where repeat access was secured, the second tranche of thesis interviews adopted a similar format. This time the questions were informed by the analysis of the first interviews and guided by literature on cognitive roles of directors. The semi-structured design allowed dyad partner relationship development to be explored in more depth using the Case Dyad respondents' in-practice experience of NEDs in privately-owned UK SMEs.

1.5 Chapter Overviews

Figure 1.2 represents an overview of the thesis. It tracks the links between the ACCA research and the thesis and illustrates the sequencing of the chapters.

Chapter Two reviews the literature underpinning this thesis, principally drawn from small business advisors and corporate governance sources. It identifies common themes across the sources, in particular the need for researchers to be mindful of the specific context and research theoretical perspective to avoid data misinterpretation. It also emphasises the importance of assigning equal value to both partners' experience by collecting, analysing and reporting data from both perspectives. It identifies the lack of understanding of the temporal processes of partner trust development and the gap in qualitative research into UK SME MD-NED dyad partners' experience of the NED role in practice.

Chapter Three draws together sources from the disparate range in Chapter Two to create a literature-based framework of the UK NED functional role. It separates out the role based on SME and PLC research study contexts. This framework identifies 65 NED role elements across six NED role categories, exploring and describing a generic role for all UK NEDs. It shows that the role does differ between PLCs and SMEs in the literature and this difference appears to reflect the

different regulatory environments and/or cultures of the two sectors. This framework is used in the comparison of the NED role in SME practice in Chapter Five

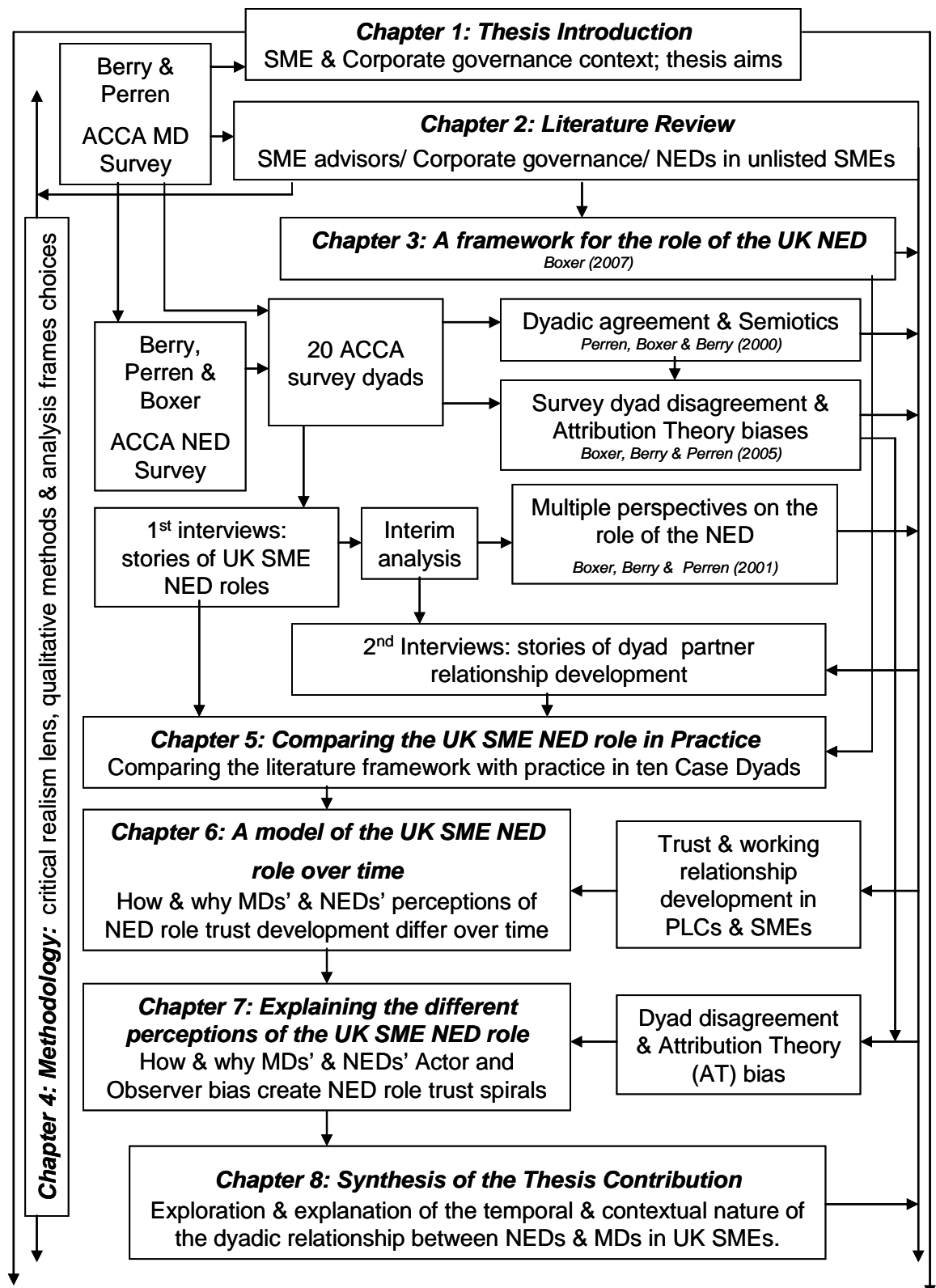


Figure 1.2: Thesis Overview

Chapter Four sets the thesis within a critical realist theoretical perspective. It explains the adoption of the qualitative research methodology; case studies are selected as this thesis is focussed on the 'how' and 'why' questions (Yin, 1994:6) about the differences in MDs' and NEDs' perceptions of the NED role in the same SME. The dyad partners' relationship is identified as the case. Semi structured interviews are the main data collection method, as 'the interview is the main road to multiple realities' (Stake, 1995:64). Combining methods of collecting and analysing qualitative data allows new theoretical insights on the UK SME NED role to emerge from the respondents' experience. The theories of working relationship trust development and causal attributions of success and failure are used as 'conceptual frames' (Miles & Huberman, 1994) to investigate the partners' perceptions of their dyad relationship trust and of the UK SME NED role over time.

In Chapter Five the NED role elements in the Chapter Three literature-based framework are compared with the evidence for the same role elements from the ten Case Dyads. The chapter reveals differences between the literature-based UK NED functional role and SME Case Dyad practice; these are explored and possible explanations are suggested. It uncovers different NED role element ascendancy over time and different Case Dyad partner NED role perceptions. The chapter also uncovers UK SME NED role elements relating the NED role process either little mentioned or missing from the literature.

Chapters Three and Five of the thesis explore and describe the functional role of the UK SME NED in the literature and in practice. This comparison has not been made explicit before and is an important stepping stone to the thesis' contributions to knowledge which are explored and explained in Chapters Six and Seven from a critical realist perspective.

Chapter Six explains the temporal NED role changes emerging in Chapter Five. It proposes a SME NED role trust typology. The Lewicki and Bunker (1996) model of trust development in working relationships and adapted by Dibben (2000) for entrepreneurial ventures, are the underlying 'conceptual frame' (Miles & Huberman, 1994). The typology of **NED tells**, **NED advises** and **NED acts** is used to explore development of the trust in the Case Dyad partners' relationships over time, from each partner's perspective. The mapping of incidents where the Case

Dyad partners' NED role expectations are challenged contributes to the understanding of how their relationship trust develops over time. Each Case Dyad produces a unique pattern of NED role trust. However, when the MDs' and NEDs' trust typologies are grouped, different composite temporal patterns of NED role trust development emerge. MDs perceive a progressive development of trust over time from **NED tells** towards **NED acts**, albeit predominantly sited in **NED advises**. NEDs perceive role oscillation between **NED tells** and **NED advises**. NEDs regard the **NED acts** role as unprofessional as it could contravene their independence and prompt their resignation from the NED appointment.

Chapter Seven addresses why and how the Case Dyad partners have differing perceptions of the SME NED role, revealed by the analysis in Chapters Five and Six. It draws on Attribution Theory bias as an additional 'conceptual frame' (Miles & Huberman, 1994). The Chapter explains the impact of the dyad partners' Actor and Observer perspectives on the perceptions of the SME NED role as the partners work together. These different perspectives have the potential to lead to unmet SME NED role expectations and relationship tension. As the NED role Observer, the MD perceives the single **NED advises** NED role as supporting their self image as a SME MD Actor 'questing hero' (Perren *et al*, 2000) who only needs NED help to overcome environmental threats. The NED perceives part of their Actor role as the Observer of the MD Actor. They perceive the dual **NED tells** and **NED advises** role as supporting their NED Actor self image as a 'diligent director' (Boxer, Berry & Perren, 2005) who needs to correct inappropriate MD behaviour as well as help with external threats. The Chapter shows how differences in the dyad partners' causal attributions of Actor failure can lead to the *fundamental attribution error* or *FAE* tension. This affects the trust development process and, if left unresolved, can prompt either NED role resignation or removal. When the relationship incidents that challenged Actor behaviour are interpreted from the conjoined theoretical perspectives of working relationship trust development and Attribution Theory bias, the findings from Chapters Six and Seven reveal the normally inaccessible structures of the respondents' Real domain of reality (Bhaskar, 1975). Each dyad partner constructs an individual pattern of NED role trust as revealed in Chapter Six. This pattern is analogous to a 'trust spiral' (Howorth & Moro, 2006). The partners' individual NED role trust spirals are influenced by, and inextricably linked to, their interactions as part of the NED role

process revealed in Chapter Seven. This process of creating and maintaining NED role trust is analogous to a double helix.

Chapter Eight draws together the thesis findings to synthesise the main contributions to knowledge and the related policy implications. The NED role process is viewed through a critical realist lens and explains how and why the NED role recipe is created by the MD and the NED to support their self image as either a 'questing hero' MD or 'diligent director' NED. The Case Dyad patterns of NED role trust rely on the unique histories of each partner and their unique relationship interaction. They are also influenced by the partners' Actor and Observer perceptual differences when attributing the causes of unexpected Actor behaviour. These causal attributions influence the NED role trust development process. Open debate of the different causes of Actor behaviour leads to the expansion of the partners' NED role recipes to fit the specific SME context. If the causes are not openly discussed, or if they cannot be resolved to the partners' mutual satisfaction, over time the *fundamental attribution error* or *FAE* tension appears. This heralds the end of the NED appointment. The thesis has identified how and why the appointment ends in perceptions of either NED role failure or NED role closure leading to friendship. The NED role process of trust development and its analogous double helix structure capture the dynamic complexity and heterogeneity of the UK SME NED role over time. This final chapter concludes by discussing the research limitations and making recommendations for future research.

1.6 Chapter Summary

This first chapter has explained the context of this thesis in terms of the Government agenda for SME support as a driver for economic growth and wealth creation, the contemporary media interest in high profile corporate governance scandals and the original research commissioned by the ACCA. It has shown how these influenced the three thesis research aims on page 6. The next chapter, Chapter Two: *The Research in Context* reviews the salient literature, concentrating on the roles of small business advisors/mentors, listed company directors and NEDs in privately owned SMEs. It identifies common themes across the literature and highlights the gaps that also influenced the three research aims.

Chapter Two: The Research in Context – A Review of the Literature

2.1 Chapter Introduction

Chapter One explained the context of this research in terms of the original commission by the ACCA and the media interest in high profile corporate governance ‘failures’ (Roberts *et al*, 2005:10). This chapter places the thesis in its academic context, that is, within the small business and corporate governance literature. It is divided into three sections. The first section focuses on the roles of business advisors and mentors in the small business literature. The second section focuses on the roles of listed company directors in the corporate governance literature. The third section focuses on the role of one type of SME advisor or mentor in a corporate governance context, the NED in small unlisted companies. The Chapter concludes with a discussion of the common themes and gaps identified across the literature and how these will be addressed in this thesis

2.2 Small Business Advice and Mentoring Literature

The small business sector is important to the UK economy, for example, at the start of 2006 there were 4.5 million business enterprises of which 99.9 percent were classed as SMEs⁶ accounting for over 58.9 percent of business employment⁷ and 51.9 per cent of business turnover⁸ (BERR, 2007). In the early 1990s in an effort to sustain and promote SME part of the economy, the UK Government established Business Link – a network of not-for-profit one-stop-shops for small business advice (Mole, 2002). The Personal Business Advisor (PBA) service operating from local Business Links was targeted at developing long-term relationships with SME clients. By offering generic ‘independent diagnostic advice’ (Graham and O’Neill, 1997) and signposting clients to individually tailored business advice from consultants (Mole, 2002) the PBAs facilitate learning within the small business, not least developing the skills and expertise of the owner manager. However because of funding constraints SME

⁶ BERR acknowledges that there are various definitions for small, medium and large enterprises. They use the DTI (2005) definition based on employee size, that is, small (0-49 employees) medium (50-249 employees) and large (250+ employees)

⁷ 13.2 million people

⁸ £1,349 billion

client-PBA relationships⁹ were likely to be more short term and directive rather than long term and collaborative (Deakins, 2000). The largely unregulated and fast growing private-sector business consultancy industry operates alongside this quasi-public sector provision (Bennett & Robson, 1999a; 1999b; 2004b).

Small business research is extensive, reflecting its economic importance. Broad literature sources gave an insight into the small business and entrepreneurship sector and these included Stanworth and Gray (1991); Curran and Blackburn (1991); Chittenden, Robertson and Watson (1993); Storey (1994) and Burns and Dewhurst (1996). Research into the provision of small business advice is also extensive. Three widely cited texts gave insights into the broader advice sector on the role, skills and client interaction processes of business consultants (Lippitt & Lippitt, 1986; Clark, 1995) and 'skilled helpers' (Egan, 1998).

2.2.1 SME-Advisor Dyad research

This review has focussed on the role of the SME external advisor and business mentor. The greatest number of studies have focussed on the demand side, that is, the who, what and where of the advice sought by small business MDs (see for example Priest, 1998, Bennett & Robson, 1999a, 1999b; Curran, 2000; Marriott & Marriott, 2000; Gooderham, Tobiassen, Døving & Nordhaug, 2004, Robson, 2005). Far fewer studies have focussed on the supply side, that is, researching the who, what and where of the advice and mentoring provided to MDs (see for example, Lean *et al*, 1999; Bennett & Smith, 2004). Research from the MD perspective into the how, that is, the processes of giving and acting upon advice received was uncommon (see for example, Bennett & Robson, 1999a; Dalley & Hamilton, 2000) and even rarer from the advisor or mentor perspective (see, for example, Mole & Hassall, 2000).

There were studies that researched the SME advice suppliers' and their clients' perspectives and reported the results in a single publication (see for example Chaston & Baker, 1998; Greene & Kirby, 1998; Chaston, Badger & Sadler-Smith, 1999; Chaston & Mangles, 2000; Deakins, Sullivan and Whittam, 2002). However, these studies did not attempt to match responses from individual client-advice

⁹ In a national survey of PBAs 87 percent had over 25 clients and 26 percent had over 50 clients; however only 21 percent felt they had too many clients 'to be effective' (Lean, Down & Sadler-Smith, 1999:85). The clients were not surveyed

supplier dyads to investigate any similarities or differences in attitudes and perceptions within specific relationships.

2.2.2 Access to SME Advisors

The literature confirmed that SME owner/managers have access to a wide range of advice providers (see for example, Deakins *et al*, 1998; Berry & Perren, 2000; Bennett & Robson, 2005; Robson, 2005; Berry, Sweeting & Goto, 2006; Dwyer & Ross, 2007) and mentors (see Enscher *et al*, 2000; Barrett, 2006). There were different interpretations as to the extent to which this access was used. One study proposed a link between engagement with 'training *per se*' (Patton & Marlow, 2002:266) and SME management willingness to seek advice in a crisis. Although focussed on developing this training culture in SMEs, this study argued for the increased availability of public sector business advice on how to spot problems before they become crises (Patton & Marlow, 2002:269). By 2005 the reluctance of 1980s SME owner-managers to seek advice was no longer in evidence as surveys showed that between 80 and 95 percent of businesses had used external advice from at least one source (Ramsden & Bennett, 2005). In the highly competitive environment of business incubators, entrepreneurs first sought advice from 'personal and social networks' prior to establishing a network of professional advisors (McAdam & Marlow, 2007:372). Other studies reported SMEs not using most of the 'plethora of institutions purporting to help them' (Mole, 2007:586)¹⁰.

Research into SME business mentors was particularly relevant because of the inference of a dyadic, time bound relationship. Mentoring has been defined as 'a one-to one relationship between a more experienced person and an inexperienced person and only until the latter himself reaches maturity' (Collin, 1979:12). In organisations the mentor is a key player in the development of new or inexperienced managers and guides their socialisation into the culture (Collin, 1979). However, the adoption of organisational mentoring as a template for entrepreneurial mentoring has been queried (Hannon, 2001; Bisk, 2002). For example, previous entrepreneurs have been used as mentors to start up companies (Deakins *et al*, 1998), a strategy now questioned as such individuals were more likely to direct in the style of their own experience rather than guiding their protégé (Sullivan, 2000:171). In the SME literature entrepreneurial or SME

¹⁰ The BERR 2006/07 SME survey found that only 26 percent of SMEs had sought general business advice in the previous year.

mentoring was proposed as an 'early-stage' role to encourage MD reflection and learning from events (Deakins & Freel, 1998), a management development tool (Sullivan, 2000; Gold, Devins & Johnson, 2003) focussed on change management (Deakins Graham, Sullivan & Whittam, 1998) and a more effective development tool for MDs, given SMEs reluctance to train (Barrett, 2006). The findings of Deakins *et al* (2002) stressed the need to induct entrepreneurs on how to make best use of a mentor.

2.2.3 The role of trust in SME advice

Issues of information asymmetry and trust development were key factors that emerged from the literature on SME client-advisor relationships (see for example Hannon, 1998; Dalley & Hamilton, 2000; Saporito, Chen & Sapienza, 2004; Bennett & Robson, 2004b and 2005; Howorth & Moro, 2006). Trust was needed to 'create trusted and committed relationships' (Downing, 1998:846) and 'empathy' (Hannon, 1998) to overcome information asymmetry. The dyad partner that gained the greater insight into the other's world gained relational power (Hannon, 1998). Hannon emphasised that, in the enacted world of the small business, there was a need for all actors to develop their learning capacity to improve the quality of dyadic relationships by reducing information asymmetry and any resultant power imbalances (Hannon, 1998:870). Although research found that small business owner-managers were looking for a trustworthy 'ally' (Dalley & Hamilton, 2000) there was little detailed exploration as to how this trust might be created and dyadic relationships develop. One study concluded that the more significant the advice to the company the 'greater effort is made to use both personal relationships and trust' (Bennett & Robson, 2004b:485) in the selection and management processes. They called for more research into the role of trust 'at each stage of the process of using external advice' (Bennett & Robson, 2004b:486).

2.2.3.1 MD perspective

The key theme that emerged from the advice and mentor process research was that for advice to be accepted by the MD the advisor had to be trusted (Dalley & Hamilton, 2000). This trust developed from first hand experience of the advisor (Bennett & Robson, 2004b; Howorth & Moro, 2006). Where there was no direct experience then MDs used proxy variables to judge whether the advice was sound. These proxies included MDs' perceptions that the behaviour and

communication style of the advisor reflected shared values (Howorth & Moro, 2006), the company core beliefs and preferred learning style (Dalley & Hamilton, 2000) and/or third party observations and recommendations (Bennett & Robson, 2004b; Howorth & Moro, 2006). As the advice became more important to the SME client, so trusted personal and business network third parties were used to select and help manage advisor relationships (Bennett & Robson, 2004b; Bennett & Robson, 2005).

The key positive benefits of business mentors given by their MD protégés were the processes of listening, encouraging, challenging MD assumptions and expressing empathy. Protégés trusted their mentors and perceived mutual respect between the dyad partners (Barrett, 2006). Gold *et al* (2003) recognised the methodological difficulties of researching an essentially private interaction process between two people (Gold *et al*, 2003:53). They reflected that they could have gained ‘a richer understanding of the value of mentoring’ by interviewing the mentor (Gold *et al*, 2003:60).

2.2.3.2 *Advisor/Mentor perspective*

Business Link advisors devised intrapersonal ‘heuristically-derived models’ (Mole & Hassall, 2000). The advisors created these models to counter information asymmetry, using proxy variables such as the tidiness of company premises and staff motivation, as a way of judging whether an owner was in control of their business. These proxies drew on their own previous experience and that of PBA colleagues rather than published research reports. The business strategies, the owner’s objectives and the company’s size and sector, were assessed against the PBA’s model findings and the advice tailored accordingly. Studies of the client selection and control of advisors from the perspective of the advisors reiterated the findings that the SME clients were reliant mainly on third party referrals from trusted sources and business advisors were, therefore, encouraged to invest in social networking as a marketing tool (Bennett & Smith, 2004).

2.2.4 **Dyadic relationship development**

There were conflicting findings as to whether existing relationships with professional service advisors such as accountants and bank managers would be maintained in a different context or whether they should/could be trusted to give advice in the best interests of the SME. This echoed the finding that different

regulatory environments affected SME advisor relationship development (Bennett & Robson, 2005). There was a strand of research within the small firms' advisor literature investigating the potential of professional service providers to extend their services to incorporate general business advice, particularly accountants (Butler & Durkin, 1998; Greene & Kirby, 1998; Marriott & Marriott, 2000; Gooderham *et al*, 2004) and bank managers (Fischer & Reuber, 2003; Saporito *et al*, 2004). The existing relationship between owner-managers and their professional service providers implied that the providers knew and understood the business aims and motivations of their clients; consequently trust already existed between the partners (Bennett & Robson, 1999b). When incubator entrepreneurs were seeking 'specific business' advice they were more likely to put their trust in 'weak' relationships with 'neutral and expert' professional advisors 'such as accountants', than either social contacts or fellow incubator tenants (McAdam & Marlow, 2007:372).

Other studies disagreed, believing that these advisors were not likely to serve the best interests of the company. Bank managers and accountants had neither the operational experience nor the cultural background to understand the world of the entrepreneur (Gibb, 1997) whereas business mentors had the breadth of knowledge needed to support small business owners (Chaston, 1999). The motives behind professional service extension proposals were selfish linked to promoting the interests of their own organisations (Chaston, 1999; Coulson-Thomas, 2007), for example, accountants and bank managers maintaining the lending process *status quo* (Butler & Durkin, 1998; Gibb, 2000), fulfilling the Inland Revenue's needs (Gibb, 2000) or to access incentives to work with SMEs (Fischer & Reuber, 2003). Entrepreneurs were independent and autonomous and any 'interference' (Curran, 2000:3) or unwanted advice was unwelcome (Marlow & Gray, 2005), particularly from banks, accountants, venture capitalists and support agencies (Curran, 2000). Fischer and Reuber (2003) discovered tension between SME owners and the incentive-driven policy makers and 'resource providers (venture capitalists, bankers and consultants)' (Fischer & Reuber, 2003:350 *parentheses original*). SME owners were 'knowledgeable and purposeful actors' capable of evaluating the advice offered in a 'nuanced and specific way' (Fischer & Reuber, 2003:361). This study suggested further research be conducted on 'whether and how regular interaction ... impacts the trust, reciprocity, information

flows and shared norms' among the different groups (Fischer & Reuber, 2003:362).

A dual perspective study of PBA activity concluded that for small business advisors to achieve long term client relationships, facilitate growth and meet government targets, they could not rely solely on their previous business experience to provide function-specific management advice (Chaston & Baker, 1998). Client attitudes were influenced more by social process variables such as regular contact, consistent advisor behaviour, active listening and 'creating a relationship based on trust and commitment' (Chaston & Baker, 1998:253). Others have confirmed that relational trust develops through frequent social interaction between SME and their advisors (Downing, 1993 & 1998; Saporito *et al*, 2004; Howorth & Moro, 2006) although this 'interaction intensity' led to increased costs in terms of advisor time (Bennett & Robson, 2005:258). Relational trust also developed as a result of the receipt of a quality service (Gooderham *et al*, 2004:16). SMEs' reluctance to change advisors even if the advisory service was poor appeared to be part of a risk-averse 'stay with those you know' attitude (Gooderham *et al*, 2004:17; Marriott & Marriott, 2000:482) and appeared to be linked to previous direct experience, reputation and brand 'information asymmetry' identified by Nayyar (1990) and cited by Bennett and Robson (1999a) and Bennett and Smith (2004).

Mole (2004) recognised that the different perceptions of the SME owner and their advisor could, and did, lead to tension although there was no discussion of how these tensions might, or were, resolved. In a more recent study, the advisors' interaction processes with their clients were investigated (Mole, 2007). Through repeated 'note taking and questioning' the SMEs' issues were made transparent and this 'process of advising constantly re-created rapport' (Mole, 2007:587). Again there were calls for more research to be done to understand the processes involved (Mole, 2007:596).

Dwyer and Ross (2007) noted that studies focussed on the owner-manager perspective in the advice relationship inferred that it was for 'the advisor to adapt to the needs of the SME owner' (Dwyer & Ross, 2007:132). They criticised the majority of earlier studies for only taking the one perspective – that of the SME -

and then did the same themselves. They used the three categories identified by Dalley and Hamilton (2000) of 'culture, communication and learning' (Dwyer & Ross, 2007:136) to classify the key relationship explanations given by advisors. However, their literature framework was found to have 'only moderate success in fitting our data' (Dwyer & Ross, 2007:139). They suggested that a temporal and 'dynamic' perspective would lead to a better classification of advisors' key explanations of their relationships with small business clients (Dwyer & Ross, 2007).

2.2.5 Changes in advice and mentoring context and over time

Graham and O'Neill (1997) proposed a small business advice continuum where consultants and mentors were at opposite ends dependent upon the relationship timescale, nature and style of advice. That is, a short-term, context specific, directive consultant versus a long-term, generalist, collaborative mentor. They questioned why small businesses were encouraged to use different criteria for the selection of advisors at different points along this continuum (Graham and O'Neill, 1997:500) as an individual advisor had the potential to fulfil a number of roles. Earlier studies confirmed this 'use multiple roles in working with a client' (Lippitt & Lippitt, 1986:71) by single consultants. However use of a sole mentor was disputed (Enscher, Murphy & Vance, 2000). Entrepreneurs were encouraged to develop a network of mentors drawn from sources such as competitors and peer groups, as a single relationship was unlikely to meet all their needs (Enscher *et al*, 2000).

In a comparative study of start-up mentor and advisor support programmes Deakins, Sullivan and Whittam (2002) interviewed the entrepreneurs and their respective mentors or advisors. They found there was a decline in the entrepreneurs' top ranking of the mentor interventions beyond the initial start up stage as specialist advisors' (accountants) interventions took precedence (Deakins *et al*, 2002:331). This was taken as an indicator of mentor withdrawal (Deakins *et al*, 2002:336). They argued this was an important and necessary step for these relationships. The findings stressed the importance of client-advisor matching in terms of learning styles and the need to induct entrepreneurs on how to make best use of a mentor.

Other studies have also argued that the relevance of the SME advisor or mentor skills does change due to the dynamic nature of small business development (Hannon, 1998:886), for example, when the entrepreneur's company moved from nascent to start-up (Bisk, 2002:269) and when moving beyond start up (Deakins & Freel, 1998). Barrett (2006) argued that mentoring sat on a different continuum, that of 'forms of training and learning that are more or less suited to small business owner-managers for various needs in different contexts' (Barrett, 2006:622). She found that new mentors were introduced as the business owners' skills grew and developed. Her model confirmed Hannon (2001) when he argued that a 'contextually driven approach [to mentoring] may demand a continuum of models relevant to different types of firms, environments and entrepreneurs' (Hannon, 2001:101) in his critique of Sullivan (2000). Dwyer and Ross (2007) discovered that the 'advisor-client relationships evolve over time' (Dwyer & Ross, 2007:145). They proposed a life-cycle model for the small business advisory relationship based on the relationship strength over the period of its duration. Their model linked the advisory relationship to the company's life-cycle stage and proposed key points when such a relationship will 'dissolve', for example, if differences arising during the early 'getting acquainted period' remained unresolved or when the relationship became 'mature' (Dwyer & Ross, 2007:142).

2.2.6 Small Business Advice & Mentoring Literature summary

In the absence of primary information to aid dyad partners when advisor appointments were made other factors were used as proxies, albeit in an ad-hoc, informal fashion rather than part of any formal selection and/or relationship building process (Graham & O'Neill, 1997). The following were identified as being important: the role of personal chemistry, personality and core belief 'fit' (Lindon-Travers, 1990; Graham & O'Neill, 1997, Dalley & Hamilton, 2000); previous contextual and/or personal experience (Graham & O'Neill, 1997; Bennett & Robson, 1999a; Gooderham *et al*, 2004); situational proximity and reputation and/or 'branding' (Bennett & Robson, 1999a; Bennett & Smith, 2004), although situational proximity is now challenged by Bennett and Robson (2005). In the absence of previous first hand experience of an advisor, a client may rely on a trusted third party recommendation (Clark, 1995; Bennett & Robson, 2005) and/or 'reputation and gossip' (Howorth & Moro, 2006:511). Once the appointment was made, the important factors in the acceptance and implementation of the advice became the advisor's interaction style, interaction intensity and the development of

trust (Bennett & Robson, 1999a; Mole, 2002; Gooderham *et al*, 2004; Bennett & Robson, 2005).

Whenever a public or private sector organisation provides an advice service to a small business client, the interactions are dyadic, that is, they are one-on-one relationships between the SME MD and the advisor/mentor. Although the trust and advice processes are seen as 'socially constructed' (Welter & Smallbone, 2006:469) 'between client and advisor' (Bennett, 2007:438), there were few examples where individual relationships have been investigated from both perspectives.

However for the providers of advice to the small business community to meet their own needs, either in the form of meeting government targets or securing financial remuneration or both, they needed to form a relationship with the owner-manager or entrepreneur such that their advice was perceived to add value and thus was maintained. This was the long term, collaborative style relationship likened to a 'Sherpa' or mentor (Graham & O'Neill, 1997). Consequently, to have their advice valued and accepted, advisors on their part needed to spend time to understand and value the views and beliefs of the small business client (Dalley & Hamilton, 2000; Dwyer & Ross, 2007) signalling a willingness to invest the 'irrecoverable resources' of time and effort in the dyad relationship 'as a demonstration of trusting behaviour' (Sharif *et al*, 2005:417) leading to reciprocal SME behaviour and a 'trust spiral' (Howorth & Moro, 2006:512).

2.3 Corporate Governance Literature

Corporate governance research is another extensive domain reflecting the status of business corporations in western culture. For an insight into UK practice in the wake of the Maxwell Corporation, BCCI and Polly Peck high profile corporate governance scandals a general review of the literature was undertaken. This included academic and grey literature sources, for example, the corporate governance reports (Cadbury, 1992; Greenbury, 1995; Hampel, 1998) and the professional and private sector interest in the late 1990s for the appointment and use of NEDs, for example, Clutterbuck and Waine (1994); Thomas (1996); Conyon and Mallin (1997); Ezzamel and Watson (1997); McCaffrey (1997); Berry and

Perren (1998a and b); Clarke (1998); Fraser (1998); Jebb (1998) and Mitton and Mills (1998). The commentaries by Mallin (2004) and Solomon and Solomon (2004) were found helpful and informative as academic sources on the main corporate governance codes of practice initiated and adopted in the United Kingdom, Europe and America since 1990.

2.3.1 The importance of governance context

Corporate governance codes and regulation depend upon the country in which the listed companies operated. Carlin and Mayer (2000) argued that governance structures were not transferable; 'what is suited to an innovative R&D intensive economy may be ill-suited to a more imitative one' (Carlin & Mayer, 2000:25). In a similar vein, Keasey and Hudson (2002) cautioned against adopting NED models from other countries without analysing the underlying regulatory framework. As the UK has different legislative and regulatory frameworks, research based on boards of directors in USA and European countries was not directly comparable.

In the light of the corporate governance scandals described in the first chapter, the main focus of the UK corporate governance regulators has been trained on the larger, listed companies, and more recently the banks and other financial institutions, although there was some acknowledgement that others may benefit from following the various codes of practice. For example, the Report of the Committee on the Financial Aspects of Corporate Governance (Cadbury, 1992) drew up best practice codes to review accountability for performance (Cadbury, 1999) aimed primarily at the boards of quoted companies; but 'would encourage as many other companies as possible to aim at meeting its requirements' (Cadbury, 1998). The Walker Review (2009b) of corporate governance in UK listed banks and other financial institutions (BOFIs) identified NEDs as key players in these organisations' evaluation processes. It recommended a 'personalised substantive approach' to each NED's 'induction, training and development to be reviewed annually with the chairman' (Walker, 2009b:14). It also recommended that NEDs should be expected to invest more time 'than has been normal' (Walker, 2009b:14) and limit their commitments on other boards.

Tricker warned against applying governance guidelines drawn from one company's situation as boards and directors can be so different that generalisations may be useless and prove to be irrelevant and unhelpful (Tricker,

1978). The Committee on Corporate Governance, chaired by Hampel (1998) went some way to address these concerns. Although recognising that the role of NEDs would be different in SMEs where executive directors may also be major shareholders, the report stated it was no less important to maintain high standards of governance in such companies (Hampel, 1998). However the regulators were urged to be flexible when taking account of smaller, listed companies' individual circumstances (Hampel, 1998:1.10). This recommendation was reiterated by Mallin and Ow-Jong in their study of small companies on the main market (Mallin & Ow-Jong, 1998a:82).

The governance of smaller listed companies is also strictly regulated and offered few insights into unlisted SME NED roles. For example, companies listed on the alternative investment market (AIM) are unique as the internal corporate governance monitoring role is the responsibility of the directors, whereas the responsibility for the external corporate governance monitoring belongs to the nominated advisor or NOMAD (Mallin & Ow-Jong, 1998b & 2008). These key actors have 'an on-going advisory relationship as well as playing a monitoring role' (Mallin & Ow-Jong, 1998b:224). The London Stock Exchange (LSE) rules stipulate that companies appoint a NOMAD (Mallin & Ow-Jong, 1998a) in addition to the City Group for Smaller Companies (CISCO)¹¹ recommendation that the board appoint two independent NEDs.

The concept that NEDs' roles differed according to the board context was a recurring theme in the literature from 'moving beyond the one size fits all' (Pye & Cam, 2003:52) to 'there is no blueprint for a directorship that is appropriate for all boards' (Long, 2007:56).

2.3.2 Individual director research

The role of the non-executive, independent or outside director in listed companies has been researched separately since Spencer (1983) in the UK and Lorsch and MacIver (1989) in the USA. There is now a body of literature on individual director roles in UK large, listed companies, that is, chairmen (see for example; McNulty & Pettigrew, 1996; Roberts, 2002) and NEDs (see for example Spencer, 1983; Lindon-Travers, 1990; Pettigrew & McNulty, 1995; Samuels *et al*, 1996; McNulty & Pettigrew, 1999; Pye & Cam, 2003; Pass, 2004; Roberts *et al*, 2005; Proctor,

¹¹ Now known as the Quoted Companies Alliance (QCA)

2005). Although Tricker's warning is still apposite, that is, work conducted in large, listed companies should be treated with caution when applying it in another context (Tricker, 1978) the following PLC studies were NED specific and gave an insight into the role.

The study conducted to support the Higgs Review by McNulty, Roberts and Stiles in 2002 (McNulty *et al*, 2002; Higgs, 2003; Roberts *et al*, 2005; McNulty *et al*, 2005) was the first since Spencer (1983) to address 'attitudes, behaviours and skills of non-executive directors' (McNulty *et al*, 2002), as perceived by the role holders and other board members with whom they work closely, as opposed to the functional roles more typically described in the literature. In 2002 they were commissioned to interview 40 directors of FTSE 350 companies 'to gain an insight into the relationships and behaviours that enable effective non-executive director performance' (Higgs, 2003:17). They identified three 'couplets' for NED behaviour of '*engaged and non-executive*', '*challenge and support*' and '*independence and involvement*' (McNulty *et al*, 2002:4). A more detailed analysis and theoretical positioning of the findings from this research were published in 2005 (Roberts *et al*, 2005; McNulty *et al*, 2005) and critiqued by other leading researchers in the field of corporate governance (see for example Pye and Pettigrew, 2005; Huse, 2005). However, although McNulty, Roberts and Stiles collected data from different groups of respondents, if the data were analysed separately for different perceptions this was not reported in the findings.

Long, Dulewicz and Gay (2005), Holbeche and Garrow (2005), Proctor (2005) and Kakababse, Kakababse and Barratt (2006) have also conducted qualitative studies of UK NED roles. These studies researched the role differences in listed and large unlisted companies, the PLC role beyond compliance, the PLC role in hard statute and soft case law vis-à-vis actual practice and the PLC role vis-à-vis corporate social responsibility (CSR) respectively. However, these studies did not investigate different boardroom perceptions of the NED role or role processes.

2.3.3 Boardroom-based dyads

This thesis will explore the role NEDs perform in privately owned SMEs as perceived by the role holder and their MD dyad partner. It also aims to understand the complex relationship patterns and develop a model of the MD and NED working relationship trust development. There were limited sources that had

considered director dyadic relationships in larger companies. None matched the thesis research context as all were conducted in large either state-owned, public sector or publicly listed companies. However there were insights into boardroom-based dyad relationships.

Chitayat (1985) interviewed twenty chairmen and 30 CEOs in large state-owned and private companies in Israel as part of the debate on the separation of the CEO's and Chairman's role. The Chairmen's main role was 'consulting and coaching' the CEO with 'reviewing and controlling' the CEO rated second. However, in state-owned companies the Chairmen perceived their main role differently as 'reviewing and controlling' the CEO. The study concentrated solely on the Chairman's perspective of their relationship with the CEO. However the study concluded that the personalities of the people involved were influential and 'the role of the chairman other than the formal role should be fitted between the two individuals and the development of the mutual relationship between the two' (Chitayat, 1985:70).

In the UK Stewart (1991) undertook a longitudinal study of 20 Chairman and Chief Executive dyad relationships within the National Health Service. His review of the extant research revealed that, apart from Chitayat, little attention had been paid to the relationship between chairman and chief executives 'in terms of what they actually do and how they affect each other's role' (Stewart, 1991:511). In this study the perceptions of the Chairman's role differed and varied widely dependent upon the respondent's role view, personality, relevant experience and, importantly, the time devoted to the role. Chairmen's perceptions of their role saw themselves as either CEO monitors or mentors. CEOs perceived the Chairmen as supportive sounding boards especially for difficult personnel issues. As there was both functional and psychological work involved, the relationship relied on partner synergy and the willingness and/or ability of the CEO to complement the Chairman (Stewart, 1991:525). It was argued that corporate governance literature had focussed on the broader, less behavioural aspects and managerial/behaviour literature had focussed on individuals and their specific jobs rather than their relationships with colleagues (Stewart, 1991).

Roberts and Stiles (1999) interviewed 30 Chairman and CEO dyads in major UK corporations commenting that such relationships are 'held to be central to corporate governance yet studies of it are rare' (Roberts & Stiles, 1999:36). Due to the different nature of the roles and the differing backgrounds and assumptions of the role holders, they found that the key to a successful relationship was the process adopted by the dyad partners to build and manage their relationship. Particular importance was given to the earlier stages, including the period of 'courtship' where partners present only their best sides 'opening up the possibility of shocks and surprises in the early months of the relationship' (Roberts & Stiles, 1999:41).

2.3.4 Board processes

More recently corporate governance researchers' attention has focussed on board processes in an attempt to address Pettigrew's (1992) comment that 'very little is known about the relational dynamics in and around the boardroom' (Pettigrew, 1992:178). Although Hill (1995) researched the perceptions of directors on boards of large British companies, he noted that 'there are few studies of how boards work in the academic literature' (Hill, 1995: 247). Roberts *et al* (2005) observed that 'research on corporate governance lacks understanding of the behavioural processes and effects of boards of directors' (Roberts *et al*, 2005: S5). Their work supporting the Higgs Review of the role of the NED (McNulty *et al*, 2002; Higgs, 2003) and challenging the dominance of agency theoretic approaches triggered a debate on board processes (see for example Roberts *et al*, 2005; Pye & Pettigrew, 2005; Huse, 2005).

The value of 'opening up the "black box" of board relationships and dynamics', raised in the SME context by Huse (1998; 2000), was echoed by Roberts, McNulty and Stiles (2005). Pye and Pettigrew (2005) emphasised the need to understand the timing and context of NED behaviour before assigning meaning. Context was simplified to 'inner', internal organisational factors, and 'outer', external environmental factors although it was recognised that these 'boundaries are sometimes permeable' (Pye & Pettigrew, 2005:S31). They observed that the '*dynamic*' of different directors working together 'is still largely under-researched' (Pye & Pettigrew, 2005:S32 *emphasis original*). Further research highlighted the difficulties of conducting boardroom 'black box' research, especially of observing unmodified director behaviour *in situ*. For example, in a single longitudinal case

study of a New Zealand board, respondents commented on the unusual behaviour of fellow directors when the researcher was present (Lockhart, 2006:39).

2.3.5 Trust as a PLC boardroom process

Forbes and Milliken (1999) suggested ways to use their cognitive group process model to assess boards' effectiveness as decision-makers. In response to the work of Roberts *et al* (2005) Huse (2005) posited a model of 'creating accountability' (Huse, 2005:S67), commenting that 'trust and emotions... are among the most neglected parts in the current literature' (Huse, 2005:S75). A study of board processes and trust used elements from both these models and the findings suggested that the association between board processes and board performance were complex and that trust could be a 'double edged sword' (van Ees, van der Laan and Postma, 2008:90). Its presence could encourage the sharing of information but it may also lead to 'cognitive blindness' if the NEDs were too familiar with the CEO. This could have a 'detrimental effect on the monitoring process' (van Ees *et al*, 2008:90).

The van Ees *et al* (2008) study claims to be one of the only studies to date to operationalise the Forbes and Milliken (1999) and Huse (2005) models. However, the study did not follow Huse's suggestion of using qualitative methods as van Ees *et al* (2008) conducted a quantitative postal survey of large firm CEOs and board chairman in the Netherlands. The researchers acknowledged that the board attributes and working processes in the survey were theirs and not the respondents. They posited that their findings 'may imply that it is (more) worthwhile to consider how boards work rather than how they (should) look like as indicated by corporate governance codes' (van Ees *et al*, 2008:91 *parentheses original*).

2.3.6 Directors' own voices

Johnson, Daily and Ellstrand (1996) recognised that a 'decidedly' different perspective from the majority of the published research 'would examine the determinants and consequences of directors' own perceptions of their role(s).' They argued that rather than concentrating on "objective" efficient and effective board characteristics, more would be gained from researching the 'conceptions themselves' and any differences across sectors, geography and time (Johnson *et al*, 1996). Stiles (2001) quoted a comment by Tricker that research into boards of

directors was 'produced without talking to a single director' (Stiles, 2001:631, citing Tricker, 1994).

Within the UK PLC corporate governance literature Spencer (1983), Hill (1995), Roberts and Stiles (1999), Stiles (2001), Stiles and Taylor (2002), Roberts (2002), McNulty *et al* (2003; 2005) and Roberts *et al* (2005) were examples of studies that adopted a qualitative approach to their data collection methods. This is the approach best suited to 'allow directors to reveal their perceptions' (Roberts & Stiles, 1999:38) and explore 'the lived experience of non-executive directors and other directors on the board' (Roberts *et al*, 2005:S5). Semi-structured questionnaires were used to interview board directors to investigate: board socialisation in large companies (Hill, 1995), how directors viewed their roles and responsibilities (Stiles & Taylor, 2002), the relationships and roles of chairmen and chief executives (Roberts & Stiles, 1999; Roberts, 2002), the impact of the board on strategy in UK-owned public companies (Stiles, 2001) and the work of the NED (Spencer, 1983; McNulty *et al*, 2002; 2005; Roberts *et al*, 2005; Holbeche & Garrow, 2005; Long *et al*, 2005; Proctor, 2005; Kakabadse *et al*, 2005). The contexts of these investigations differ from this thesis in company size and listed status and, apart from Roberts and Stiles (1999), ignore the dyadic component of director behaviour. However, these authors did use methodologies that captured data on 'actual board behaviour and personal relationships' (Huse, 1998).

2.3.7 Corporate governance literature summary

Researchers have begun to address the comments on the lack of research studies into 'the relational dynamics in and around the boardroom' (Pettigrew, 1992:178). In the literature based on large listed companies, the work of the researchers McNulty, Roberts and Stiles, collectively and as individuals, offered insights into the possible processes enacted between directors (see, for example, Roberts & Stiles, 1999; Roberts, 2001; McNulty *et al*, 2002). Work by Long, as an individual and with colleagues, also offered insights into the differences of the NED role between large UK listed and unlisted companies (for example, Long *et al*, 2005; Long, 2007). The importance of context (Pye & Pettigrew, 2005) and the need to understand dyadic trust development processes (van Ees *et al*, 2008) found in the SME advisor and mentor literature were themes that also emerged from the corporate governance research.

2.4 NEDs in Unlisted Companies

Within the small business and corporate governance literature there were a small number of research studies focussing on the role of NEDs in unlisted SMEs. In addition there was a larger group of studies focussed on the distinctive Venture Capitalist – Entrepreneur (VC-E) dyad relationship, albeit predominantly grounded in USA practice. The research in this literature is now reviewed.

2.4.1 Corporate governance in the SME context

SME research in this area has concentrated on board composition, structures and the roles of non-executive or outside directors (see for example Huse, 1990 and 1998; Deakins *et al*, 1999; Berry & Perren, 2000b; Fiegenger, Brown, Dreux, and Dennis, 2000; Smithson, 2004; Voordeckers, Van Gils and Van den Heuvel, 2007). The research study context and the transferability of findings to different settings were again important. Huse (2000) set a challenge for SME researchers, to counter the biases imported from the corporate governance mainstream research, that is, studies of US large listed companies focussed on the links between board composition and company performance, ignoring director influences and drawing on archival or large scale surveys (Huse, 2000). He addressed some of these biases in, for example, qualitative and exploratory studies of board-stakeholder dynamics in Scandinavian SMEs (Huse, 1998) and case studies of VC backed companies (Gabrielsson & Huse, 2002). He argued that innovative access and methodological approaches were needed to understand and explore the complexity of SME board processes and relationships (Huse, 2000). However, there is an underlying assumption in European studies (see, for example, Gabrielsson & Winlund, 2000; Huse, 2000; Johannisson & Huse, 2000) that Europe is a homogeneous entity with one system of corporate governance. This is not the case at present. For example, in the empirical study of Swedish medium sized firms, Gabrielsson (2007) suggested that ‘there may be a need to have at least some insiders on the board to integrate functional activities around entrepreneurial strategies’ (Gabrielsson, 2007:529). Across Europe the governance frameworks differ from the UK. In Scandinavia there are separate management and supervisory boards; in the UK unitary board system there are ‘insiders’ or executive directors on the board. However this assumes that unlisted companies follow the listed company corporate governance practice. This does not follow as demonstrated by a study of UK listed and unlisted companies (Long *et al*, 2005; Long, 2007).

Similarly within the United Kingdom different governance regulations exist. At the time of the fieldwork for this research Scottish start up companies in receipt of government finance were required to appoint a NED. Therefore research findings on the role of SME NEDs with an exclusively Scottish sample (Deakins *et al*, 1999; 2000a; 2000b; 2000c; 2001) were not directly comparable with research conducted in rest of the UK and could be argued as not reflecting UK SME NED practice. Deakins and colleagues used their contacts in private equity¹² or Scottish government-funded start up ventures¹³ to access SME NEDs. The resultant apparent popularity of NEDs in SMEs created a false impression as the Bank of England report 'Financing of Technology-Based Small Firms' (2001) stated that only one to three percent of UK SMEs are financed in this way. This was confirmed in the 2004/05 Small Business Service Annual Survey of UK Small Businesses which found that although seven percent of all SMEs had considered equity finance only three percent had used it (Wiseman, Roe & Elliott, 2006:9)

The warnings against applying guidelines drawn from one situation (Tricker, 1978) or country (Carlin & Mayer, 2000) in a different context could be argued as being equally relevant when applying research results from different legislative and regulatory frameworks, different advisor governance environments and/or different sized companies. This view is supported by Fiegener *et al* (2000) in their study of US small company boards and by Bennett and Robson (2005) in their study of UK small business advisors.

2.4.2 NEDs in SMEs

Surprisingly, the BERR Annual Survey of Small Businesses' Opinions 2006/07 did not mention NEDs as a source of external advice and the preceding survey¹⁴ only included 'Mentor' in the external advisor category *Customers/Suppliers/Other small businesses/Friends/Family/Mentor* (IES, 2006). Bennett and Robson (2005) did not include NEDs in their sample of SME advisors. Based on findings from his doctoral research on the use and impact of external advice Robson (2005)

¹² Increasingly private equity and venture capital (VC) are used interchangeably although the latter is a 'distinct sub-set of private equity involving the smaller, earlier stage and often more risky deals' (Bank of England, 2001:9)

¹³ Publicly financed start up ventures in Scotland required the appointment of a NED.

¹⁴ The *Small Business Annual Survey of Small Businesses: UK 2005* did not include NEDs in the list given to the telephone researchers as a guide to questionnaire likely responses (for copies of the annual surveys, questionnaires and data tables for 2005 and 2006/07 see <http://berr.ecgroup.net/Publications/BetterBusinessFramework/EnterpriseSmallBusiness.aspx>)

suggested there was a need for more research into the use of NEDs by SMEs (Robson, 2005:424).

2.4.2.1 *SME NED role*

Hampel (1998) recognised that the UK legislative framework allowed companies flexibility in their boardroom operation and suggested that for SMEs the role of the NED would be different (Berry, Holmes & Boxer, 2001; Berry, 2002). Studies have investigated the NED role in smaller, unquoted companies and found a three-fold role: monitoring governance conformance and stewardship of shareholders' interests, securing resources, and contributing to performance through strategic direction, adding an 'outsider' perspective (Westhead, 1999; Deakins *et al*, 2000c). These findings mirrored other studies that considered the functional roles of the board as a whole (Huse, 1990; Daily & Dalton, 1993; Johnson, Daily & Ellstrand, 1996; Gabrielsson & Winlund, 2000¹⁵) but not the contribution made by individual directors, in particular the role of NEDs. Nor do these studies consider director role processes or behaviour and their effects on boardroom-based relationships.

The SME NED role has been identified as both a 'sounding board' (Berry & Perren, 1998; Atherton & Hannon, 1999; Boussouara & Deakins, 2000; Deakins *et al*, 2000b; Berry, 2002), a contributor to an improvement in the quality of the decision-making (Mileham, 1996; Atherton & Hannon, 1999; Boussouara & Deakins, 2000) and a diffuser of conflict in family firm succession planning (Westhead, 2003). Similar to small business mentors, the roles of SME NEDs were likely to change over time 'with the development of the firm' (Deakins *et al*, 1999:28) predicting that 'slightly different NED competency profiles may be needed' (Berry & Perren, 2000b:17). Berry (2002) hinted at a potential tension for the small business NED, between the traditional monitoring and control role of the listed company NED and the SME context where the chief executive director may also be the principal shareholder, also echoed by Smithson (2004). In a study of family firms in Belgium, Voordeckers *et al* (2007) noted that 'emotional and bounded rationality constraints' of maintaining the family dominance clouded the link between good governance and board membership. However, they confirmed the UK SME NED findings of Westhead (2003) that where appointed, outside

¹⁵ Gabrielsson and Winlund (2000) only defined two SME Board member roles, control and service.

directors added value to family SME boards as advisors and arbitrators in succession issues (Voordeckers *et al*, 2007:151).

2.4.2.2 *SME NEDs as mentors*

Deakins, Mileham & O'Neill (1999) concluded that the roles of NEDs and mentors in SMEs were 'distinct and different' (Deakins *et al*, 1999:57). They cited the work of Graham and O'Neill (1997) and the advice continuum where consultants and mentors were at opposite ends dependent upon the relationship timescale, nature and style of advice. That is, a short-term, context specific, directive consultant versus a long-term, generalist, collaborative mentor. Deakins *et al* (1999) argued that NEDs were more likely to adopt the mentor style role; however at times they may need to adopt a short-term, specific and directive style of a consultant to 'avert/remedy potential crises' (Deakins *et al*, 1999:17).

Ramsden and Bennett (2005) found that one-fifth of their sample of SME external support providers were NEDs. Satisfaction levels for soft 'personal-interaction' interventions improving a client's well-being through increased knowledge 'considerably outweigh' hard 'task-interaction' intervention exchanging information (Ramsden & Bennett, 2005:235). The advice was more about the 'personal development' or mentoring of the SME owner-manager than increasing turnover or profitability. However, SME client expectations and satisfaction levels differed for different types of advisors. Satisfaction levels for NEDs were 99.7 percent compared with 92.2 for accountants, 84.7 for banks and 66.7 percent for venture capital firms. Business angels, suppliers and friends/relatives all scored 100 percent (Ramsden & Bennett, 2005:237). NEDs and the latter were interpreted as giving the 'greatest capacity for close tailoring' to meet specific advice needs (Ramsden & Bennett, 2005:238). Although they believed they had gained an 'insight into the complexity of the advice process for SMEs' (Ramsden & Bennett, 2005:241) this study only considered the SME perspective.

2.4.3 **Trust in SME boardrooms**

Although the problems faced by small company boards are less complex than those of larger firms, Huse (1990) argued that there would not be the expertise to face and solve such problems. The directors of small companies, therefore, act as a source of management advice and counsel, emphasising the greater importance

of the service role (Huse, 1990; Fiegner *et al*, 2000) and developing 'high personal trust relations' (Bennett & Robson, 2004a).

The issues of trust and the importance of NED relationships (Deakins *et al*, 1999; Boussouara & Deakins, 2000; Berry *et al*, 2001) were found to contribute to the NEDs' role of top management team (TMT) development (Boussouara & Deakins, 2000; Deakins *et al*, 2000b) in, for example, risk management techniques (Mileham, 1996) and the difference between the '*hands on* world of management to the *brain on* world of directing' (Garratt, 1999, *emphasis original*). However none of these studies addressed how this move was facilitated by the small business NED. Boussara and Deakins (2000) found that examples of distrust emerged when MDs perceived NEDs acting as self-interested consultants and therefore would not add value to the company. Fischer and Reuber (2003) discovered similar tension between SME owners and the incentive-driven policy makers.¹⁶

2.4.4 SME Board processes

In the SME context, Huse (1998) commented on the lack of research studies into the 'role, structures and processes' of small firm boards and stated that 'innovative research, exploring actual board behaviour and personal relationships inside and outside the boardroom, are rare' (Huse, 1998:219) and that 'the use of theories that involves a need to open the "black box" [of board operations in SMEs] is scarce' (Huse, 2000:282). Rather than the dominant or 'mainstream' research paradigm that has used 'observable board demographic characteristics as proxies' (Gabrielsson & Huse, 2004), Gabrielsson (2007) comments on the 'surprisingly scarce' empirical studies of 'behavioural processes inside and outside the boardroom', a justification for his own study of the effect of directors on entrepreneurial posture in Swedish medium-sized companies (Gabrielsson, 2007:527). His review of research was part of a 'small but growing stream of studies... to better understand board-performance linkages' (Gabrielsson, 2007:527). He found that directors' behavioural measures offered a 'significant' explanation for a CEOs' commitment to take an entrepreneurial posture' (Gabrielsson, 2007:526/511). He called for more research to investigate 'the impact of NEDs on the direction and performance' of SMEs (Gabrielsson, 2007:529).

¹⁶ See section 2.2.4 *Dyadic relationship development* on page 16

2.4.5 SME director voices

Within the small base of UK corporate governance literature focussed on small privately-owned companies Deakins *et al* (1999; 2000a; 2000b; 2000c; 2001) used interviews to collect data from between 45 and 90 Scottish entrepreneurs¹⁷ with experience of either a NED or business mentor relationship. In addition, within this group of entrepreneurs, they interviewed 23 matched pairs of entrepreneurs and their NEDs (Deakins *et al*, 2000c; 2001). All five of these papers reported perceptions of the process of appointment, sector experience and the main functional roles of NEDs. Deakins *et al* (2000c) drew attention to some discrepancies in perception between the dyad partners regarding the role of NEDs in the sample companies. However, there was little exploration of these differences (Boxer *et al*, 2001). Despite its title '*Chief executive officers and non-executive directors: their relationships in small companies*', Deakins *et al* (2001) gave no examples of relationships between CEOs and NEDs in small companies.

Boxer *et al* (2001) explored the differences in director perceptions on the same SME board by interviewing four directors from the same SME board. They sought to explain the anomalies in the ACCA MD and NED dyad survey responses highlighted by Perren *et al* (2000). They collected, analysed and reported multiple boardroom perspectives and used a Johari Window (Luft, 1969) based model to highlight the different realities. However, they did not offer an explanation of the directors' processes of mutual adjustment within SME board relationships.

2.4.6 Venture Capitalist-Entrepreneur (VC-E) Board dyads

Other relevant studies were those which considered VC-E dyadic relationships. The context is similar to privately owned small businesses, as at the initiation of the VC-E relationship the companies are small, unlisted ventures. The majority of this research was conducted in the USA apart from Higashide and Birley (1998) and Turcan (2008). The roles of the lead venture capitalist have been variously identified as: acting as a sounding board (see for example MacMillan, Kulow & Khoylian, 1988; Chrisman & McMullan, 2000; Gabrielsson & Huse, 2002), being an active director (see for example Gomez-Mejia, Balkin & Welbourne, 1990; Fried & Hisrich, 1995), covering management expertise gaps (see for example Chrisman & McMullan, 2000), monitoring performance and assisting with strategic

¹⁷ 90 entrepreneurs (Deakins *et al*, 1999) of which 45 were in NED relationships (Deakins *et al*, 2000a) and 45 in mentor relationships; 46 entrepreneurs (Deakins *et al*, 2000b)

issues (see for example Gabrielsson & Huse, 2002). In their quantitative study of UK venture capitalists Higashide and Birley (1998) confirmed the expectation that 'cognitive conflict as disagreement' – 'playing "devil's advocate"' (Higashide & Birley, 1998:557) - could be 'beneficial for the venture performance' although this same disagreement as 'personal friction' between the VC-E dyad partners was harmful (Higashide & Birley, 1998:565). They also found a slight association between strategic advice and venture performance. The negative association they found between the VC involvement and venture performance was ascribed to failing ventures needing more involvement to protect the VC investment (Higashide & Birley, 1998:566).

These VC-E studies implied parallels between the role of the lead investor and that of the NED described in the SME corporate governance research cited earlier in *sections 2.4.1 to 2.4.5*. As in the SME literature, there is little investigation of the relationship development process between the VC-E partners within individual dyads. One theoretical model suggested researching the importance of trust and reciprocity in the development of VC-E dyad 'relationship rents'¹⁸ (De Clercq & Sapienza, 2001:109). Perspectives that concentrated on dyad partner social interaction as part of the knowledge sharing process were argued to be more apposite than agency and game theories (De Clercq & Sapienza, 2001:123). Gabrielsson and Huse (2002) argued that their studies drew attention to 'the importance of distinguishing between board role theories and board process theories' stating that 'the real challenges for future research may be to explore and understand the importance of board processes and the dynamics between the VC and the entrepreneur/owner-manager' (Gabrielsson & Huse, 2002:142).

2.4.7 VC-E board processes

The need to address 'board process theories' surrounding VC-E dyadic relationships was first identified by Gomez-Mejia *et al* (1990). They acknowledged that groups of VC-Es could not agree on VC contributions. It can be found in calls to research: the complex personal relationships within dyads, including how these changed over time (Gomez-Mejia *et al*, 1990); 'both sides [of the dyad to yield] a deeper understanding of the forces that make their interaction more rather than

¹⁸ Defined as 'supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the ... partners' (Dyer & Singh, 1998:662) cited by De Clercq & Sapienza (2001:109)

less productive' (Sapienza, 1992:23); 'particular entrepreneur-venture capitalist dyads as the unit of analysis' as most VC-entrepreneur research was 'undersocialized' (Cable & Shane, 1997:22 of 32) and 'dyadic analyses may give some input to the understanding of governance in small and entrepreneurial firms' (Gabrielsson & Huse, 2002:143). In the three decades since Gomez-Mejia *et al* (1990) called for more research into the dyadic relationships between VC investors and their entrepreneurs it appears that this challenge is still largely unaddressed.

Three studies have gone some way to address this gap. Arthurs and Busenitz (2003) reviewed VC-Entrepreneur research taking an agency theory perspective. They argued that over time some relationships moved beyond 'the formal financier-entrepreneur relationship with the common goal of a successful venture exit' (Arthurs & Busenitz, 2003:152). The dyad partners may become friends and confidants and, as during such periods trust will dominate the relationship, this may affect research findings using an agency theory lens where distrust is the 'dominant ethic' (Arthurs & Busenitz, 2003:159). They concluded that more research should be conducted assuming the development of goal congruence and trust between partners once the VC investment decision had been made, and that more consideration should be given to the entrepreneurs' perspective in VC-E relationships (Arthurs & Busenitz, 2003).

De Clercq and Sapienza (2006) investigated VCs' perceptions of their portfolio companies' (PFC) performance using 'the social nature of the relationship' between the VC and the PFC. They found that 'trust, social interaction, goal congruence and VC commitment all contribute uniquely to perceptions' of the PFC performance (De Clercq & Sapienza, 2006:341). However, they accepted that they had only asked for the VC perceptions of the dyadic relationship (De Clercq & Sapienza, 2006:344). In a study of VC-E post appointment dyad tension from unmet expectations of company internationalization, Turcan (2008) suggested four typologies of goal alignment. His findings encouraged the establishment of a '*good faith agreement* between VCs and entrepreneurs' (Turcan, 2008:298 *emphasis original*) to ensure shared expectations or 'goal congruence' (Turcan, 2008). However the boundaries of these exploratory case studies were the companies rather than the dyad relationship and the VC data came from interviews with

'investors, liquidators, strategic advisors, policy makers and business correspondents' (Turcan, 2008:288) rather than VC lead investors.

2.4.8 VC-E dyad voices

Within the VC-E literature there is a culture of investigating director behaviour by interviewing role holders, for example, Gomez-Mejia *et al* (1990), Sapienza (1992), Zacharakis, Meyer and DeCastro (1999), Shaver, Gartner, Crosby, Bakalarova and Gatewood (2001), Gabrielsson and Huse (2002) and Turcan (2008). Despite conducting dyadic interviews, little attempt was made to explore differences in perception between individual partners and/or the social processes. However the study by Zacharakis *et al* (1999) did study director behaviour, noted differences in perceptions and suggested a theoretical perspective that would explain such differences. They conducted in-depth but structured interviews with eight VC-E dyads on their perceptions of new-venture failure. Although they did not investigate the similarities and discrepancies across the matched pairs, they aggregated results for the groups of VCs and entrepreneurs and used Attribution Theory internal or external causal dimensions for the failure factors identified by the two groups. They also used Attribution Theory bias to explain why the two partners viewed the company failure differently. The biases exhibited by the groups were a surprise, especially those of the VCs who had been expected to attribute the failures to internal factors, for example, lack of competence by the entrepreneurs. They concluded with the observation that 'the interesting part of this study is the discrepancy between the entrepreneurs and VCs' (Zacharakis *et al* 1999:12).

2.4.9 NEDs in unlisted companies summary

Researchers interested in unlisted company governance are now beginning to address the 'role, structures and processes' of small firm boards using 'innovative research' (Huse, 1998:219). Huse criticised the practice of researching issues and samples that are easiest to access using methodologies known to the researcher and/or accepted by the major journals. He called these the 'lamp' and 'hammer' syndromes respectively; 'the use of theories that involves a need to open the 'black box' [of board operations in SMEs] is scarce' (Huse, 2000:282). A more recent overview of boards and governance research by Gabrielsson and Huse (2004) confirmed the impact of the academic tenure 'publish-or-perish syndrome' creating these 'lamp' and 'hammer' research approaches. The research conducted

into the dyadic relationships between entrepreneurs and their lead venture capital investors offered explanations as to why different perceptions of shared experiences may exist (see, for example, Zacharakis *et al*, 1999; Shaver *et al*, 2001; Gabrielsson & Huse, 2002; Turcan, 2008).

2.5 Discussion

Across the three sections of this review four common themes emerged:

- The processes of trust and reciprocity in dyad advisory relationships were important but under researched;
- An awareness of the theoretical lens of a research study is important as it may conflict with the respondents' own perceptions of their practice;
- Multiple perspectives would give a deeper insight into how processes work in practice, and
- An understanding of the specific context and timing of respondents' behaviour was essential before interpreting the behaviour's significance,

Complementing these themes relevant and significant gaps were identified in the literature. In the context of UK privately owned SMEs, these gaps identified the lack of qualitative studies that investigated and reported how MDs and their advisors separately perceived and enacted the process of developing and maintaining trust. These themes and gaps will now be discussed and linked to the thesis' research aims.

2.5.1 Defining trust

Trust forms a crucial part of this thesis, as reflected in the research aims; therefore this section presents a brief overview and a working definition. The different approaches to trust have given rise to a variety of definitions over the past 50 years. Those included in this section were cited most widely within the literature in this chapter. For a broader perspective additional sources from the wider sociology and business studies literature have also been included.

2.5.1.1 Theoretical approaches to trust

Lewicki and Bunker (1996) argued that a different theoretical lens and filter affects a definition of trust. They identified three broad lenses and their approaches to trust: *Personality theorists*: trust is a belief, expectancy or feeling that is deeply

rooted in the personality; *Sociologists and economists*: trust is conceptualised as both a phenomenon within and between institutions and as the trust individuals put in those institutions; *Social psychologists* who focus on the interpersonal transactions between individuals that create or destroy trust: the expectation of the other party in a transaction, the risks associated with assuming and acting on such expectations and the contextual factors that serve to enhance or inhibit the development and maintenance of that trust. Their model of working relationship trust development adopted the social psychology approach

2.5.1.2 *Expectations*

Deutsch (1958) adopted a behavioural approach and is the earliest definition of trust commonly cited (see for example, Lewicki & Bunker, 1996; Lewicki, Tomlinson and Gillespie, 2006)

An individual may be said to have trust in the occurrence of an event if he expects its occurrence and his expectation leads to behaviour which he perceives to have greater negative motivational consequences if the expectation is not confirmed than positive motivational consequences if it is confirmed. Deutsch (1958:266)

Lewicki *et al* (1998) also defined trust – and distrust in terms of expectations.

Confident positive expectations regarding another's conduct

Confident negative expectations regarding another's conduct (Lewicki *et al*, 1998:439)

More recently the sociologist Möllering defined trust using expectations; however he identified expectations as the end result of the trust process.

A state of favourable expectations regarding other people's actions and intentions (Möllering, 2001:404)

Trust can be imagined as the mental process of leaping – enabled by suspension – across the gorge of the unknowable from the land of interpretation to the land of expectation (Möllering, 2001:412)

Trust is inherently reflexive, because for every favourable 'good reason' there exists probably another *unfavourable* 'good reason' [there is a need to suspend ignorance and contradiction too] (Möllering, 2001:414)

The process of trust as such, however, ends with a state of expectation and begins with interpretation (Möllering, 2001:415)

His theory is explained as: *expectation* [a]: the state reached at the end of the trust process – favourable (trust) unfavourable (distrust); *interpretation* [b]: captures the idea that human experiencing of the life-world gives the bases for trust (good reasons); *suspension* [c]: enables leap of trust [from b to a] – the bracketing of the

unknowable which represents a defining aspect of the nature of trust. Fiske (2004) presented a social psychology perspective of trust where the everyday expectations were that trust prevailed and that this encouraged help and loyalty between individuals and groups.

Trust facilitates daily life... Although people differ, on average they trust other people, expecting them to be basically benign (Fiske, 2004:23)

The general pre-disposition to expect good things from most people (until or unless proved otherwise) enables people to adapt to their groups, encouraging mutual helping, social influences and group loyalty (Fiske, 2004:24)

2.5.1.3 *Vulnerability*

In the 1970s the concept of vulnerability emerged in behavioural studies such as 'trust and managerial problem solving' by Zand (1972).

It is useful to conceptualize trust as behaviour that conveys appropriate information, permits mutuality of influence, encourages self-control and avoids abuse of the vulnerability of others (Zand, 1972: 238)

In the 1990s this concept of vulnerability was adopted by Barney and Hansen (1994). They took an economic approach looking at the transaction costs of trust.

Trust is the mutual confidence that no party to an exchange will exploit another's vulnerabilities (Sabel, 1993, cited in Barney & Hansen, 1994:176)

Mayer, Davis and Schoorman (1996) also adopted the concept of vulnerability but from psychological approach.

The willingness of a party to be vulnerable to the actions of another party based on the expectation that the other party will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party (Mayer, Davis and Schoorman, 1996:576)

Their definition was cited by Howorth and Moro (2006) in their study of Italian Entrepreneur Bank relationships and by Tomlinson and Mayer (2009) in their conceptual framework for trust repair.

2.5.1.4 *Expectations, Vulnerability and Personal Risk*

Lewicki and Bunker (1996) argued that the expectations of trust were set within particular contextual parameters and constraints. One constraint was that of personal risk, one form of vulnerability. They adopted the definition by Boon and Holmes (1991), albeit based on romantic trust.

A state involving confident positive expectations about another's motives in respect to oneself in situations entailing risk (Boon & Holmes, 1991:194)

As an introduction to the trust special issue of *Academy of Management Review*, Rousseau, Sitkin, Burt and Camerer (1998) distilled definitions of trust within the issue into one that incorporated expectations and vulnerability.

A psychological state comprising the intention to accept vulnerability based on positive expectations or behaviour of another (Rousseau *et al*, 1998:395)

In their study of the role of trust in organisational settings Dirks and Ferrin (2001) gave the Rousseau *et al* (1998) definition as 'a cross-disciplinary conceptual definition of trust'. It was also cited in studies of VC-E relationships by Shepherd and Zacharakis (2001) and De Clerq and Sapienza (2001) and by Saporito *et al* (2004) in bank-SME relationships.

After an extensive review of the sociological and economics literature Dibben incorporated positive expectations; however he substituted personal risk for vulnerability.

Trust concerns a positive expectation regarding the behaviour of somebody or something in a situation which entails risk to the trusting party (Dibben, 2000:12)

2.5.1.5 *Other constituents of trust*

In a study of business relationships trust was defined as a 'journey' (Shapiro *et al*, 1992:376). Chell and Tracey (2005) defined trust as the 'social glue' in their study of trust between SME owners and first level managers. Trust and mutual respect emerged as new inductive elements in their predominantly deductive analysis framework. Roberts (2001) argued that trust was not ingrained in the PLC boardroom, it had to be learned and strengthened as the result of constant communication. The importance of context in the role of trust was confirmed by Bennett and Robson (2004b) in their study of small business advice suppliers where the distinction between personal/social trust and institutional trust is relevant. Personal/social trust depends upon personal relations and is specific to each firm and/or industry, that is, internally focussed. Institutional trust exists within the broader external market and/or regulatory framework. Where no personal trust exists, institutional trust takes the form of a contract, that is, within a legal framework.

2.5.1.6 *Thesis definition of trust*

Reviewing the definitions of trust across the range of sources cited in this section the following five elements have been identified:

- Trust is a social process;
- This process includes positive expectations;
- It also includes a willingness to accept vulnerability or personal risk;
- Trust is contextual, and
- Trust is temporal and dynamic, it can be lost as well as strengthened.

These elements have been incorporated to define trust in the context of this thesis. It emphasises the social process between SME advisory dyad partners as suggested in the literature (see Welter & Smallbone, 2006; Bennett, 2007).

Trust is a social process between the dyad partners. It is sustained for as long as they experience reciprocal positive expectations of each other and, as a consequence, are willing to accept a level of vulnerability or personal risk within a specific context. Over time, if one partner's trust in the other is strengthened it may be extended across a variety of contexts and/or the acceptable level of personal risk or vulnerability to the actions of their partner may be reduced. Conversely, the acceptable level of vulnerability or personal risk will be adversely affected if routinely either partner's positive expectations of the other are not confirmed and/or the context changes.

2.5.2 Dyad trust development processes

Throughout this review there were calls to make boardroom and director interaction processes more transparent (Roberts & Stiles, 1999; Gabrielsson & Huse, 2002; Pye & Pettigrew, 2005; Ramsden & Bennett, 2005). In particular, an understanding of the development of trust and the processes of trust repair have been flagged as missing from the literature (see, for example, Fischer & Reuber, 2003; Bennett & Robson, 2004; De Clercq & Sapienza, 2006; Mole, 2007; van Ees *et al*, 2008; Dirks *et al*, 2009; Ren & Gray, 2009; Tomlinson & Mayer, 2009).

Distrust and tension were predicted when partners were perceived to be working to different agendas (Boussara & Deakins, 2000; Dalley & Hamilton, 2000; Berry, 2001; Boxer *et al*, 2001; Fischer & Rueber, 2003) but the resolution processes were neither explored nor reported.

This review has identified that researchers have argued that trust is important in SME advice, as a PLC boardroom process, in SME boardrooms and VC-E board processes. Although important, the understanding of the trust process in these contexts was still under-researched. This gap influenced the second research aim:

To develop a model of dyadic working relationship trust development for managing directors and NEDs in UK SMEs

2.5.3 Research theoretical lens

A lack of awareness of the affects of the research study theoretical lens on the interpretation of respondent behaviour was an emerging concern in the literature. This was especially pertinent where one perspective dominated the field. For example, although advocating the benefits of Agency Theory in organisation research Eisenhardt (1989b) argued against the dominance of a single paradigm and view of human nature in an academic discipline as this 'presents a partial view of the world' and is in danger of ignoring 'a good bit of the complexity' (Eisenhardt, 1989b:71). The dominance of an agency theory lens in the PLC and SME NED literature was cause for concern, although the compliance/control role it espoused was countered by an alternative creative enterprise/strategic thinking role. Table 2 overleaf illustrates the range of stereotype 'board conformance' and 'board performance' (Rindova, 1999) roles for NEDs found across the literature. These 'polarised conceptions of the [NED] role' (Higgs, 2003:27) were found to bear little resemblance to NED effectiveness (McNulty *et al*, 2002; Roberts *et al*, 2005) but are widely quoted, for example, 'watchdog' and 'mentor'. Such prescribed roles (Spencer, 1983) implied a level of simplicity with an either/or role for the NED and level of role homogeneity across all contexts and reflected the debates surrounding the dominance of an agency theory and a functionalist perspective in governance literature. For example, Gabrielsson and Huse (2004) remarked:

The question should not be which theory of governance is universally valid, but under which contexts or contingencies may one theory have explanatory power over another (Gabrielsson & Huse, 2004:24)

Less than five percent of the studies they reviewed in general management journals had either a contingency (contextual) or behavioural focus. Only two of 127 studies had an evolutionary focus, that is, explored 'both context and behaviour' (Gabrielsson & Huse, 2004:22). They argued that the dominance of large scale US studies using secondary data was hindering the development of

governance towards ‘an on-going evolutionary process’ which included ‘concepts like history, learning or change’ (Gabrielsson & Huse, 2004:25). They were excited by the prospect of European researchers challenging this dominance by contributing to the ‘exploration of context behaviour and evolution with respect to boards and governance’ (Gabrielsson & Huse, 2004:26).

| Compliance/Control role ‘Board Conformance’ (Rindova, 1999) | Creative Enterprise/Strategic Thinking role ‘Board Performance’ (Rindova, 1999) |
|---|---|
| Policeman (Dulewicz <i>et al</i> , 1995; Berry & Perren, 1998) | Guide/Steer (Cadbury, 1998) Mentor (Deakins <i>et al</i> , 1999; Higgs, 2003; Proctor, 2005) |
| Auditor (Berry & Perren, 1998; Pye & Camm, 2003) | Sounding board (Atherton & Hannon, 1999; Berry & Perren, 1998) |
| Watchdog (Spencer, 1983; BDO Hamlyn, 1994 in Samuels <i>et al</i> , 1996; Williams, 1998 for PriceWaterhouseCoopers,) | Advisor & Counsellor (Samuels <i>et al</i> , 1996; Berry & Perren, 1998; Deakins <i>et al</i> , 1999) |
| Spy (Berry & Perren, 1998) Agent (Berry & Perren, 2000a) | Ally (Berry & Perren, 1998) |
| Shepherd/directive expert (Graham & O’Neill, 1997) | Sherpa/non-directive generalist (Graham & O’Neill, 1997) |
| Independent (Gabrielsson & Huse, 2005) | Expert (Gabrielsson & Huse, 2005) Consultant (Pye & Camm, 2003) Boundary Spanner (Gabrielsson & Huse, 2005) |
| control style (Roberts <i>et al</i> , 2005) | collaboration style (Roberts <i>et al</i> , 2005) |
| Control (Daily & Dalton, 1993; Westhead, 1999) | Service (Daily & Dalton, 1993; Westhead, 1999) Resource Acquisition (Daily & Dalton, 1993; Westhead, 1999) |

Table 2: Polarised NED Roles¹⁹

The dominance of agency theory is now being challenged and researchers have adopted alternative perspectives when explaining board and director roles. See, for example, Johnson *et al* (1996), Daily, Dalton and Cannella (2003), the debate between Zahra and Filatotchev (2004) and Gedajlovic, Lubatkin and Schulze (2004) and the debate in the *British Journal of Management* special issue ‘The Higgs Report: Implications for Our Understanding of Corporate Governance and the Non-Executive Director’ (March 2005). Roberts *et al* (2005) triggered this debate and justified their development of the processes of accountability by Roberts (2001) as a way to ‘challenge the dominant grip of agency theory on governance research and support the search for theoretical pluralism’ (Roberts *et al*, 2005:S5). Following the lead of Daily *et al* (2003) they reviewed current agency

¹⁹ The majority of these typologies assume only two variables, that is, either high risk management (control/conformance) or high strategic input (collaboration/performance). Pye and Camm (2003) posited a further two variables of low risk management and low strategic input. They identified typologies of ‘Tame Pensioner’ (low control/low collaboration) and ‘Super NED’ (high control/high collaboration) although they only discussed the attributes of Auditor (high control/low collaboration) and Consultant (low control/high collaboration).

theory criticisms and the proposed alternatives such as stewardship and resource dependency theory. They supported Eisenhardt's argument against the substitution of one partial theory for another, the use of multiple theories to reflect different perspectives, and urged researchers to embrace 'theoretical pluralism' to 'capture the complexity of phenomena' (Roberts *et al*, 2005:S8). Arthurs and Busenitz (2003) argued that over time trust will dominate dyad governance relationships and that this may affect research findings using an agency theory lens where distrust is the 'dominant ethic' (Arthurs & Busenitz, 2003:159). Similar calls for the adoption of different perspectives to investigate the socialisation and trust development processes emerged in the review of the VC-E and SME governance literature, for example, the Prisoner's Dilemma (Cable & Shane, 1997), dramaturgy (Downing, 1998); impression management (Christensen & Westenholz, 1999), social justice (Shepherd & Zacharakis, 2001) social interaction over game theory (De Clercq & Sapienza, 2001), semiology (Perren *et al*, 2000) and social exchange theory (Hannon, 1998²⁰; De Clercq & Sapienza, 2006).

Gabrielsson and Huse (2005) illustrated the impact of both the theoretical perspective and research context on the interpretation of respondents' behaviour. In their review of 100 student reports of the role and contribution of 'outside' directors in Scandinavian SMEs, they remarked that the role and contribution 'seem to vary depending upon the theoretical framework used and the type of firm being studied' (Gabrielsson & Huse, 2005:35). They grouped the reports into three types of company, family, VC-backed and others, and three main theoretical perspective NED types, 'Independent' agency theory control/monitoring, 'Expert' resource theory advice/counsel and 'Boundary Spanner' resource dependency theory managing dependencies/co-optation (Gabrielsson & Huse, 2005:32). They proposed 'an open and context based definition' of SME NED roles for researchers to really understand the role variety.

In Chapter Four: *Methodology*, the theoretical lens of this research is explained. By adopting a critical realist perspective this will enable the researcher to adopt a multiple theoretic perspective as advised by Eisenhardt (1989b). This will avoid a partial explanation of the UK SME NED role. It will allow the role's processes and complexity to be captured as proposed by the third research aim:

²⁰ Hannon (1998) flagged the danger of solely relying on exchange theory and ignoring social interaction processes to explain the foundation of SME dyadic relationships.

To develop an understanding of the complex patterns of relationships and processes of the NED role in UK privately-owned small and medium-sized enterprises, in particular,

- Why do the MDs and NEDs of privately-owned UK SMEs have different perceptions of the role of a NED?
- Where such differences of perception exist, how do these affect the partners' dyadic working relationship?

2.5.4 Respondents' own voices and equality of respondent

Apart from Spencer (1983) in the UK and Lorsch and MacIver (1989) in the US, quantitative method instruments such as large scale surveys have dominated the data collection research into NED roles (Gabrielsson & Huse, 2004). This method imposed the restrictive cage of the research theoretical lens on the possible responses, muffling the voices of the respondents (see, for example, van Ees *et al*, 2008). There were calls for more qualitative research studies to 'allow directors to reveal their perceptions' (Roberts & Stiles, 1999:38) and 'the lived experience of non-executive directors and other directors' (Roberts *et al*, 2005:S5) to explore the processes they enacted for information asymmetry reduction, trust development and repair.

Studies of small business advisors and of NEDs in listed and unlisted contexts were researched by collecting data from the sole perspective of either the SME/MD or the advisor/NED. This implied that one perspective of the subject was privileged above others. Where multiple perspectives were sought it was rare for the analysis of the separate perspectives to be reported, if such an analysis had been undertaken. Where there were examples of both perspectives of a dyad relationship being collected, analysed and reported, the majority came from US private equity funded companies. These differed from the thesis' context as only one to three per cent of UK SMEs are financed in this way (Bank of England, 2001; Wiseman *et al*, 2006:9).

These gaps in the literature influenced the questions posed in the third research aim and the decision to adopt a qualitative methodology. This choice enabled the collection, analysis and reporting of both sides of the MD-NED dyad partnership without privileging one perspective over the other.

2.5.5 Context is crucial

The corporate governance literature warned against assuming that the findings of research conducted in one context will successfully transfer to another (Tricker, 1978; Carlin & Mayer, 2000; Keasey & Hudson, 2002). Therefore research based on studies outside the UK, in large and/or listed companies and covering generic roles for all directors should be viewed with caution when used to explain the role of UK SME NEDs. NED behaviour should also be related to context and timing before meaning is assigned (Pye & Pettigrew, 2005). It has been argued that the study of the role of NEDs in large and/or listed companies may have little connection with, and have little to add to the understanding of, the role of NEDs practiced in unlisted SMEs (Deakins *et al*, 1999; Huse, 2000; Fiegenger *et al*, 2000).

However, there may be some aspects of NED role behaviour in PLC and/or VC-E contexts that affect the role perceptions and expectations of SME MDs and NEDs. For example, McNulty, Roberts and Stiles who, either together or with other colleagues or as individuals²¹, have attempted to address PLC NED role complexity. In their study supporting the Higgs Report (2003) these authors proposed an effective role that balanced the 'control' and 'collaboration' NED styles (McNulty *et al*, 2002; Roberts *et al*, 2005). They adopted qualitative research methods and went some way towards addressing the challenge of researching board behaviour as it is practiced (Huse, 1998). In the unlisted company governance literature there were studies that could provide parallels between SME NEDs and VC-E lead investors. For example, research into US small business dyad differences were particularly interesting as exploring differences in partner perceptions offered a greater insight into dyad relationships than the similarities. These studies compared how VC-E partners accounted for the failure of a business (Zacharakis *et al*, 1999) and how factors that cause and impede small business success are attributed by owners and experts (Rogoff, Lee and Suh, 2004).

Missing from the literature was a discussion of if and how the UK NED role normative practice in listed and other unlisted contexts shaped the role

²¹ McNulty & Pettigrew (1996; 1999), McNulty *et al* (2002), Pettigrew & McNulty (1995; 1998), Roberts (2001; 2002), Roberts & Stiles (1999), Roberts *et al* (2005), Stiles (2001), Stiles & Taylor (2001)

perceptions and practice of MDs and NEDs in SMEs. This gap influenced the first research aim:

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs

2.5.6 How these literature gaps have framed the thesis

The common themes and the gaps identified across the literature, especially the lack of understanding of the dyad partners' trust development process, influenced the thesis research aims and the methodology. This review has acknowledged the debate surrounding the importance of the theoretical perspective of a research study, the development of trust and its links to context. All three were identified as common themes across the literature. By adopting a critical realist ontology, this thesis aims to reveal the normally inaccessible structures of the NED role process and dyad partner trust development in the UK SME context. How this is achieved and how this theoretical position is reflected in the thesis research aims is explained in detail in Chapter Four: *Methodology*.

2.6 Chapter Conclusions

The gaps identified in the literature reviewed in this chapter indicate that the role of trust and its development over time is under-researched in the context of small business advice and corporate governance processes. There have been no qualitative studies of the role of the NED as practiced in privately owned UK SMEs that collected, analysed and reported data from the dual perspectives of the MD-NED dyad. Although the research by Deakins and colleagues sought to study this phenomenon (Deakins *et al*, 1999; Deakins *et al*, 2000a; 2000b; 2000c) this thesis argues that their sample frame did not reflect the UK governance context.

However the review highlighted the disparate sources of literature that could contribute to creating a picture of the possible UK SME NED role function. For example, is it as a mentor, advisor, policeman or ally or any of the other polarised roles in Table 2? Does this role change over time as suggested by Deakins and Freel (1998), Hannon (1998), Deakins *et al* (1999), Berry and Perren (2000b) and Bisk (2002)? Despite the warnings of Deakins *et al* (1999); Huse (2000) and

Fiegner *et al* (2000), does the role in a large UK PLC offer any insights into the role in a small, privately owned company?

By pulling together a selection of these disparate sources the next chapter, Chapter Three *A Framework for the UK NED Role*, seeks answers to the questions underpinning the first thesis research aim:

- What is the role of the UK NED?
- Is the NED role the same in SMEs and PLCs?
- If it is not, how and why does the NED role differ?

The answers lie in 31 existing empirical studies that were reviewed in this chapter and are used in Chapter Three to create a literature-based framework for the role of the UK NED in the large, listed and small, unlisted company contexts. This framework will reveal any differences in the NED role that are linked to company size and regulatory status. Differences in NED role function will be explored and discussed in Chapter Three. In Chapter Five: *Comparing the SME NED role in practice*, this framework will be used to compare the literature-based UK NED role with the in-practice NED role data from ten SME Case Dyads, from the separate perspectives of the MD and NED. This later analysis also aims to uncover the social processes of SME NED role dyad relationships, for example, how and why these directors develop trust in each other, identified as missing in this literature review.

Chapter Three: A Framework for the UK NED Role

3.1 Chapter Introduction

Chapter Two reviewed the broad academic literature that could inform the role of the NED in privately owned UK SMEs, that is, the UK roles of small business advisors and listed company directors. It also reviewed the role of the NED in small, unlisted company contexts, albeit these studies were not exclusively UK based. This review highlighted the disparate range of research studies that could contribute to creating a picture of the possible UK SME NED functional role.

This chapter returns to the literature to create a literature-based framework of the role of UK NEDs in the listed and unlisted environments. Empirical studies are used to investigate and make transparent NED role differences in the specific context of small, privately owned companies in the UK. In Chapter Five this framework is used to analyse the respondents' transcripts to address the first thesis aim:

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs;

The chapter starts with an explanation of the framework development and is supported by Appendix 1, the framework literature audit trail. It continues with a discussion of the findings, that is, the role elements common to all NEDs in UK companies and the different patterns of NED role element prevalence across the SME and PLC literature. The chapter concludes by outlining how this framework will be used in the analysis of the empirical data.

3.2 The Development of the Literature-based Framework

As an analysis tool to explore any differences in perceptions of the UK NED role function, a subset of the existing literature was used to create a framework for the role of the UK NED in the PLC and SME contexts. Such a review has not been

published previously outside of this thesis.²² As the earlier review cautioned, guidelines and findings from one context were not necessarily transferable (Tricker, 1978; Carlin & Mayer, 2000; Keasey & Hudson, 2002, Pye & Pettigrew, 2005; Bennett & Robson, 2005). The governance environment for privately owned and publicly listed companies differs as does the governance environment for business advisors and company directors. For example, the contextual differences for business advisors affected the advice impact, satisfaction and commitment (Bennett & Robson, 2005). To address these concerns it was important that the thesis analysis draw on the literature specific to the UK NED from the PLC and the SME perspective. The framework would capture any differences and be used to explore how the interview respondents perceived the NED role in their particular context.

3.2.1 Framework Literature

Appendix 1 is the audit trail for the framework.²³ The numbers at the head of the columns are the literature source reference. Each source and its reference number are listed in a separate table at the end of the *List of References*. The row numbers in the table cells refer to the page number within the source where the evidence was identified.

3.2.1.1 Selection

The selection criteria for the framework sources were that the research was:

- based on empirical data;
- related to the specific role of the NED rather than either the role of the board of directors or other SME advisors;
- conducted in the UK, and
- published in the decade preceding the analysis of the UK SME NED functional role, that is, 1996 – 2005.²⁴

These criteria led to the initial selection of 25 sources. A further four sources were included although they did not meet the third or fourth criterion. Johannisson and Huse (2000), Gabrielsson and Huse (2002) and Gabrielsson and Huse (2005)

²² An earlier draft of this chapter was presented at the BAA Corporate Governance Special Interest Group conference, December 2007. See (Boxer, 2007)

²³ See pages 330 to 333

²⁴ This was extended to 2008 in the later stages of the thesis to include two additional PLC sources. *Section 3.4 Framework Update* on page 76 discusses the impact on the framework

were included despite being based on European SME data. Johannisson and Huse (2000) focussed on how ideological differences influenced SMEs making an outside director appointment and could, therefore, provide an insight into similar UK appointments. One of the four studies included in Gabrielsson and Huse (2002) focussed on the specific contributions made by Venture Capital (VC) directors to Swedish SME boards. A 100 student reports on the role and contribution of 'outside' directors in SMEs gave Gabrielsson and Huse (2005) an insight into SME NED role. Despite its Scandinavian focus it was included due to the wealth of SME NED data, which was analysed from three different theoretical perspectives. Spencer (1983) was included as her research was conducted in the UK and was based on data from interviews with practising NEDs. A further two PLC sources were added in 2008 (Kakabadse *et al*, 2006; Mallin & Ow-Yong, 2008).

3.2.1.2 *Literature Grouping*

The 31 sources were divided into eighteen based on data from SME and/or unlisted companies and thirteen relating to large listed companies. Mallin and Ow-Yong (1998; 2008) were grouped with the large company research as, although focussed on small companies, these were AIM listed, bound by LSE regulations and QCA recommendations for NED appointments. Long *et al* (2005) was included in the small business literature as this study compared the NED role in listed and unlisted companies. The references included in the framework related to the unlisted roles.

3.2.2 **Literature Methodology**

All the sources included in the framework were based on empirical studies. Apart from Spencer (1983) the literature prior to 2002 was dominated by studies taking an agency theoretic perspective that the role of the NED was concerned with control, resource dependency and/or acquisition and service.²⁵ In the early 2000s the literature reflected a change in perspective. Researchers moved away from large scale quantitative surveys or research based on secondary data from FTSE 500 companies towards mixed methods that included semi-structured qualitative interviews with actual role holders, an approach pioneered by Spencer (1983). For example, the work undertaken by McNulty *et al* (2002) to inform the Higgs Report

²⁵ 'Service' referred to NEDs as a source of management advice and counsel and was more prevalent in SMEs (Huse, 1990; Fiegner *et al*, 2000)

(2003) used in-depth interviews with directors of large listed UK companies to gain an understanding of the processes and dynamics of the NED role.

3.2.3 The Framework Categories

The framework was constructed by reviewing each of the 31 sources and drawing out the prescribed role elements for NEDs. These were then edited to the 65 NED role elements. The thesis grouped these role elements into six categories as shown in Table 3.1. This process was influenced by the agency theory functional perspective and the interpretivist approach to the role processes adopted by Spencer (1983), McNulty, Roberts and Stiles (McNulty *et al*, 2003, Roberts *et al*, 2005), Long *et al* (2005) and Holbeche and Garrow (2005).

| NED Role Categories |
|--|
| <p>Director Relationships: NED role elements encouraging the top management team (TMT) - especially the CEO or MD - to interact with, inform and involve others</p> |
| <p>Knowledge Transfer/Director Development: NED role elements reflecting top management team (TMT) training and development</p> |
| <p>Boundary Spanning: The NED role elements acknowledging the 'outside director' role, that is, a link between the board/SME and the wider environment. The framework adapted this category title from 'boundary brokering' (Wenger, 1998) and adopted it prior to 'boundary spanning' (Kakabadse <i>et al</i>, 2006: 289) being flagged as an important NED role for CSR activity on PLC boards.</p> |
| <p>Creative NED Role-making: The framework adapted the phrase 'creative role-making' (Spencer, 1983) to describe NED role elements emphasising the flexible nature and individual interpretation of the NED role</p> |
| <p>Risk Management - the people: NED role elements associated with human resource management (HRM)</p> |
| <p>Risk Management - the processes: NED role elements relating to Board and company monitoring</p> |

Table 3.1: The NED Role Categories

The allocation of the role elements to the categories is acknowledged as being a subjective process with some fitting into more than one category. The role elements were allocated on a pragmatic best fit basis.

3.2.4 Possible dilemmas

3.2.4.1 Major and Minor Role Elements

Not all role elements were found in every empirical source in the framework. Patterns emerged of particular role elements that were raised repeatedly by

respondents in the literature. Differences across the large listed and SME studies were also noted. These were used to designate major and minor NED role elements. The literature discussions for each role element were reviewed and **major** role elements were defined as those in over twelve or more SME sources and seven or more PLC sources. A *minor* role element was defined as either mentioned in five or fewer SME sources and three or fewer PLC sources or it was specifically mentioned as less important.²⁶ A role element was defined as being present (✓) in the literature source when it fell between the major and minor definitions, that is, when it was discussed in fewer than twelve but more than five SME sources and fewer than seven and more than three PLC sources.

This quantification of instances in the literature is acknowledged as the first of two related potential dilemmas, that is, using the frequency of role element prevalence in the literature as a proxy for its importance. The dominance of the use of proxies in board behavioural research was criticised by Gabrielsson (2007). He argued that observable board characteristics were not predictors of the entrepreneurial and board process behaviours that contributed to company performance (Gabrielsson, 2007:527).

However, this thesis defends the use of a proxy to inform this framework for the UK NED role. Albeit crude, role element prevalence gives an insight into the orthodoxy of normative role practice, based on perceptions of NED role holder experience published in the preceding decade's research studies. Although acknowledged as unsophisticated, the use of this proxy is open to challenge later in the thesis. As Chapter Four *Methodology* will explain, the methodological approach to analysis allows for new role elements to emerge from the qualitative data. Any differences in NED role element prevalence in UK SME practice discovered in the thesis data in Chapter Five, *Comparing the SME NED role in practice*, will extend the existing literature and any new NED role elements will enhance the understanding of the role in UK SMEs. These differences and new elements should address the gaps in the literature by uncovering temporal and dynamic UK SME NED role processes as commended by Gabrielsson (2007).

²⁶ Annotated as LI (Less Important) in Appendix 1

3.2.4.2 *One Data Set and Several Sources: Another Dilemma?*

Two groups of researchers dominated the UK SME literature. Deakins, Mileham, O'Neill and colleagues at the University of Paisley had eight entries in the framework, six of which drew on a single data set²⁷. Berry and Perren from the University of Brighton had four papers based on a separate, but still a single data set.²⁸ In the UK large listed company literature there was one dominant group of researchers, McNulty and colleagues, who authored four sources²⁹. However here only the two papers linked to the Higgs Report (2003) used the same data set, that is, McNulty *et al* (2002) and Roberts *et al* (2005), although Higgs (2003) was also a source for the framework.

This raised the second dilemma for the framework. If the frequency of occurrence of a particular role element in a source was used as a proxy for its importance then several sources using one data set could lead to the over emphasis of that element in the NED role. Huse talked of the 'lamp syndrome' (Huse, 1998:218; 2000:282) when researching board phenomenon, that is, researching aspects where data were easily accessible. Spencer had difficulty in securing access describing the ways she had to 'trap' the 'shy retiring creature' that is the PLC NED (Spencer, 1983:7). NEDs in SMEs are not easily accessible, as the ACCA surveys prompting this research illustrated (Perren *et al*, 2000:1003). As described in Chapter Two, Deakins and colleagues in Scotland used contacts in private equity or government-funded start up ventures³⁰ to access SME NEDs. As a consequence of this reliance on VC firm data, the framework's SME literature findings could be interpreted as representing the roles of close to 50 percent of NEDs in UK SMEs. This creates a false impression as the Bank of England report 'Financing of Technology-Based Small Firms' (2001) stated that only one to three percent of UK SMEs were financed in this way. This was confirmed in the 2004/05 Small Business Service Annual Survey of UK Small Businesses which found that although seven percent of all SMEs had considered equity finance only three percent had used it (Wiseman *et al*, 2006:9).

²⁷ Boussara & Deakins (2000); Deakins *et al* (1999; 2000a; 2000b; 2000c; 2001)

²⁸ Berry & Perren (2000a; 2000b; 2001) Perren *et al* (2000)

²⁹ McNulty & Pettigrew, 1996; McNulty & Pettigrew, 1999; McNulty *et al*, 2002; Roberts *et al*, 2005

³⁰ Publicly financed start up ventures in Scotland required the appointment of a NED. This is the different governance context described in Chapter Two.

Both these dilemmas were reviewed during the data analysis and are discussed in Chapter Five section 5.8 *The Framework Dilemmas Revisited*.

3.3 The Framework Findings: The Role of the UK NED

In this section the framework findings are considered and a weighted role element model for the UK NED is developed. For each category there is a discussion of the major and minor role elements across both literatures and any role discrepancies between the literatures. Tables at the start of each Category section indicate the three possible role element weightings: **major**, present (✓) or *minor/absent*.

3.3.1 Director Relationships

Table 3.2 summarises the framework findings for the *Director Relationships* category.

| Director Relationships | SME | PLC |
|--|---------------|--------------|
| build quality personal relationships/personal chemistry/ trust | Major | Major |
| reducing (family) conflict/fostering positive board dynamics/director balance/maintaining board balance between executives & shareholders | Major | ✓ |
| independence of mind/independent view (internal & external reassurance) | ✓ | Major |
| (long term) commitment to company | ✓ | <i>Minor</i> |
| courage to dissent | <i>Minor</i> | ✓ |
| challenge information supplied & seek supplementary sources | <i>Absent</i> | ✓ |
| discussing problems/sharing information/stimulate open debate/dialogue/bring out best ideas | ✓ | ✓ |
| change initiator/prompt- for management style/organisation culture | <i>Minor</i> | <i>Minor</i> |
| change initiator/prompt - for board to act as a team | <i>Minor</i> | <i>Minor</i> |
| investor discussions/shareholder communications | <i>Minor</i> | <i>Minor</i> |

Table 3.2: Director Relationships Role Element Weightings

3.3.1.1 Major role elements

The role element *build quality personal relationships/personal chemistry/trust* was a major role element across both literatures. This contributed to, for example, social and technical competence (Spencer, 1983:38), deeper understanding of the issues (McNulty & Pettigrew, 1999:70) or partnership and mutual respect (Higgs, 2003:27). In SMEs *personal chemistry* in particular was flagged as important (see for example Johannisson & Huse, 2000:366; Gabrielsson & Huse, 2002:138; Corlett, 2004:88). The negative effects of a lack of *personal chemistry* were identified by a CEO in Deakins *et al* (1999:27).

In the SME sources there was a further major role. The element *reduce (family) conflict/foster positive board dynamics/director balance* addressed behaviour such as general boardroom conflict (Berry & Perren, 2000b:18), director 'bitching' (Deakins *et al*, 2000a:183) and conflict arising from family succession issues (Deakins *et al*, 2000b:323). The aspect of *maintaining board balance* involved balancing family issues (Deakins *et al*, 1999:45) or family factions (Johannisson & Huse, 2000:370). Although present in larger companies this element was seen as part of the Board chairman's role (Roberts *et al*, 2005:S15; Holbeche & Garrow, 2005:11) or the, senior independent NED or SID (Proctor, 2005:183).

In the PLC literature sources there was a consensus that *independence of mind/independent view* was highly valued (see for example Mallin & Ow-Yong, 1998:33; Pass, 2004:59; Roberts *et al* 2005:S15) although Pye & Camm (2003:63) found some concern amongst investors as to whether NED independence was possible. Although present in SME studies there was evidence that NED independence as defined by Cadbury³¹ was not a major role (see Mileham, 1996:24; Corlett, 2004:77; Long *et al*, 2005:676).

3.3.1.2 *Minor role elements*

There were three role elements where the literature differed on what constituted a minor role.

Linked to the major role of *independence of mind/independent view* the PLC literature regarded (*long term*) *commitment to company* as a possible conflict and therefore a minor role. The agency perspective is that, over time, NEDs become too close to the management losing their *independence of mind* and effectiveness as a shareholder *watchdog/policeman*,³² moving from 'agent' to 'ally' (Berry & Perren, 2000a:25). This contrasted with the view that 'length of service' was important for part-time board members to accumulate knowledge about the company (Pass, 2004:56) and that the temporal or 'over time' component of being

³¹ 'This means apart from their directors' fees and shareholdings, they should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement' (Cadbury, 1992:22). See also Higgs (2003:37)

³² See page 75 for a fuller discussion of this role element

'involved' with the company allowed executives to value the 'independent' role element as a 'positive resource' (Roberts *et al*, 2005:S15).

In the SME literature *courage to dissent* was a minor role, found only in Deakins and colleagues sources (Boussara & Deakins, 2000; Deakins *et al*, 2000a; 2000b) and Smithson (2004) who, for example, described it as the need for a NED 'to put one's foot down' on evidence of executive director unacceptable behaviour (Smithson, 2004:19). It was more in evidence in the large firms' literature, albeit dominated by the findings of McNulty and colleagues (see for example, McNulty & Pettigrew, 1999:57; Roberts *et al*, 2005:14). Holbeche & Garrow described it as 'taking the risk of challenging' (Holbeche & Garrow 2005:6).

Challenge information supplied and seek supplementary sources was absent in the SME literature. In the large company literature the predominant sources were McNulty and colleagues. For example, McNulty & Pettigrew (1999:61) found it an alternative to the 'minimalist' behaviour of NEDs rubber stamping board decisions. Roberts *et al* (2005:S14) cited NEDs lamenting the dangers of 'merely accepting... that this pile of paper... was good enough' when talking of the Board papers supplied by the executives. Part of the NEDs' role was also described as 'lifting a stone to find out what is going on underneath' (Holbeche & Garrow, 2005:16).

3.3.2 Knowledge Transfer/Director Development

Table 3.3 summarises the framework findings for the *Knowledge Transfer/Director Development* category.

3.3.2.1 Major role elements

In this category there were three elements that met the major role criteria across both literatures, that is, *personal knowledge and skills (other than contacts), help deal with unusual events/crises/respond to new challenges/effective problem solving/alternative solutions based on NED experience and give advice/sharing & transfer of knowledge/import good practice.*

The *personal knowledge and skills* of the NED was a fundamental role element. This was further split into five sub-elements relating to NED specific experience. Deakins *et al* (1999) identified that in SMEs *knowledge & skills* was not to do with

*contacts and networking*³³ but the soft skill roles of ‘advising and counselling’ using their own experiences to guide the MDs (Deakins *et al*, 1999:29). The importance was confirmed in the MD accounts relating to specific strategic problems (see for example, Deakins *et al*, 2000c:181). Similarly the findings in unlisted companies supported the NED role in providing access to experiences based on their own background (Long *et al*, 2005:672). The richness of the NEDs’ backgrounds supported the ‘wise counselling’ role in the large company context (Pass, 2004:59). Later studies found that the NED contribution of ‘wisdom and knowledge based on experience’ had been an enduring role element over the years (Holbeche & Garrow, 2005:7) making it a ‘variable factor’ in any ‘scoping’ of the NED role (Proctor, 2005:204).

| Knowledge Transfer/Director Development | SME | PLC |
|--|------------|------------|
| personal knowledge & skills (other than contacts) | Major | Major |
| help deal with unusual events/crises/respond to new challenges/ effective problem solving/alternative solutions based on NED experience | Major | Major |
| give advice/sharing & transfer of knowledge/import good practice | Major | Major |
| CEO or MD sounding board/confidant | Major | ✓ |
| exec emotional support/sounding board/confidant/ease execs' isolation | Major | Minor |
| challenge/ask awkward questions/test/probe (internal information acquisition) /constructive criticism/critique | ✓ | Major |
| mentor/coach/wise counsellor | ✓ | ✓ |
| developing TMT/encouraging reflection ability to learn & coping with change | ✓ | ✓ |
| special projects/contribute outside board meetings/direct & involved | ✓ | ✓ |
| personal knowledge & skills - specialist experience | ✓ | ✓ |
| personal knowledge & skills - general business experience | ✓ | ✓ |
| personal knowledge & skills - same sector/locality experience | ✓ | Minor |
| process (interpret) information | Minor | Minor |
| accept/learn from advice not taken | ~ Absent | Minor |
| personal knowledge & skills - SME experience | ✓ | Absent |
| personal knowledge & skills - large company/City experience | Minor | ✓ |
| informal social interaction with TMT & other directors/accessible for informal discussions | Minor | ✓ |

Table 3.3: Knowledge Transfer/Director Development Role Element Weightings

Help deal with unusual events/crises/respond to new challenges was flagged as a major NED role element. In SMEs, for example, this element could be triggered by a crisis or enacted to prevent panic (Mileham, 1996:18; Deakins *et al*, 1999:44;

³³ categorised as a **Boundary Spanning** role

Johannisson & Huse, 2000:368; Perren *et al*, 2000:1007). Even in the large company literature this was found to be prevalent, albeit in the smaller listed companies (Mallin & Ow-Jong, 1998:71) or the more recent research (Roberts *et al*, 2005:S17; Holbeche & Garrow, 2005:16). There was evidence of NEDs' concern at the time commitment expected when crises did arise (Proctor, 2005:224). *Effective problem solving/alternative solutions based on NED experience* was found predominantly in the work of two groups of authors, that is, Deakins and colleagues and McNulty and colleagues. The literature focussed on advising from a different perspective based on the NEDs' experience (see for example, Deakins *et al* 1999:30) and this experience used in addressing gaps and/or weaknesses in executives' knowledge (see for example McNulty *et al* 2002:5).

The role element *give advice/sharing & transfer of knowledge/import good practice* was closely associated with NEDs' *personal knowledge and skills* discussed earlier. For example, in the SME literature Corlett (2004:64) recognised that the roles classed as prevalent differed between companies; however these centred on the advice, guidance, challenge and development to address executive skills gaps. In the PLC literature this element was prevalent in the more recent sources. For example, Roberts *et al* (2005:S13) posited NED 'credibility' was based on knowledge gained externally and how it was applied internally, that is, understanding that the role was to give advice and stay non-executive. In his study Proctor found support for the 'mentors, advisors, supporters and challengers' role of NEDs as proposed as part of the Higgs Review (Proctor, 2005:207).

The SME literature identified a further three major role elements. The element *CEO and MD sounding board* was considered on a par with *mentor/coach/wise counsellor* and found almost universally in the SME literature and highlighted by Higgs as a role in smaller companies (Higgs, 2003:24). For example, NEDs in family businesses adopted this element for 'aging CEOs' as an agency control role on behalf of banks and other family member stakeholders (Gabrielsson & Huse, 2005:33). In the large company literature this element focussed on executive director or senior management performance, that is, CEOs consulting NEDs for their opinion prior to making a decision on a manager's removal or remuneration (see for example, Spencer, 1983:53; McNulty & Pettigrew, 1996:171).

In a similar vein but involving NEDs' interaction beyond the CEO or MD, *executive emotional support/sounding board/confidant/ease execs isolation* was also a major role element (see for example, Deakins *et al*, 1999:28, Johannisson & Huse, 2000:366 and Berry & Perren, 2001:165). In the PLC literature this was a minor role. As discussed before, Higgs identified this as a potential SME NED role (Higgs, 2003:71).

There was one further role element defined as major by the PLC literature, that is, *challenge/ask awkward questions/test/probe (internal information acquisition)/constructive criticism/critique*. This element was predominantly influenced by the work of McNulty and colleagues (see for example, Spencer, 1983:40; McNulty & Pettigrew, 1999:57; McNulty *et al*, 2002:4; Roberts *et al*, 2005:S12) and post-Higgs studies (see for example, Holbeche & Garrow, 2005:6; Proctor, 2005:207). It was present but not a major role in the SME literature. For example, sources cited an entrepreneur who stressed the importance of having someone to challenge a dominant MD (Deakins *et al*, 2000c:181) and the NEDs' role in insisting and ensuring executives kept them informed about the business (Smithson, 2004:15).

3.3.2.2 *Minor role elements*

Unsurprisingly NED *large company/City experience* was present in PLC literature and a minor role in SME literature. *SME experience* was absent from the PLC literature but only present in the SME literature. *Same sector experience* was also present in SME literature and a minor role in PLC literature suggesting a more specific focus for the SME NED as discussed later in *complement other directors' skills/missing exec (operational) skills* in the **Creative NED Role-making** category.

Providing *executive emotional support/sounding board/...* has already been discussed as a PLC minor role. The surprising finding was that *informal social interaction with TMT & other directors/accessible for informal discussions* was defined as a minor role in the SME literature. It was only mentioned by Long *et al* (2005:671) and this in the context of unlisted companies rather than SMEs. This was surprising given the widely asserted view that SMEs lacked formality.³⁴ One explanation could be that such interaction was taken for granted, or

³⁴ See for example Marlow (2006)

'unquestionable' (Schutz & Luckmann, 1974:4), and therefore was not mentioned by survey or interview respondents. As a consequence it was only the imposition or introduction of formal interaction that was discussed in the SME literature. Mallin and Ow-Yong (1998) reported that the NED was the 'first person' executives would turn to implying accessibility in small listed companies (Mallin and Ow-Yong, 1998:78), a finding supported by Berry and Perren (2000b). Their study found that, after other inside directors, MDs consulted NEDs for advice (Berry & Perren, 2000b:29). Dominating the large company literature for this element McNulty and colleagues reported that that NEDs regarded informal contact as a signal of their commitment. It enhanced NEDs' boardroom credibility by their gaining a better understanding of the company and the people involved (see for example, McNulty *et al* 2002:24). In a later survey NED respondents suggested that 'more informal contact with executive directors between board meetings' would improve their effectiveness (Proctor, 2005:206).

3.3.3 Boundary Spanning

Table 3.4 summarises the framework findings for the *Boundary Spanning* category.

| Boundary Spanning | SME | PLC |
|--|-----------------------|-----------------------|
| wider vision/outside perspective/ benchmarking | Major | Major |
| (use of) contacts & networks (external information acquisition) | Major | ✓ |
| shareholder investor nominee/eyes & ears/safety net/ally | <i>Minor</i> | Major |
| role model/track record/credibility | <i>Minor</i> | <i>Absent</i> |
| 'project' company image externally/build credibility/external confidence | <i>Minor</i> | <i>Minor</i> |
| exec ally/champion when dealing with shareholders/stakeholders | ✓ | <i>Minor</i> |
| equal status with key stakeholders /prestigious name on board | ✓ | <i>Minor</i> |
| fresh perspective/innovatory ideas/business opportunities/new markets | ✓ | <i>Minor</i> |
| regulator reassurance/confidence to financiers | ✓ | <i>Minor</i> |
| raising capital/acquisitions/flotation advice | ✓ | <i>Minor</i> |
| shareholder/exec liaison | <i>Minor</i> | ✓ |
| exec director elsewhere (NED elsewhere) | <i>Absent (Minor)</i> | ✓ (<i>Minor</i>) |

Table 3.4: Boundary Spanning Role Element Weightings

3.3.3.1 Major role elements

There was only one role element defined as major across both literatures. This was *wider vision/outside perspective/benchmarking*. It was found almost universally and as such could be classed as the major element of the NEDs' role

in both SME and PLC companies in the UK. The SME literature emphasised the insularity of small firms, their lack of awareness of the wider world (Smithson, 2004:18) and their need for perspectives other than their own (Deakins *et al*, 1999:29; 2000:119) to gain an 'overview' of businesses elsewhere (Deakins *et al*, 2000b:321). This need for 'outside objectivity' was ranked top in research conducted by Mileham (1996:18) and Berry and Perren (2000:18) and 'outside perspective' was top in three of four cases studied by Corlett (2004:79). In the PLC literature this was also a major element. For example, it contributed to how the company related to its environment (Spencer, 1983:48), helped with the importing of 'good practice' (McNulty & Pettigrew, 1996:173) and the part-time nature of the NED appointment brought objectivity together with 'experience and knowledge acquired elsewhere' (Roberts *et al*, 2005:S14).

There were two other major role elements; one in each of the two contexts. In the SME literature (*use of*) *contacts & networks (external information acquisition)* met the major role criteria although its importance was sometimes equivocal. For example, in Deakins and colleagues sources it was ranked less important (Boussara & Deakins, 2000:215; Deakins *et al*, 2000a:185; 2000b:323; 2000c:119). To their surprise the networking aspect was not supported and the evidence only partially supported the importance of contacts (Deakins *et al*, 1999:30). Resource dependence perspective studies of Scandinavian mature family firms viewed 'outside' directors networks as an integral part of their NED role (Gabrielsson & Huse, 2005:33). In the other major UK study of SME NEDs, in a prescribed list of seventeen options MDs ranked *contacts* third for companies between 50-499 employees and sixth for companies under 50 employees when describing how NEDs had helped the company (Berry & Perren, 2000b:18). However when the dyad responses to the same question were compared, fifteen of 24 survey dyads agreed that the NED had not provided *contacts* (Perren *et al*, 2000:1007). Smaller listed companies ranked the provision of NEDs' contacts third equal alongside the NEDs' reputation (Mallin & Ow-Yong, 1998:31). In larger companies *contacts* were evident although 'not often mentioned explicitly' (Spencer, 1983:49) and were linked with the *wider vision* major role element.

The role element *shareholder investor nominee/'eyes and ears'/safety net/ally* described the 'control' role of the NED (Roberts *et al*, 2005:S11) and was a major

element in the PLC literature. There were reports of NEDs who acted as the bank's representative on the board (Spencer, 1983:49), as the 'eyes and ears' of shareholders in small listed companies (Mallin & Ow-Yong, 1998:72) and took part in shareholder/Remuneration Committee informal discussions (McNulty *et al*, 2002:7). It was suggested that in SMEs NEDs would act on behalf of the shareholders (Holbeche & Garrow, 2005:8). In the small business literature it was defined as a minor role; where it appeared it focussed on VC funded companies where the NED appointment was a condition of the investment (Deakins *et al*, 2000b:119; 2001:362) and so was not widespread. In research on unlisted companies the element was incorporated within general shareholder communication (Long *et al*, 2005:670).

3.3.3.2 *Minor role elements*

There were five role elements that were present within the SME literature but defined as minor in the PLC literature. These were: *exec ally/champion when dealing with shareholders/stakeholders; equal status with key stakeholders/prestigious name on board; fresh perspective/innovatory ideas/business opportunities/new markets; regulator reassurance/confidence to financiers and raising capital/acquisitions/flotation advice*. For example, in the PLC literature the element *raising capital/acquisitions/flotation advice* was a minor role and present but equivocal in the SME literature. *Flotation advice* was not rated highly either by MDs (Berry & Perren, 2000b:18) or MD/NED survey dyads (Perren *et al*, 2000:1007). Conversely *raising capital* was ranked highly (Mileham, 1996:18; Gabrielsson & Huse, 2002:137³⁵) whether it related to start up funds (Graham & O'Neill, 1997:500) or general 'financial assistance' (Smithson, 2004:83). Acquisition of resources was one of the mainstays of the agency perspective of the role of the NED (McNulty & Pettigrew, 1999:71) but *raising capital* was considered as having less importance in reports of NED influence (McNulty & Pettigrew, 1996:167).

There was one role element that was present in the PLC literature but absent from the SME literature, that is, *executive director elsewhere*. For example Spencer argued that experience as an executive director was the best preparation for being a NED (Spencer, 1983:43) and in the smaller listed companies Mallin and Ow-

³⁵ This paper related only to VC funded companies and therefore such a rating is not surprising

Yong found that some of the 'most valuable' NEDS were executives in other companies (Mallin & Ow-Yong, 1998:78). Roberts *et al* (2005) also discovered as had McNulty *et al* (2002) before them, that a NED's previous and/or current experience as an executive was valued (McNulty *et al*, 2002:4; Roberts *et al*, 2005:S13). In his research Pass (2004) raised the issue of NEDs being on more than one board; in his survey of 51 FTSE 100 companies twelve percent of his respondents were on two or more of the survey sample boards (Pass, 2004:58).

In the SME literature, however, a different picture emerged. Here the emphasis was on the issue raised by Pass, that is, NEDs who were NEDs elsewhere. This activity contributed to the major role element *wider vision* discussed in the previous section. For example Smithson (2004:42) and Boussara and Deakins (2000:217 and repeated in Deakins *et al*, 2000a) all reported that non-executive experience in other companies was valued, although Deakins *et al* (2000c:121) reported that experience of NEDs having run their own company was also an asset. However, across both contexts, even being *NED elsewhere* was defined as a minor role element.

3.3.4 Creative NED Role-making

Table 3.5 summarises the framework findings for the *Creative NED Role-making* category.

| Creative NED Role-making | SME | PLC |
|--|-----------------------|--------------|
| add value/deliver perceived benefits | Major | ✓ |
| complement other directors' skills/missing exec (operational) expertise | Major | <i>Minor</i> |
| negotiating role/flexibility | ✓ | ✓ |
| shareholder | <i>Minor</i> | <i>Minor</i> |
| involvement in board sub-committees | <i>Minor</i> | ✓ |
| increasing focus on compliance | <i>Minor</i> | ✓ |
| chairman of board/company | <i>Minor</i> | ✓ |
| ally of other NEDs/3rd party 'gang'/coalition formation (execs) | <i>Absent (Minor)</i> | ✓ |
| understanding company/induction/'getting a feel' (process of socialisation) | <i>Minor</i> | ✓ |

Table 3.5: Creative NED Role-making Role Element Weightings

3.3.4.1 Major role elements

In this category there were no major role elements in the PLC literature. There were two that met the criteria in the SME literature, that is, *add value/deliver*

perceived benefits and complement other directors' skills/missing exec (operational) expertise.

In the SME literature *add value/deliver perceived benefits* was the 'discernable common thread' (Smithson, 2004:28) in SME NED appointments. Even where the monitoring role was dominant NEDs would be expected to contribute to more strategic processes (Deakins *et al*, 1999:33). In a survey of MDs only two percent perceived that a NED had harmed the company (Berry & Perren, 2000b:17). Linked to other category role elements such as *independence of mind, challenge and fresh perspective* NEDs' outsider viewpoints motivated executives and 'contribute to the development of each firm' (Johannisson & Huse, 2000:366) by 'debate and challenge... from independent voices' (Long *et al*, 2005:676). Although not a major PLC or listed company role element, there was evidence of NEDs' activity. For example, the NED role was about making a contribution (McNulty & Pettigrew, 1996:167), 'being a contributor' (Holbeche & Garrow, 2005:6) and by 'asking idiot boy questions' (Robert *et al*, 2005:S14). The latter point enabled NEDs to add value if they were prepared to take a risk in speaking out, a precursor to the *Director Relationships* role element *courage to dissent*.

The next role had conflicting findings from the literature. A minor role element in the larger company literature *complement other directors' skills/missing exec (operational) expertise*, in particular acting as an executive director, was either identified as unprofessional (Spencer, 1983:42; McNulty & Pettigrew, 1999:54; Roberts *et al*, 2005:S13) or a small business activity (Spencer, 1983:44, Mallin & Ow-Yong, 1998:71; Higgs, 2003:28; Holbeche & Garrow, 2005:8). However a later source noted that one respondent emphasised that complementary expertise between NEDs was 'vital' (Proctor, 2005:217). In the SME literature it was defined as a major role, being described as the 'conventional role' (Smithson, 2004:18) providing skills and experience beyond the entrepreneur (Deakins *et al*, 1999:28; 2000b:119) and/or the family (Johannisson & Huse, 2000:373; Gabrielsson & Huse, 2005:32). NEDs should be appointed to address any skills gaps after assessing company strategic plans (Berry & Perren, 2000b:17); in VC funded companies these gaps were dominated by financial and managerial skills (Gabrielsson & Huse, 2002:137).

3.3.4.2 *Minor role elements*

The PLC minor role element *complement other directors' skills/missing exec (operational) expertise* has already been discussed above. There were five other role elements present in the PLC literature but found to be minor across the SME literature: *increasing focus on compliance, involvement in board sub-committees, chairman of board/company, ally of other NEDs/3rd party 'gang'/coalition formation* and *understanding the company/induction/'getting a feel'*. The first three of these elements had limited coverage in the SME literature.

The *increasing focus on compliance* element was drawn originally from the literature supporting the Higgs Review, and post-Higgs, which identified concerns amongst NEDs that by focussing on the 'control' role aspects due to high profile scandals the 'collaboration' aspects of the role were being marginalised (Higgs, 2003:48; Holbeche & Garrow, 2005:6; Long *et al*, 2005:670) and that the increased codification of the role of directors as proposed in the Company Law Review and Higgs was making the NED role more onerous (Proctor, 2005:210). This in turn had led to an increased expectation of NEDs' *involvement in the board sub-committees* (Proctor, 2005:210). In the PLC literature chairing a sub-committee was the only way NEDs could use 'assertiveness' (McNulty & Pettigrew, 1996:169) and it gave 'a structure for focussed non-executive attention' (McNulty *et al*, 2002:6). It was mentioned in only one source in the SME literature which recommended that, should there be any board sub-committees, the NED or NEDs should be members (Smithson, 2004:70). Chairing the board implied a leadership role for the NED where they could influence the agenda and control the discussions (Smithson, 2004:70). In the listed SME there was 'ambivalence' towards a NED chairman (Mallin & Ow-Yong, 1998:35) and in the other larger company literature the roles of chairman and NED were separated (McNulty & Pettigrew, 1996:169; 1999:53; Proctor, 2005:212-214).

Apart from a comment about family firms and their 'constantly shifting pattern of alliances' (Smithson, 2004:44), taken as referring to executive directors rather than NEDs, there was no mention of *ally of other NEDs/3rd party 'gang'/coalition formation* in the SME literature and limited discussion the large company literature. Spencer (1983:18) identified the dilemma of conflicting expectations when one of her respondents was invited to join the same board by two different parties.

'Political behaviour' was taken as a possible sign of things going wrong and 'a lack of trust' (Holbeche & Garrow, 2005:14) although *coalition formation* with various parties 'in and around the boardroom' was second on a list of NED influencing methods (McNulty & Pettigrew, 1996:169). More recently forming a 3rd party 'gang' with other 'like-minded' NEDs to resolve problems was seen as a legitimate activity, albeit time intensive (Robert *et al*, 2005:S17).

Where *understanding the company/induction/'getting a feel'* was mentioned in the small company literature, studies identified that unless the NED knew the company well they were not likely to be effective (Mallin & Ow-Yong, 1998:72) as to 'understand what made it tick' (Johannisson & Huse, 2000:366) was the NEDs' 'first priority' (Smithson, 2004:15). The *induction* aspect was prevalent in all companies but likely to be led by NEDs in unlisted ones (Long *et al*, 2005:675). However there was evidence that a lack of induction was harming smaller companies, for example, one study posited that 'better induction' and training of MDs as to what the NED role could and could not offer might address the different expectations of MDs (Deakins *et al*, 1999:33). In a later source this training suggestion was rephrased to incorporate board 'insiders and outsiders' (Deakins *et al*, 2000c:185).

In the PLC literature the need for greater *induction*, linked to NED training and professional development was also emphasised. It was needed not only to *understand* the company but also the new codes affecting the NED role (Proctor, 2005:208). The evidence of this role element in the PLC literature was mainly confined to studies for, or since, the Higgs Review (see for example, Higgs, 2003:28; Roberts *et al*, 2005:S13; Holbeche & Garrow, 2005:5) although Spencer did acknowledge that there was a gradual 'process of socialisation' (Spencer, 1983:26). She argued that this took from six months to two years.

3.3.5 Risk Management – the people

Table 3.6 summarises the framework findings for the *Risk Management – the people* category.

3.3.5.1 Major role elements

In this category the only major roles were in the PLC literature. These were *monitoring exec competence/TMT appraisal performance review/identifying &*

addressing poor TMT performance and TMT recruitment/remuneration/removal (inc CEO). These were both minor roles in the SME literature. These NED role element differences between the PLC and SME literature reflected the different HRM cultures in large and small companies.³⁶

| Risk Management - the people | SME | PLC |
|---|------------|------------|
| monitoring exec competence/ TMT appraisal performance review/ identifying & addressing poor TMT performance | Minor | Major |
| TMT recruitment/remuneration/ removal (inc CEO) | Minor | Major |
| succession planning (TMT, company) | ✓ | ✓ |
| focus exec ideas on objectives/exec discipline | ✓ | ✓ |
| brake on exec enthusiasm/focus on stakeholder responsibilities | ✓ | ✓ |
| stakeholder interests/social responsibility | Minor | Minor |
| influence execs | Minor | ✓ |

Table 3.6: Risk Management – the people Role Element Weightings

In the PLC literature the *monitoring exec competence/TMT appraisal performance review/identifying & addressing poor TMT performance* findings were dominated by the work of McNulty and colleagues. NEDs only became involved if ‘requested to do so’ (Spencer, 1983:52) a finding supported by McNulty and Pettigrew (McNulty & Pettigrew, 1996:166). The role of part-time board members was to take action ‘in the face of poor executive performance and conduct’ (McNulty & Pettigrew, 1996:177) that is, ‘to change the senior management’ if the business was in trouble (McNulty & Pettigrew, 1999:66). The research supporting the Higgs Review (2003) found that, by drawing on their previous experience, NEDs’ *independence of mind* together with the ‘engagement and challenge’ activities were used to recognise and deal with executive director weaknesses and if necessary replace ‘key personnel’ (McNulty *et al*, 2002:5). Proctor also linked this assessment and evaluation of executives’ performance back to NEDs’ *independence* (Proctor, 2005:222). It was a minor role in the SME literature. An early study linked the element to *succession planning* and *courage to dissent*, that is, NEDs arguing for what was best for the business rather than ‘watch inappropriate promotions and appointments to the board’ (Mileham, 1996:17).

TMT recruitment/remuneration/removal (inc CEO) was linked to the above role element. All aspects of the role were present in the PLC literature. Respondents’

³⁶ Large organisations were more likely to have formal HRM practices and SMEs were more likely to adopt informal practice (Marlow, 2006).

ranked CEO dismissal and board personnel NED roles as the some of the most important (McNulty & Pettigrew, 1996:166). For example, Remuneration Committee chairmen ranked 'ensuring company has the right CEO' second (Pye & Camm, 2003:65) and Higgs (2003:27) identified 'where necessary removing senior management' as part of his key 'People' activity of a NED role. Other research identified the active NED role in removing 'underperforming executives' as another consequence of the increased scrutiny of director activities (Proctor, 2005:210). Again this was a minor role element in the SME literature. It covered, for example, 'recruitment of key personnel' which was ranked fourteenth of sixteen of VC director contributions (Gabrielsson & Huse, 2002:137). In unlisted companies the NED role in executive remuneration and the appointment and removal of directors was 'less important' than their listed counterparts (Long *et al*, 2005:669).

3.3.5.2 *Minor role elements*

There was one minor role element in the SME literature that was present in the PLC literature. In the literature to support *influence execs* Smithson (2004) described 'strategic influencing' as the second of five 'distinguishing competencies' for NEDs implying positive manipulation due to an understanding of the company and an ability to put themselves in others' shoes (Smithson, 2004:56). In the Scottish SME study the building trust between themselves and the executives enabled NEDs to influence 'entrepreneurial learning' through 'critical events', by 'setting challenges' and thus 'changing entrepreneurial behaviour' (Deakins *et al*, 2000a:324). In the PLC literature there was a wider range of evidence but insufficient for a major role definition. For example, Spencer highlighted the need to balance 'pontificating' with 'influencing' and that *personal chemistry* between the board members was important (Spencer, 1983:39). More recent findings from McNulty and colleagues (McNulty *et al*, 2002:35) were incorporated in the Higgs Review (2003) which stated that NEDs needed 'strong interpersonal skills' and 'high levels of trust' in order to exercise *influence* rather than 'giving orders' (Higgs, 2003:29).

3.3.6 **Risk Management – The Processes**

Table 3.7 summarises the framework findings for the *Risk Management – The Processes* category.

| Risk Management - The Processes | SME | PLC |
|---|--------------|---------------|
| formalising/changing procedures - strategic decisions/ business planning/ (improved) business/strategic planning | Major | Major |
| financial scrutiny | ✓ | Major |
| duty of care/risk assessment & management/litigation support | <i>Minor</i> | Major |
| managing performance indicators | ✓ | ✓ |
| formalising/changing procedures - risk assessment & management | ✓ | ✓ |
| limit influence of major shareholders/represent minor shareholders | <i>Minor</i> | <i>Absent</i> |
| formalising/changing procedures - financial & audit | <i>Minor</i> | ✓ |
| strategic/business plan formulation/implementation of vision | ✓ | <i>Minor</i> |
| transition facilitation | ✓ | <i>Minor</i> |
| watchdog/policeman (compliance)/ contractual monitoring (VC)/ representative (funding requirement) | ✓ | <i>Minor</i> |

Table 3.7: Risk Management – The Processes Role Element Weightings

In this category there was a distinction between the NED role in *formalising/ changing procedures* and the NED participation in the associated process. For example, the specific *risk assessment & management* procedures and process content, that is, *formalising/changing procedures – risk assessment & management* and *duty of care/risk assessment & management/ litigation support*. The other linked elements were *formalising/ changing procedures - strategic decisions/business planning* with *strategic/business plan formulation* and *formalising/changing procedures - financial & audit* with *financial scrutiny*.

3.3.6.1 Major role elements

In this category there was one major role element that spanned both literatures.

The role element *formalising/changing procedures - strategic decisions/business planning/(improved) business planning* also included improved boardroom practice. In the SME literature this role element had equal status with *wider vision/outside perspective/benchmarking*. For example, SME NEDs needed to formalise 'non existent' boardroom procedures (Mileham, 1996:16) and in the Scottish study 90 percent of respondents agreed that NEDs had made an impact on boardroom procedures (Deakins *et al*, 1999:44). In VC funded companies the board became the meeting place for VC directors and entrepreneurs to 'discuss firm operations' (Gabrielsson & Huse, 2002:138). The ACCA MD survey ranked help with structuring board procedures sixth of sixteen with slight variations depending on employee size (Berry & Perren, 2000b:18; repeated in Berry & Perren, 2001:165) and ownership structure (Berry & Perren, 2000a:23). In the

ACCA dyad survey eleven of the twenty pairs disagreed that the NED had helped structure board procedures (Perren *et al*, 2000:1007).

The ACCA MD survey ranked 'helped with strategic planning process' second (Berry & Perren, 2000b:18; 2001:165) with no ownership structure variations (Berry & Perren, 2000a:23). Perren *et al* (2000:1007) reported the least agreement between dyad partners on this, speculating that the reasons were 'complex' (Perren *et al*, 2000:1008) and linked the partners' perceptions of identity. In the Scottish sample of entrepreneurs with external directors, 80 percent and 60 percent respectively acknowledged improved strategic and business planning (Deakins *et al*, 1999:38; Boussara & Deakins, 2000:218). NEDs gave 'another dimension' (Deakins *et al*, 2000a:322; repeated in Deakins *et al*, 2000c:181; 2001:364), encouraged entrepreneurs to modify strategy to add long term value and changed perceptions about 'the need to learn' (Deakins *et al*, 2000b:121).

In the PLC sources, early studies reported little NED involvement in changing board processes and conduct (McNulty & Pettigrew, 1996:166) and linked back to NEDs *influence* in 'the processes and methodologies' of strategic decisions and ideas (McNulty & Pettigrew, 1999:62). Later studies found that, rather than being part of NED role, it was the Board Chairmen who were responsible for improving board procedures as the 'quality and timing of board papers create space for effective challenge' (Roberts *et al*, 2005:S15).

The PLC NED role was focussed on 'long term policy' and strategy, that is, the opposite of the day-to-day involvement of executives (Spencer, 1983:42). For example, the recent studies identified that Remuneration Committee chairman believed their first priority was to be 'contributing to strategy formulation' with 'ensuring that business development strategies are in place' in third place (Pye & Camm, 2003:65). 'Constructive challenge' and contribution to strategy development were integral parts of the Higgs Review 'Strategy' role of NEDs (Higgs, 2003:27). There was a small voice of dissent in this role element as a later study found that the strategic role was 'less important' than the governance role (Holbeche & Garrow, 2005:6).

In addition there were two further major role elements in the PLC literature. These were *duty of care/risk assessment & management/litigation support* and *financial scrutiny*. On the process participation side, for the role element *duty of care/risk assessment & management/litigation support*, the PLC literature emphasised in law the collective board of all directors were the 'shareholders' *watchdog* and should act accordingly (Spencer, 1983:21). Latterly Proctor found that NED respondents considered their roles to have 'strategic, monitoring and legal requirements' and the latter included overseeing standards of corporate governance and 'attending board meetings' to fulfil 'a director's role' (Proctor, 2005:205). Similarly this *duty of care* for all directors should be linked to *understanding company* and *information acquisition* when initially appointed (Smithson, 2004:13), or even before as NEDs needed to understand what they were committing to; as one cited PLC NED remarked 'once you're in, you're in [with the] same responsibility as execs' (Holbeche & Garrow, 2005:17). The minor role in the SME literature emphasised the NED role in minimising risk through 'effective problem solving' (Deakins *et al*, 1999:38), 'safeguarding the business' (Corlett, 2004:79) and creating a 'sense of economic safety' especially for CEOs in VC funded SMEs (Gabrielsson & Huse, 2002:137).

The role element *financial scrutiny* was another on the process participation side that was a major role in the PLC literature. Early studies of PLC practice found that NED advice on 'cash flow' was constant and not just when a crisis occurred (McNulty & Pettigrew, 1996:168) and NEDs' involvement in shaping executive ideas for capital investments started early and continued through to the board presentation (McNulty & Pettigrew, 1999:61). The Audit sub-committees also had a role in setting PLC internal financial controls (see McNulty *et al*, 2002:6; Higgs, 2003:27; Pass, 2004:57). *Financial scrutiny* was incorporated into the broader role of 'Risk' (Higgs, 2003:27) a cause of some concern as few NEDs had the necessary skills and/or the time to devote to this Audit Committee activity (McNulty *et al*, 2002:6) and confirmed as contributing to the 'increasing workload' of NEDs (Proctor, 2005:210). Another 2005 study posited that 'financial scrutiny' was less important as the NEDs' main role was the adoption of a 'broader view' of governance (Holbeche & Garrow, 2005:5).

Although not meeting the criterion for a major role in the SME literature, where it was found *financial scrutiny* was important. For example: 'close scrutiny' of the finances was a 'particularly vital role' (Mileham, 1996:21), MDs rated 'financial expertise' third of sixteen ways in which NEDs had helped their company (Berry & Perren, 2000b:18; 2001:165) and in VC funded SMEs VC directors' contribution of 'financial competence' was ranked equal first of sixteen by CEOs and third by VCs (Gabrielsson & Huse, 2002:137). Entrepreneurs ranked 'cash flow & liquidity' third and 'late payments' sixth of the eleven most important business issues (Deakins *et al*, 1999:39). The study of listed and unlisted companies noted a greater involvement in 'financial monitoring' in unlisted companies (Long *et al*, 2005:669).

3.3.6.2 *Minor role elements*

One role element was absent in the PLC literature and a minor role in the SME literature. This was *limit influence of major shareholders/represent minor shareholders*. In unlisted companies the NEDs were found to have 'far greater responsibilities for the protection of minority shareholders' as there was 'little protection against the autonomous wishes of dominant shareholder coalitions' (Long *et al*, 2005:672). There was one role further element defined as minor in the SME literature in this category. There was little here that confirmed a NED role in *formalising/changing procedures – financial & audit* in SMEs; it was seen as less important than *financial scrutiny*. In unlisted companies it was observed that the NEDs' greater involvement in 'financial monitoring' stemmed from the *TMT informal interactions* which 'allow NEDs the freedom to ask for detailed financial information in a direct way'. As either a shareholder or their representative, NEDs were 'often in a position to *influence* financial presentation' of the information (Long *et al*, 2005:671 *emphasis added*). In early PLC studies two NED respondents were involved in 'changing firm's system of financial control' (McNulty & Pettigrew, 1996:167) and the board 'set levels, typically in financial terms, for capital expenditure approval' (McNulty & Pettigrew, 1999:56).

There were three role elements that were defined as minor in the PLC literature that were present in the SME literature. These were *strategic/business plan formulation/implementation of vision, transition facilitation* and *watchdog/policeman (compliance)/contractual monitoring (VC)/representation (funding requirement)*. The significant difference between the two contexts for

strategic/business plan formulation/implementation of vision was that in PLCs the responsibility for plan formulation lay very clearly with the executives and the NED role was to be a controlling influence at the end of the process (McNulty & Pettigrew, 1999:56). Consequently it was a minor role element. In the SME studies there was a greater, but not a major, NED contribution in initiating business plans, linking these to the strategic vision where the skills were lacking in the SME executive directors. For example, less than 30 per cent of SMEs had a business plan (Mileham, 1996:16) and one specific NED role was to *coach* entrepreneurs to produce business plans (Graham & O'Neill, 1998:500) or take the lead as part of the 'thinker' role typology (Smithson, 2004:77), linking executive actions to the company long term goals.

In the PLC literature there was little discussion of *transition facilitation*. In the 'Consultant Role typology' boards needed new skills 'as a result of a shift in their strategy' (Pye & Camm, 2003:66) implying a company transition over time. From a different perspective Roberts *et al* (2005) reported a temporal transition in NED contributions. This process increased their boardroom credibility (Roberts *et al*, 2005:S13) by them spending time initially *understanding company* and through constant *informal interaction* signalling *commitment*. In the SME literature this role element was present but not defined as major. It drew together the discussions that the usual prompt for a NED appointment was because a company was 'undergoing some transition period' (Deakins *et al*, 2000c:185) or a 'crisis' (Johannisson & Huse, 2000:368). Where there was already an appointment, there was a need for SME NEDs 'to change with the development of the firm' (Deakins *et al*, 1999:28). Alternatively, 'slightly different NED competency profiles may be needed at different stages of development' (Berry & Perren, 2000b:17).

The surprise in this category was the third role element, *watchdog/policeman (compliance)/contractual monitoring (VC)/representation (funding requirement)*. One of the most important roles of a NED from an agency perspective, this was present in the SME literature and a minor role in the PLC sources. The latter was the surprise as it had been assumed that an agency perspective of 'control' would dominate the PLC literature for this element. The regulator influence of the Cadbury and Greenbury Reports was moving the role away from the 'broader view' and 'shareholder eyes and ears' to 'acting as policeman' (Mallin & Ow-Yong,

1998:72). This was similar to the SME 'Mole' typology (Smithson, 2004:88). The study undertaken to inform the Higgs Review commented that this element was creating a division in the unitary board structure and not helping the NED role (McNulty *et al*, 2002:12). Higgs (2003) was concerned that this monitoring role perception was 'seen as an alien policing influence detached from the rest of the board' (Higgs, 2003:27). Proctor's study confirmed that a board perceived NEDs' roles in 'scrutinising and monitoring... less highly' (Proctor, 2005:206). These three sources were interpreted as giving less importance to this role element leading to the minor role definition.

The greater prevalence of this role element in the SME literature was thought to reflect the influence of the second dilemma, that is, the over-reliance on VC funded companies in the framework SME literature. For example, in the Scottish study over half the sample had appointed a NED as a requirement of external investors, either VCs or business angels (Deakins *et al*, 2001:362). The data from this study was reported in six of the seventeen SME sources whereas the Bank of England (2001) stated that only one to three per cent of UK SMEs were financed in this way. Another study appeared to confirm this bias. The highest ranked contribution from VC directors was 'long term strategy' and although ranked second, 'safeguard shareholders' interests' had a significantly lower score. These directors were actively 'acting like a sounding board' to as their contribution to firm performance and strategy (Gabrielsson & Huse, 2002:138).

3.4 Framework Update: 2006 to 2008

This framework was developed in 2006 to aid the analysis of the empirical data to make transparent the functional role of the UK SME NED. As part of the Literature Review updating process in 2008, two additional sources emerged that fitted the framework criteria. These have been included in Appendix 1 as sources 30 and 31 and are both PLC/listed sources (Kakabadse *et al*, 2006; Mallin & Ow-Yong, 2008).

The inclusion of these additional sources affected the framework **major**, present or *minor* designations of only six NED role elements. These changes are displayed in Table 3.8 and discussed in the following sections.

| | 1996 - 2005 | | 2006 - 2008 | |
|---|-------------|-------|-------------|-------|
| | SME | PLC | SME | PLC |
| Knowledge Transfer/Director Development | | | | |
| CEO or MD sounding board/confidant | Major | ✓ | Major | Minor |
| give advice/sharing & transfer of knowledge/ import good practice | Major | Major | Major | ✓ |
| Boundary Spanning | | | | |
| shareholder investor nominee/'eyes & ears'/safety net/ally | Minor | Major | Minor | ✓ |
| Creative NED Role-making | | | | |
| shareholder | Minor | Minor | Minor | ✓ |
| Risk Management - the people | | | | |
| TMT recruitment/remuneration/removal (inc CEO) | Minor | Major | Minor | ✓ |
| stakeholder interests/social responsibility | Minor | Minor | Minor | ✓ |

Table 3.8: Revised UK NED role element designations 2006 – 2008

3.4.1 Knowledge Transfer/Director Development

The inclusion of two further PLC sources which did not raise *CEO or MD sounding board/confidant* as part of the UK NED role changed the designation from PLC present to PLC *minor*. They also influenced the designation change of *give advice/sharing & transfer of knowledge/import good practice* from PLC **major** to PLC present. These changes appeared to support the concern that the 'collaboration' aspects of the NED role were being marginalised (Higgs, 2003; Holbeche & Garrow, 2005; Long *et al*, 2005) due to the **Creative NED Role-making** role element *increasing focus on compliance*.³⁷

3.4.2 Boundary Spanning

The role element designation for *shareholder investor nominee/'eyes & ears'/safety net/ally* changed from PLC **major** to PLC present. Neither of the additional PLC sources provided evidence of this role element. This contradicted the apparent support for the effects of an increasingly regulated environment reported above. It was interpreted as PLC NEDs being capable of maintaining a 'control' and 'collaboration' style balance dependent upon the context.

3.4.3 Creative NED Role-making

The role element *shareholder* changed from a PLC *minor* to PLC present designation. The source based on AIM corporate governance found that a NED selection criterion could be 'money to invest in the company' (Mallin & Ow-Yong, 2008:46). This raised the issue of NED independence, as one AIM nominated

³⁷ See page 67

advisor (NOMAD) believed that independence in its standard sense may be a luxury for a small AIM company. A better option might be a NED with a small personal stake in the company's 'future prosperity', provided the NED's 'honesty' was assured (Mallin & Ow-Yong, 2008:61).

3.4.4 Risk Management - the people

The designation of the role element *TMT recruitment/remuneration/removal (inc CEO)* changed from PLC **major** to PLC present as, although this was an element of AIM company NED roles (Mallin-Ow-Yong, 2008:47), it was not explicit in the discussions of PLC NEDs' roles relating to Corporate Social Responsibility (CSR) (Kakabadse *et al*, 2006). NEDs were a 'significant and positive influence on the adoption of CSR' strategies (Kakabadse *et al*, 2006:296); however, there was no evidence that TMTs' and/or CEOs' lack of compliance with NEDs' CSR advice led to senior executive remuneration penalties or removal, nor to any remuneration bonuses if a CSR strategy was adopted.

The final role element affected by the additional sources was *stakeholder interests/social responsibility* which changed from PLC *minor* to PLC present. Unsurprisingly the PLC source highlighting the NEDs' role in CSR focussed exclusively on this aspect, drawing on literature suggesting that board level CSR activities 'provide for competitive advantage' (Kakabadse *et al*, 2006:288). The findings highlighted the themes of NEDs' 'bounded rationality', 'boundary spanning' and 'boardroom language' on their CSR role (Kakabadse *et al*, 2006:289). For example, the 'boundary spanning' of one respondent was described as 'striving to transfer knowledge and experience of CSR application from one board to the next' (Kakabadse *et al*, 2006:292). The PLC AIM source highlighted the benefits of 'having high-calibre independent NEDs' adopting 'the ethical aspect/approach' which cascaded down through the company (Mallin & Ow-Yong, 2008:30-31).

3.4.5 Framework update summary

The changes influenced by the later PLC empirical studies illustrate that the role of the UK NED is dynamic and responds to and/or reflects changes in the governance environment. Both studies reported positive NED role findings with respondent quotes clearly articulated and linked to the contemporary debates on corporate governance in general (Mallin & Ow-Yong, 2008) and CSR governance in particular (Kakabadse *et al*, 2006).

3.5 Patterns of NED roles in UK SMEs and PLCs

The literature-based framework was charged with addressing the first thesis aim from the perspective of existing empirical studies, that is, whether the UK NED role is the same in SMEs and in PLCs. This section discusses the framework findings.³⁸

3.5.1 A Literature-Based Model for the Major Roles of UK NEDs

There were 65 role elements in the framework; seventeen of these met the criteria for the designation **major** NED role element in either the SME or PLC literature or both. Table 3.9 is a summary.

| NED Role Category | SME | PLC |
|---|--------------|--------------|
| Director Relationships | | |
| build quality personal relationships/personal chemistry/trust | Major | Major |
| independence of mind/independent view (internal & external reassurance) | ✓ | Major |
| reducing (family) conflict/fostering positive board dynamics/director balance/maintaining board balance between executives & shareholders | Major | ✓ |
| Knowledge Transfer/Director Development | | |
| help deal with unusual events/crises/respond to new challenges/effective problem solving/alternative solutions based on NED experience | Major | Major |
| personal knowledge & skills (other than contacts) | Major | Major |
| give advice/sharing & transfer of knowledge/import good practice | Major | ✓ |
| CEO or MD sounding board/confidant | Major | <i>Minor</i> |
| exec emotional support/sounding board/confidant/ ease execs' isolation | Major | <i>Minor</i> |
| challenge/ask awkward questions/test/probe (internal information acquisition) /constructive criticism/critique | ✓ | Major |
| Boundary Spanning | | |
| wider vision/outside perspective/benchmarking | Major | Major |
| (use of) contacts & networks (external information acquisition) | Major | ✓ |
| Creative NED Role-making | | |
| add value/deliver perceived benefits | Major | ✓ |
| complement other directors' skills/missing exec (operational) expertise | Major | <i>Minor</i> |
| Risk Management - The People | | |
| monitoring exec competence/TMT appraisal performance review/ identifying & addressing poor TMT performance | <i>Minor</i> | Major |
| Risk Management - The Processes | | |
| formalising/changing procedures - strategic decisions/business planning/(improved) business/strategic planning | Major | Major |
| financial scrutiny | ✓ | Major |
| duty of care/risk assessment & management/litigation support | <i>Minor</i> | Major |

Table 3.9: Major Elements of UK NEDs' Role predicted by the Literature

³⁸ These discussions relate to the updated 1996 - 2008 framework.

There were five common core elements, that is, those classed as **major** across both the PLC and SME sources. In addition there were six further PLC **major** role elements and a further six SME **major** role elements. There were also five elements where the SME and PLC sources disagreed as to the **major/minor** levels of role element prevalence.

3.5.2 NED Core Role Elements across all UK companies

The five core role elements for NEDs on UK boards are drawn from four of the six categories as shown in Table 3.10.

| NED Role Category | SME | PLC |
|--|--------------|--------------|
| Director Relationships | | |
| build quality personal relationships/personal chemistry/trust | Major | Major |
| Knowledge Transfer/Director Development | | |
| help deal with unusual events/crises /respond to new challenges/ effective problem solving/alternative solutions from NED experience | Major | Major |
| personal knowledge & skills (other than contacts) | Major | Major |
| Boundary Spanning | | |
| wider vision/outside perspective/benchmarking | Major | Major |
| Risk Management - The Processes | | |
| formalising/changing procedures - strategic decisions/business planning/(improved) business/strategic planning | Major | Major |

Table 3.10: Core Elements of UK NEDs' Role predicted by the Literature

These core role elements rely upon the soft skill roles of 'advising and counselling' (Deakins *et al.* 1999:29) moving away from 'giving orders' (Higgs, 2003:29).

In their study to support the Higgs Review (2003) McNulty, Roberts and Stiles identified NED core skills in the couplets 'engaged but non-executive', 'challenge and support' and 'independence and involvement' (McNulty *et al.* 2002:4) and their findings highlighted the need to balance the role elements associated with 'control' with those associated with 'collaboration' (Roberts *et al.* 2005:S11). These core UK NED role elements appear to have a 'collaboration' style bias.

3.5.3 The differing NED roles in SMEs and large companies

3.5.3.1 PLC NED Role

In the PLC literature there were six **major** role elements where the NED activity prevalence differed in SMEs. Three were *minor* role elements in the SME literature and three were present but not a major role. These are displayed in Table 3.11.

| NED Role Category | SME | PLC |
|--|--------------|--------------|
| Director Relationships | | |
| independence of mind/independent view (internal & external reassurance) | ✓ | Major |
| Knowledge Transfer/Director Development | | |
| challenge/ask awkward questions/test/probe (internal information acquisition) /constructive criticism/critique | ✓ | Major |
| Boundary Spanning | | |
| shareholder investor nominee/'eyes & ears'/safety net/ally | <i>Minor</i> | Major |
| Risk Management - The People | | |
| monitoring exec competence/TMT appraisal performance review/ identifying & addressing poor TMT performance | <i>Minor</i> | Major |
| Risk Management - The Processes | | |
| financial scrutiny | ✓ | Major |
| duty of care/risk assessment & management/litigation support | <i>Minor</i> | Major |

Table 3.11: Major Elements of UK NEDs' Role predicted by the PLC Literature

There was a greater emphasis on the 'control' function role. The role elements that were identified as major reinforced the 'non-executive', 'challenge' and 'independence' halves of the McNulty, Roberts and Stiles couplets. This is thought to reflect the more codified environment of PLC and large companies, to meet the expectations of the LSE regulators and City investors who are not members of the board. Therefore the elements of *independence of mind, challenge/ask awkward questions/test/probe* together with managing risks in terms of having the right executives in place, monitoring their performance and pay, scrutinising the finances and exercising a overall *duty of care* were prominent in this literature.

3.5.3.2 SME NED Role

In the SME literature there were also six **major** role elements where this level of prevalence was not found in the PLC NED role literature. Three were *minor* roles for PLC NEDs and three were present but not major elements. Table 3.12 displays these elements. The major role elements here highlighted the more 'collaboration' focussed aspects of governance described by McNulty, Roberts and Stiles, that is, NEDs need to 'engage' and be 'involved' with and 'support' the TMT. This reflects the more informal and less regulated environment for unlisted and SME companies with private investment arrangements, where many of the shareholders are either represented on the board and/or are members of the TMT. Here it is the NED role elements of *fostering positive board dynamics, acting as a sounding board* – either for the MD alone or the TMT, *complementing missing operational*

expertise and using *contacts & networks* to *add value* that were of major importance.

| NED Role Category | SME | PLC |
|---|--------------|--------------|
| Director Relationships | | |
| reducing (family) conflict/fostering positive board dynamics/director balance/maintaining board balance between executives & shareholders | Major | ✓ |
| Knowledge Transfer/Director Development | | |
| CEO or MD sounding board/confidant | Major | <i>Minor</i> |
| exec emotional support/sounding board/confidant/ ease execs' isolation | Major | <i>Minor</i> |
| Boundary Spanning | | |
| (use of) contacts & networks (external information acquisition) | Major | ✓ |
| Creative NED Role-making | | |
| complement other directors' skills/ missing exec (operational) expertise | Major | <i>Minor</i> |
| add value/deliver perceived benefits | Major | ✓ |

Table 3.12: Major Elements of UK NEDs' Role predicted by the SME Literature

The danger here is that there is little or no 'couplet' balance due to the further emphasis on the NEDs' 'collaboration' style soft skills. In Proctor's review of PLC NED case law and LSE regulation, the dual influences of 'hard' statute law and 'soft' law codes of practice had contributed to the NED role (Proctor, 2005:40). Private SMEs were unlikely to be affected directly by 'soft' law imposition; however SME NED practice could be under threat from a challenge to a lack of *duty of care* towards *stakeholder interests/social responsibility*. These were both defined as minor role elements and, coupled with the codification of directors' duties in the Companies Act 2006, there was the potential for 'hard' statute case law to emerge if this imbalance is confirmed in practice.

3.5.3.3 *NED Role Tension*

There were five role elements where the two literatures had different perceptions of NED role elements. Table 3.13 displays these elements. The five elements in this table emphasise the 'control' or 'collaboration' tension between the PLC and SME NED cultures. The first three role elements were 'collaboration' style, reflecting the requirement for SME NED roles to be flexible in the unstructured and informal environment in which small firms operated, notwithstanding the dangers of a lack of role balance flagged in the previous section.

| NED Role Category | SME | PLC |
|--|--------------|--------------|
| Knowledge Transfer/Director Development | | |
| exec emotional support/sounding board/confidant/ ease execs' isolation | Major | <i>Minor</i> |
| CEO or MD sounding board | Major | <i>Minor</i> |
| Creative NED Role-making | | |
| complement other directors' skills/missing exec (operational) expertise | Major | <i>Minor</i> |
| Risk Management - The People | | |
| monitoring exec competence/TMT appraisal performance review/ identifying & addressing poor TMT performance | <i>Minor</i> | Major |
| Risk Management - The Processes | | |
| duty of care/risk assessment & management/litigation support | <i>Minor</i> | Major |

Table 3.13: Major/Minor Role Element Tensions in the Literature

The Company Law Review, the recent governance codes of practice brought in as a result of corporate 'failures' (Roberts *et al*, 2005:10) and the Companies Bill³⁹ (Proctor, 2005:207) discouraged and/or precluded flexible role interpretation in the PLC sector. This was reflected in the conflicting PLC minor role designations for 'collaboration' and the higher proportion of PLC major designations in the 'control' style role elements. The emergence of this increased codification of the NED role in PLCs was despite warnings that such an approach was in danger of undermining the UK unitary board system (McNulty *et al*, 2002:12).

The conflicting minor role designations in the SME literature return to the emphasis on 'collaboration' in the less formal setting of private companies. There was a complementary factor, that is, the difficulty for SME NEDs to implement TMT personnel practices when the executive directors, especially the CEO or MD, were likely to be the main shareholders (Smithson, 2004:85). The conundrum of finding the correct role 'couplet' style balance (McNulty *et al*, 2002; Roberts *et al*, 2005) has been further complicated by the codifying of all UK companies' directors' duties in the Companies Act, 2006.⁴⁰

3.6 Chapter Conclusions

This chapter has explained the development of a literature-based framework which is used to analyse the functional role of the UK SME NED in practice in Chapter

³⁹ Now known as the Companies Act, 2006

⁴⁰ Duty to: act within powers; promote the success of the company; exercise independent judgement; exercise reasonable care, skill and diligence; avoid conflicts of interest; not to accept benefits from 3rd parties; declare an interest in proposed transaction or arrangement (Chapter 2 General duties of directors, Companies Act, 2006)

Five. Together the findings from these two chapters will address the first thesis aim:

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs;

The framework grouped 65 NED role elements into the six categories of *Relationship Development, Knowledge Transfer/Director Development, Boundary Spanning, Creative NED Role-making, Risk Management – the people and Risk Management – the processes*. It was literature-based, constructed from 31 existing empirical studies on the role of UK NEDs and helped to develop an understanding of a generic role for all UK NEDs. However, it has also shown that the role does differ between PLCs and SMEs and this difference is interpreted as reflecting the different regulatory environments and/or cultures of the two sectors. This confirms one of the findings from the wider literature review in Chapter Two, that is, the importance of context in any investigation and interpretation of advisory and/or governance role behaviour.

Although the framework findings arose from a review of empirical studies in the existing literature, these contextual differences in the UK NED role in listed and small privately-owned companies had not been made explicit and reported before. This chapter has revealed the main NED role element differences between UK SME and PLC NEDs. It has flagged a potential tension in the specific PLC and SME role definitions and a potential danger of SME NED practice expectations if dyad partners have differing cultural backgrounds. In Chapter Five, *Comparing the SME NED role in practice*, the framework will be compared with the thesis' empirical data. This later analysis will review and revise the literature-based framework in the light of new UK SME NED role elements emerging from the qualitative data. This will lead to an enhanced understanding of the role of UK SME NEDs, identifying behaviour associated with temporal and dynamic processes for the development of dyad relationship trust identified as missing from the literature in Chapter Two.

The next chapter, Chapter Four *Methodology*, sets the thesis in its theoretical perspective. It explains how, by adopting a critical realist lens, the thesis aims to reveal the process of NED role trust development, a normally inaccessible structure in the dyad partners' realities. By seeking to understand the causal laws influencing the inaccessible structure, the chapter argues that this approach offers reasonable, albeit not perfect explanations for any discrepancies observed in the partner' realities. It posits that this will be achieved by the conjunction of two theoretical concepts for the abduction analysis and retroduction interpretation of the same data. It presents the arguments for adopting a qualitative methodology and selecting case study method using semi-structured interviews as the main technique. It discusses the data collection and analysis decisions which gave the thesis respondents' own voices equal privilege and transparency to address another of the research gaps identified in the literature in Chapter Two.

Chapter Four: Methodology

4.1 Chapter Introduction

This chapter sets the thesis in its theoretical perspective and links this to the research aims. The selection of qualitative research as the methodology and case studies as the main method are justified within the critical realist perspective. How the ACCA MD and NED surveys provided access to the phenomenon of the UK SME NED are explained and the research techniques used to select, collect and analyse the data are discussed. The selection of the abduction and retroduction 'conceptual frames' (Miles & Huberman, 1994:87) used in the analysis are argued. The chapter reviews how methodological rigour was ensured by addressing the hazards in small business case-study research identified by Perren and Ram (2004). Appendices 2 to 8 support this chapter and include the interview questions, paperwork templates and sample transcripts. The chapter concludes by reviewing the theoretical perspective, the methodology and research techniques.

4.2 Thesis Perspective

4.2.1 Researcher paradigm

In Chapter Two, one of the common themes identified in the literature review was the importance of the research theoretical lens. In studies dominated by a particular perspective, there was the possibility of this lens conflicting with respondents' perceptions of their experience. For example, Arthurs and Busenitz (2003) speculated that an agency theoretic lens, where distrust is the 'dominant ethic' (Arthurs & Busenitz, 2003:159), could affect findings in studies of trust development in dyadic governance relationships.

Gummesson (2000) promoted the desirability of academics understanding their paradigmatic perspective to improve the quality of their research. As a starting point to understanding her paradigmatic perspective the researcher used the four assumptions about the nature of society identified by Burrell and Morgan (1979) namely, ontology, epistemology, human nature and methodology. On the continuum between the sociology of regulation and radical change her position is biased towards the sociology of regulation. However on the subjective and

objective continuum, her position is more difficult to categorise and to fit neatly into one of Burrell and Morgan's four paradigms of human nature. She adopts the 'intermediate standpoint' (Burrell & Morgan, 1979:6) between Voluntarism and Determinism, believing that, although individuals have elements of free will and choice in their everyday lives, much of their action is responding to their environment rather than influencing it. The researcher is biased towards Ideographic methodologies as she is interested in the microsociological level, that is, what is 'unique and particular to the individual rather than what is general and universal' (Burrell & Morgan, 1979:3).

When defining her ontology and epistemology, the researcher could be seen as adopting a Positivist lens as she aims to discover patterns that explain the different perceptions of the UK NED role. However, she believes that she has adopted a Post-Positivist (Guba & Lincoln, 1994) lens, a meta-level multiparadigm perspective incorporating aspects of both the Interpretivist and Positivist paradigms (Goia & Pitre, 1990). Such a multiparadigm approach 'allows a more comprehensive consideration of multifaceted organizational phenomena' (Gioia & Pitre, 1990:599). She identifies with critical realism, a lens which 'assumes a transcendental realist ontology [and] an eclectic realist/interpretivist epistemology' (Easton, *in press*:2) and put forward as the Post-Positivist ontology by Guba and Lincoln.

Reality is assumed to exist but to be only imperfectly apprehendable because of basically flawed human intellectual mechanisms and the fundamentally intractable nature of phenomena. (Guba & Lincoln, 1994:110)

4.2.2 Why critical realism?

Critical realism has its roots in Kantian philosophy. The latter adopted a transcendental perspective which allows the investigation of 'inside-the-head' processes relating to 'practical knowledge', that is, how individuals make decisions (Hamilton, 1994:63). The transcendental element is from posing the question 'what must be true in order for x to be possible?' where x relates to a human activity (Collier, 1994:20) or "what caused those events to happen?" (Easton, *in press*:4). Roy Bhaskar is the most influential proponent of transcendental or critical realism (Collier, 1994, Marshall, 1998; Danemark, Ekström, Jacobsen and Karlsson, 2002). The two terms are used interchangeably in the literature (See for example,

Collier, 1994; Miles & Huberman, 1994; Marshall, 1998). However, Danemark *et al*, (2002) differentiate between them:

Critical realism is based on a form of transcendental realism implying that the basic preconditions for our knowledge of reality are to be found in this reality, which is independent of our seeking knowledge (Danemark *et al*, 2002:206)

Critical realism holds that experiences are crucial to understanding the world, but only when seen as the end product of the social process under investigation. It is through these experiences that researchers can access the 'enduring and active structures' (Bhaskar, 1975) that are normally taken for granted or unrecognisable: Bhaskar argued

that the causal structures and generative mechanisms of nature must exist and act independently of the conditions that allow men [sic] to access them, so that they must be assumed to be structured and intransitive, i.e. relatively independent of the patterns of events and the actions of men alike (Bhaskar, 1975:56)

Bhaskar critiqued the prevailing empiricist ontology for presuming 'a closed world and a completed science' (Bhaskar, 1975:58). As shown in Figure 4.1 below, he established a 'depth to reality' (Collins, 1992:42) in open systems by stratifying reality into three domains: real, actual and empirical.



Figure 4.1: Reality as argued by Bhaskar (1975)

At the first level is the Empirical domain consisting only of observed experiences. Not all events are experienced, for example, wet streets in the morning imply heavy overnight rain even if the observer did not see or hear it. The Actual domain contains events and experiences, including events claimed by causal criteria only (Collins, 1992:44). At the deepest level of reality is the Real domain where the

operation of hidden mechanisms leads to the events and experiences of the other two domains. Bhaskar argued that the normally inaccessible Real domain mechanisms generate events that can be imagined in the Actual domain which in turn create the experiences visible in the Empirical domain. By analysing these observed experiences and modelling possibilities for their causal events, the hidden structures underpinning reality are revealed. Hence Figure 4.1 shows how the observed phenomenon *experiences* exist in all three domains. Investigating *experiences* provides access to the *events*; these exist in the Real and Actual domains but may or may not be experienced or visible. Investigating the *events* accesses the *generative mechanisms*⁴¹ or structures in the Real domain that cannot be observed except through the 'conjunction' (Bhaskar, 1975:57) of *events* and *experiences*. The *experiences* are the visible 'social products' of a 'social process' (Bhaskar, 1975:57). The 'conjunction' of *events* within *experiences* provide the grounds for 'causal laws' and these too are a 'social process'. These 'causal laws' allow access to the normally hidden active structures that generate the actual phenomenon of the reality under investigation.

The researcher believes that the social world has an existence independent of her perception of it and that her knowledge of this world is 'fallible and theory laden' (Sayer, 1992:5). To understand and explain as closely as possible the respondents' perceptions of this independent reality, a 'critical examination' (Guba & Lincoln, 1994:110) must be made. For example, an exploration of the NED role from the different perceptions of both dyad partners, by open-ended questioning of their 'lived experience' (Roberts *et al*, 2005), will enable the researcher to explore the taken for granted and/or hidden structures of their realities. The researcher also believes that her own knowledge development, and that of others, is a social process, acknowledging 'the importance of human subjectivity' (Gill & Johnson, 1997). She believes that any perspective tension created by her multiparadigm lens is resolved through critical realism. Its acceptance that the world is socially constructed but that 'reality kicks in at some point' enables her to 'construe rather than construct the world' (Easton, *in press*). By adopting a critical realist position she accepts that her understanding and explanation can never be perfect;

⁴¹ Easton calls these 'causal explanations' and comments that other terms include 'deep structures' and 'deep processes'. He urges caution with using 'mechanisms' as this implies something that is well-defined and rigid; however the term is embedded in critical realist language (Easton, *in press*:5)

however it will be enhanced through critical discourse with fellow researchers from different paradigmatic perspectives – an essential element of the ‘critical’ element of critical realism.

4.2.3 Critical realism and the thesis research aims

The research aims of this thesis reflect a critical realist perspective as shown in Figure 4.2 below.

| | <i>DOMAINS</i> | | |
|------------------------------|---|---------------|------------------|
| | <i>REAL</i> | <i>ACTUAL</i> | <i>EMPIRICAL</i> |
| <i>Generative mechanisms</i> | Interpretation of dyad process complexity (Aim 3/Chapter7) | X | X |
| <i>Events</i> | Analysis of dyad partners' working relationship trust development over time (Aim 2/Chapter 6) | | X |
| <i>Experiences</i> | Analysis of dyad partners' perceptions of the NED role over time (Aim 1/Chapter 5) | | |

Figure 4.2: Research Aims from a critical realist perspective

In this diagram the *experiences* are revealed by analysing the dyad partners' perceptions of the temporal NED role. This is the observed phenomenon which exists across all three domains of reality and addressed by the first research aim in Chapter Five. The *events* across the Actual and Real domains of reality are governed by the temporal development of the dyad partners' working relationship trust. These causal laws are revealed by addressing the second research aim in Chapter Six. The *generative mechanisms* in the deepest level of reality, that is, in the Real domain are revealed through the interpretation of the dyad process complexity. This is addressed in Chapter Seven and the third research aim.

Therefore the first research aim focuses on the *experiences* in the dyad partners' realities by teasing out the different perceptions of the SME NED role.

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs

The second research aim focuses on the *events* or causal laws in the dyad partners' realities that create the *experiences* by proposing a typology of NED role trust and revealing the different MD and NED patterns of NED role trust.

To develop a model of dyadic working relationship trust development for managing directors and NEDs in UK SMEs

The third research aim focuses on the *generative mechanisms* of the dyad partners' realities by using the Attribution theory bias to explain temporal changes in their NED role trust and to reveal the trust double helix at the core of the NED role process.

To develop an understanding of the complex patterns of relationships and processes of the NED role in UK privately-owned small and medium-sized enterprises, in particular,

- Why do the MDs and NEDs of privately-owned UK SMEs have different perceptions of the role of a NED?
- Where such differences of perception exist, how do these affect the partners' dyadic working relationship?

4.3 Methodological choice and critical realism

Critical realism does not prescribe the choice of research methodology. It is how the research questions have been framed that dictates the choice (Morgan & Smircich, 1980; Denzin & Lincoln, 1994; Chell & Tracey, 2005). Miles and Huberman remarked on the increasing difficulty of finding either stereotypical relativist or post-positivist researchers. Many post-positivists are following phenomenological approaches just as more interpretivists 'are using pre-designed conceptual frames and instruments, especially when dealing with multiple cases' (Miles & Huberman, 1994:4). They observed

In epistemological debates it is tempting to operate at the poles. But in the actual practice of empirical research, we believe that all of us – realists, interpretivists, critical theorists – are closer to the centre with multiple overlaps. ... To us it is clear that research is actually more of a craft than a slavish adherence to methodological rules. (Miles & Huberman, 1994:4-5)

The qualitative research methodology choice reflected the post-positivist positioning of the thesis by incorporating positivist and interpretivists structures in the design of the data collection for triangulation (Easterby-Smith *et al*, 2002). For example, semi-structured interview protocols were used to ensure that wherever possible the same questions were asked of all MDs, of all NEDs and of both dyad partners. Danemark *et al* (2002) regard critical realism as a way of explaining society. It is not a homogeneous discipline but a philosophical standpoint and/or a methodological grounding. It accepts that the task of science is to explain social phenomena by revealing causal mechanisms through analysis using the modes of abduction⁴² and retroduction⁴³ or ‘moving backwards’ (Easton, *in press*:6). By its nature, society is an open system; predictions cannot be made with certainty. However, critical realism posits that by adopting this approach researchers can conduct ‘well-informed discussion about the potential consequences of the mechanisms working in different settings’ (Danemark *et al*, 2002:2). This approach matches the implications of adopting a critical realism approach described by Bryman and Bell. Firstly, critical realists believe that scientists’ conceptualizations are ways to know reality rather than a direct reflection of it and, secondly, they are willing to incorporate ‘theoretical terms that are not directly amenable to observation’ into their explanations (Bryman & Bell, 2007:18).

Figure 4.3 overleaf sets the thesis analysis processes within a critical realism frame adapted from Bhaskar (1975). This thesis is posing the questions ‘why are there different perceptions of the NED role?’, ‘why are there different patterns of NED role trust?’ and ‘why/how do these change over time?’ This understanding of the dyad partners’ action and interaction and the social process of changing NED role trust is more suited to the broad category of ‘intensive’ realist research ‘using interviews, ethnography and qualitative analysis’ to ‘produce causal explanations’ (Easton, *in press*:6).

⁴² The process to ‘interpret and recontextualize individual phenomena within a conceptual framework or a set of ideas’ (Danemark *et al*, 2002:80)

⁴³ A ‘mode of inference in which events are explained by postulating (and identifying) mechanisms which are capable of producing them’ (Sayer, 1992:107 parentheses original) and ‘from a description and analysis of concrete phenomena to reconstruct the basic conditions for these phenomena to be what they are’. (Danemark *et al*, 2002:80)

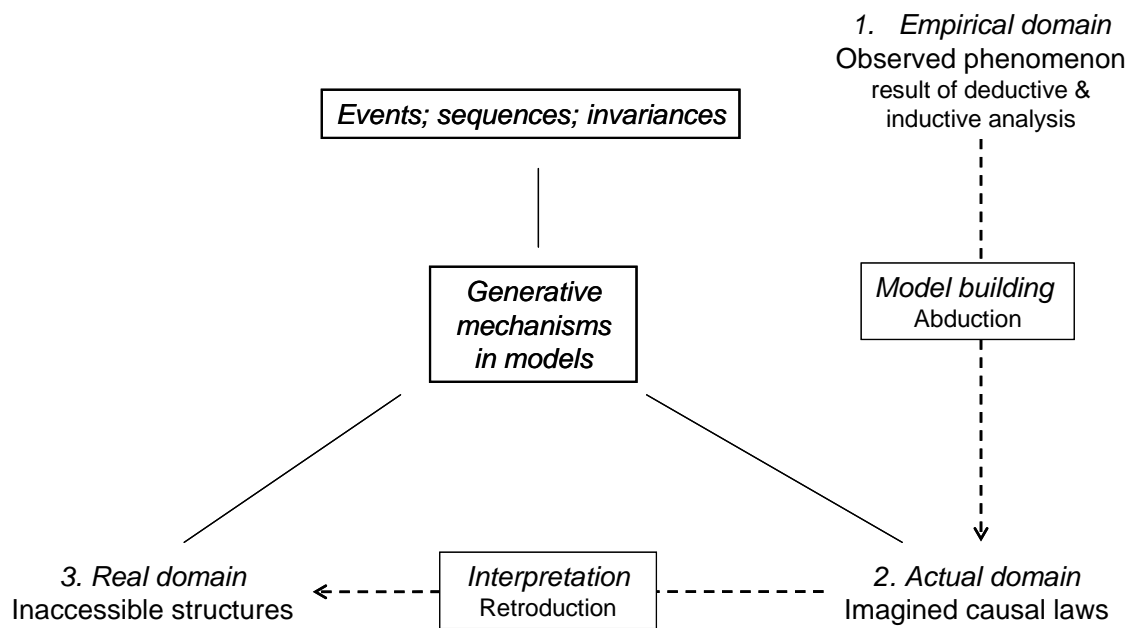


Figure 4.3: Thesis analysis processes from a critical realist perspective
(adapted from Bhaskar, 1975)

Induction and deduction are research processes that concentrate on the movement within the *events* level, from the particular to the general ‘and vice versa’ (Easton, *in press*). Retroduction enables the researcher to move between the levels of *events* and *generative mechanisms*, that is, from accessible phenomena such as Actor and Observer bias to inaccessible concepts such as trust and self esteem. Coupled with abduction, the interpretive process of retroduction allows for a richer picture to emerge. In the context of this thesis abduction uses models of working relationship trust development and retroduction uses Attribution Theory bias.

4.3.1 Qualitative Research Methodology

The ACCA quantitative surveys of dyad partners had uncovered different perceptions of the NED role, for example, in the ways the NEDs had helped the company (Perren *et al*, 2000). This triggered the ‘why?’ and ‘how?’ questions included in the research aims. The focus on understanding the complex patterns of SME dyad relationships from the MD and NED respondents’ individual perspectives led to the selection of qualitative research as the methodology. Qualitative approaches are used to study the ‘why?’ issues, that is, the reasons and causes of underlying patterns (Curran & Blackburn, 2001:72). The definitions of qualitative research are numerous. Denzin and Lincoln (1994) recognised that these definitions varied with the historical context but offered a generic definition.

Qualitative research is multimethod in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them. (Denzin & Lincoln, 1994:2)

This thesis concurs with this statement, that of Morgan and Smircich...

Qualitative research stands for an approach rather than a particular set of techniques, and its appropriateness – like that of quantitative research – is contingent on the nature of the phenomena to be studied. (Morgan and Smircich, 1980:499)

... and Chell and Tracey (2005) from their study of the relationship building process between SME owner and first line manager dyads.

qualitative research should be considered as an approach to the social world rather than a specific set of techniques for data collection and analysis (Chell and Tracey, 2005:608)

A qualitative methodology enables the collection of data on the meaning of the naturally occurring phenomena (Hussey & Hussey, 1997:140) of the UK SME NED. The meaning of these phenomena can be explored by engaging directly with individual respondents (Remenyi *et al*, 1998:101) drawn from the pool of UK SMEs with NEDs. In Chapter Two the literature stressed the importance of context when conducting research into governance issues (see Tricker, 1978; Carlin & Mayer, 2000; Keasey & Hudson, 2002), NED roles (see Gabrielsson & Huse, 2005; Pye & Pettigrew, 2005), small business mentoring (see Barrett, 2006) and small firms' advisory services (see Bennett & Robson, 2005). Qualitative methodological techniques, such as case studies, would maintain the focus on the importance of context on the development of the dyad relationships.

4.3.2 Case study method

Case studies were selected as the main method as these would allow the investigation of dyadic 'contemporary events' (Yin, 1994:6) without influencing or manipulating the partners' behaviour and could be conducted 'with a view to gaining in-depth knowledge' (Hussey & Hussey, 1997). Yin argued that an explanatory case studies were suitable when 'how' and 'why' questions were posed (Yin, 1994:6). Case studies allowed for events 'over which the investigator has little or no control' (Yin, 1994:9) to be studied in context, without the variables being prescribed in advance and accommodating data from multiple sources. They are also helpful when building theory (Eisenhardt, 1989a; Chetty, 1996; Eisenhardt & Graebner, 2007) rather than testing an existing theory. In the SME research

literature Chetty (1996) drew on the work of Yin (1994) and Eisenhardt (1989a). She concluded that case studies allowed the researcher to study their topic over time, that is, 'as a dynamic process' (Chetty, 1996:82) and from more than one perspective. It allowed for multiple data collection methods enabling 'new insights about the topic to emerge' (Chetty, 1996:82), especially where the theory was poorly developed.

4.3.3 Case Boundary

Perren and Ram (2004) argued that defining the case boundary was a 'conceptual choice that can influence the trajectory of the research project' (Perren & Ram, 2004:86). They recognised the different views on when the case boundaries should be defined and believed the advice of Miles and Huberman (1994) to be intuitive, focussed and to 'define the case as early as you can' (Miles & Huberman, 1994 as quoted by Perren & Ram, 2004:87) to be 'a helpful midway position' (Perren & Ram, 2004:87). The case boundaries for this thesis were set after conducting the first interviews. A case was defined as the working relationship between the senior executive director, that is, the MD, CEO or acting CEO, of a privately owned UK SME and one NED or shadow NED⁴⁴ in the same company. The unit of analysis was the dyad partner trust development.

4.4 Accessing the Phenomenon

4.4.1 Thesis Sample Frame criteria

The potential sample frame was all privately owned UK SMEs that had at least one NED. The ACCA contract to survey and interview UK SME MDs and NEDs awarded to Berry and Perren (ACCA, 1997) offered an opportunity to access this community. Figure 4.4 overleaf illustrates the links between the ACCA contract and the thesis sample.

In July 2000 the twenty ACCA survey dyad companies were contacted. A request was made for in-depth interview access to the MD, NED and one other director, together with access to Board papers and permission to attend at least one Board meeting.

⁴⁴ Defined as 'a person in accordance with whose directions or instructions the directors of the company are accustomed to act' (section 251 of the Companies Act, 2006)

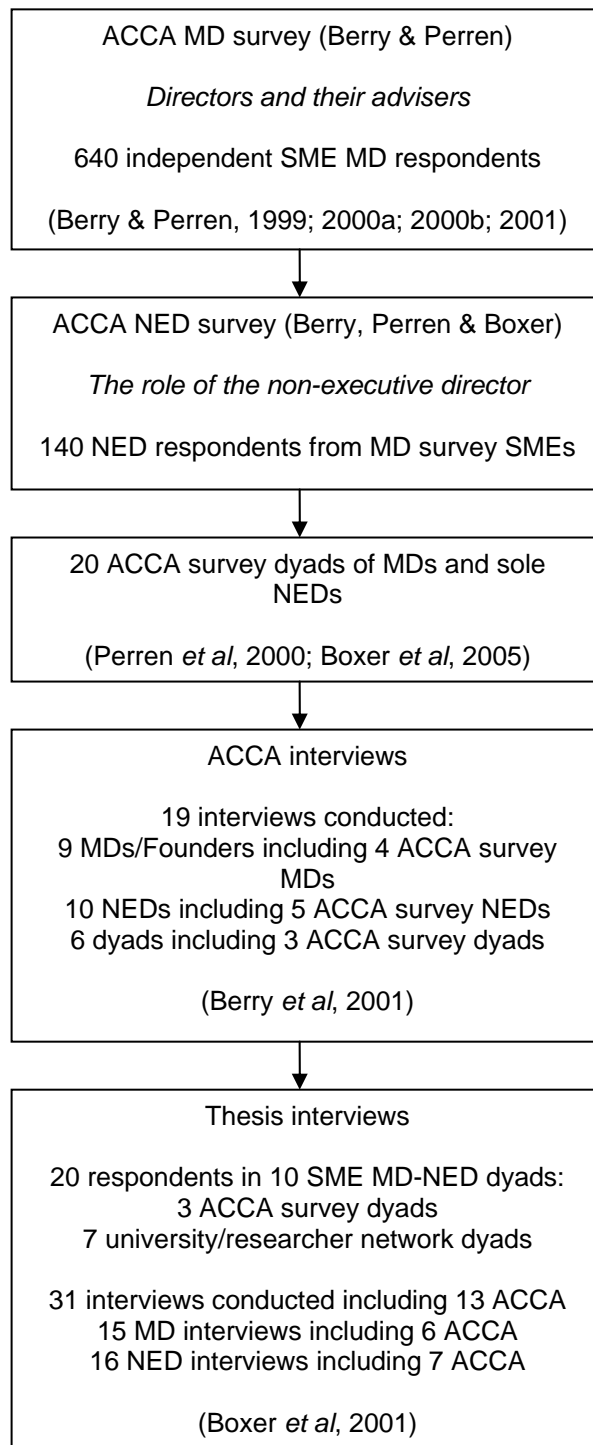


Figure 4.4: Links between ACCA Contract and Thesis Sample Frame

4.4.2 Access Issues

Daily *et al* (2003) observed that access to boardroom process data was ‘one of the more challenging barriers researchers face’ (Daily *et al*, 2003:378). This thesis found that the level of access initially requested was too intrusive. Although three ACCA survey dyad companies agreed to director interviews, none agreed to extend access to board papers and meetings. These requests were dropped as

they threatened the interview access to directors.⁴⁵ The sample frame criteria were revised to reflect the access issues and the case definition was confirmed as the working relationship between the MD and one NED⁴⁶ in a privately owned UK SME. The ultimate criteria for dyad case selection were that, at the time of the first interview, the company should be independent and in private ownership, have at least one NED and have less than 250 employees. The latter criterion matched the EU and UK government definition of a SME. The revised approach adopted as a result of the changes to the original sample frame had parallels with the 'observer-as-participant' field role described by Gill and Johnson (1997:117). They believed that adopting this role to conduct 'overt research' was likely to experience access difficulties and would involve a series of negotiations over such issues as organisational benefits to companies, respondents' time commitment and confidentiality of information (Gill & Johnson, 1997:118). Although researcher observation of board meetings had been dropped from the access request, these concerns still remained. To address them the participants were offered copies of their interview tapes, copies of any published reports, interviews were scheduled for one hour and respondent and company anonymity as assured in any published work.

As implied by Daily *et al* (2003), the difficulty of gaining access to boards of directors was not unique to this research. Spencer (1983), Hill (1995), Deakins *et al* (1999) and Stiles (2001) all reported similar problems. Spencer experienced difficulties in gaining access to NEDs, likening them to 'a shy and retiring creature' (Spencer, 1983:7). Hill noted that his original intention was to interview 100 directors in 25 large British companies in eighteen months; the outcome was closer to half the number of cases in twice the time (Hill, 1995). He pointed out that 'the sample is not random and successful sampling does not appear to be feasible in research on directors' (Hill, 1995:249).

4.4.3 Case Selection

Three ACCA survey dyad companies granted interview access to the MD-NED dyads. After the original selection criteria were revised two more cases were

⁴⁵ Access to additional executive directors was not universal; where it was offered the interviews were conducted but not included in this thesis. See for example Boxer *et al* (2001)

⁴⁶ Although it was important to select companies with only one NED when analysing the survey data (Perren *et al*, 2000), in the interview situation it would be easier to focus on the relationship with a particular NED even if they were one of many appointments.

identified from the ACCA interviews. University networks identified a further three cases. Using personal networks the final two cases were identified in early 2003. In seven cases access was granted to at least one dyad partner beyond the first interview stage. As not all cases were able to grant the same level of access the Eisenhardt (1989a) upper limit of ten cases⁴⁷ was sought and secured. This contingent approach to case selection was a methodological compromise. The ten cases gave varying levels of access to dyad relationships; therefore the data varied in their richness. As Silverman (2000) observed:

Everyone realizes that contingent events related to personal interest, access or simply being in the right (wrong) place at the right (wrong) time often determine which data you are able to work upon. (Silverman, 2000:234 *parentheses original*)

4.5 Data Collection

4.5.1 Primary data sources

The primary data source was semi-structured interviews, as 'the interview is the main road to multiple realities' (Stake, 1995:64). Huse suggested using 'board life stories' and director interviews as a way of collecting responses from different directors on the same board as 'actual board behaviour is perceived differently by various groups of board members' (Huse, 2005:S76). As already discussed, direct observation of 'actual board behaviour' (Huse, 1998 & 2005) was not possible due to the access difficulties. However, this was not viewed as a significant problem as overt observation in the boardroom by a stranger can affect directors' behaviour. In a longitudinal case study, respondents reported unusual behaviour by fellow directors when the researcher was present (Lockhart, 2006:39).

4.5.2 Secondary data sources

Secondary data were used for researcher interview preparation and to gain an insight into the respondents' interest *vis-à-vis* the role of a UK SME NED. The sources included copies of company accounts from Companies House and company web sites. These proved useful in the preparation for the first interviews (Turcan, 2008) as discussed in *section 4.5.4*. During the interviews respondents were asked for any materials that they felt were relevant to the research such as copies of internal documentation, newspaper articles and external reports. For example, the MD from Case Dyad B (BMD) provided a copy of a contemporary

⁴⁷ Eisenhardt (1989a) suggested selecting between four and ten cases. Less than four cases it would be difficult to reflect the phenomenon complexity and with more than ten it 'becomes difficult to cope with the complexity and the volume of the data' (Eisenhardt, 1989a:545).

Sunday newspaper article about the role of NEDs which he had referred to in his second interview.⁴⁸ These secondary sources were only used in the analysis if explicitly raised by the respondent.

4.5.3 Semi-structured Interviews

4.5.3.1 Protocol design

The protocols for MDs and NEDs were designed to capture the NED role 'life stories' (Huse, 2005:S76) including any differences in respondents' perceptions of the NED role and shared boardroom experiences. Interviewing also fitted with the disposition of the researcher who has 'a sincere curiosity about the lives and experiences of others' (Buchanan, Boddy & James, 1988:59) and enjoyed responding to the challenges that interviewing presented, suggested as a vital pre-requisite by Buchanan *et al* (1988). They were also designed so that notes could be made of key points and any non-verbal communication signs made by the respondents⁴⁹ during the interviews (Fontana & Fey, 2000:661). Appendix 2 summarises the interview questions.

4.5.3.2 Literature-based structure

Using concepts of 'In-depth Interviewing' (Marshall and Rossman, 1999:108) the previous experience of each respondent prior to the appointment of the specific NED was explored through 'board life stories' (Huse, 2005). These were the open-ended historical accounts or stories of their working lives given at interview, alongside data from the ACCA surveys where available. The first interview protocol was informed by NED role literature pre-2000⁵⁰ and explored the respondents' experiences of the SME NED role function. Where relevant, explanations of any discrepancies within the dyad responses to the ACCA surveys were also investigated. The second interview protocol was informed by the analysis of the first interviews and literature on director cognitive roles.⁵¹ It focussed on the development of each dyad's relationship through the stories of the NED's involvement in recent board decisions. Any outstanding discrepancies from the first interviews were also raised.

⁴⁸ 'Is it fact or opinion? Ask a non-executive' Ivan Kursar, *The Sunday Times*, 20 October 2002

⁴⁹ See Appendix 4 lines 236 and 1053 for examples of notes made in Case Dyad A MD interview

⁵⁰ Semi-structured interview questions for MD/NED were taken from literature in December 1999 and are available as a separate working document

⁵¹ See McNulty and Pettigrew (1996 & 1999); Hill (1995); Rindova (1999) and Stiles (2001)

4.5.3.3 *Inductive opportunities*

Although 'a (primarily) deductive approach' (Chell & Tracey, 2005:608: *parentheses original*), the semi structured formats included open-ended questions designed to give the respondent 'a "hook" upon which they can "hang" their accounts' (Chell,1998), that is, giving them opportunities to raise any issues they felt were important and which afforded the researcher the opportunity 'to probe aptly' (Chell, 1998:55). Jones and Nisbett (1972) proposed that probing probably gave observers an opportunity to 'reach attributional conclusions very similar to those of the actor' (Jones & Nisbett, 1972:85). This dual approach sought to extract the respondents' stories of 'events, activities, and choices ordered over time' (Langley, 1999:691) to map the changes in the partners' perception of the NED role and the Case Dyad relationship. Where access was granted to conduct second interviews this afforded the collection of temporal data. Where access was restricted to a single extended interview a composite protocol was created and the temporal data was less rich.

4.5.4 **Interview Preparation**

4.5.4.1 *Interviewer confidence*

In the field of small firms' research Curran and Blackburn (2001) observed that

Small business owners are often people with strong personalities used to being treated deferentially by employees and others. They often have strong views on issues linked to running a small business. Interviewers need to be self confident and well-prepared to handle such determined, strong personalities. (Curran and Blackburn, 2001:79)

Interview preparation (Denscombe, 1998) was the key to limiting the effects of 'elite status' (Hill, 1995) respondents, a strategy confirmed by Curran and Blackburn (2001) and adopted by Turcan (2008). Information on the company from the public domain and an up-to-date awareness of business-related news helped to maintain or, when necessary, take back control. As described earlier, the secondary data from Companies House and company websites were reviewed in advance and points of interest, such as director appointments and product lines were used to gain an appreciation of each company's business and the directors' experience. Where the respondents had participated in the ACCA surveys, the MD and NED responses were compared for discrepancies and these were explored during the interviews, albeit not explicitly. As part of a reciprocal interview

preparation process a synopsis of interview themes was sent to each respondent in advance.

4.5.4.2 *Interviewer consistency*

To maintain a consistent approach across all cases, an Interview Contact Checklist was designed and an introductory script prepared. An Interview Summary Sheet (Miles & Huberman, 1994:53) was also developed. Examples of the interview paperwork are included as Appendix 3. This was designed to summarise the main points, the data collected, anything that was interesting and/or important and questions to ask if/when contact was next made with the respondent. This was completed after reviewing the protocol notes for the interview and the transcript was checked for accuracy as described overleaf in *section 4.5.4 Interview Conduct*. The Interview Summary Sheets for the first interviews were reviewed as part of the second interview preparation. This second review prompted additional observations about the data and questions were added to the second interview protocol to reflect any outstanding issues to be explored.

4.5.5 **Interview Conduct**

4.5.5.1 *Interviewing elites*

'Elite individuals' are defined as 'those considered to be influential, prominent, and/or well-informed people in an organization or community' (Marshall & Rossman, 1999:113). This presents interviewers with potential challenges.

Elite individuals are typically quite savvy and may resent the restrictions of narrow or ill-phrased questions. They may want an active interplay with the interviewer. Well practiced at meeting the public and being in control, an elite person may turn the interview around, thereby taking charge of it. (Marshall & Crossman, 1999:114)

Like Spencer (1983) and Hill (1995), this research experienced some of the problems of interviewing elite individuals. NEDs who had recently retired as senior or chief executive directors of large listed companies prior to their current NED appointment had clear views on the research agenda. Spencer noted that '[M]any interviewees actually explained to the researcher how the research work should be conducted' (Spencer, 1983:10). As Hill also observed:

Holding directors to my script and agenda of issues was sometimes difficult, ... many had views on what they thought I should be interested in investigating, and some had extensive experience of dealing with the media and were particularly wary of what they said. (Hill, 1995:248)

He continued 'the normal asymmetry of the interview is reversed when respondents have elite status'. This 'elite status' applied to the NEDs interviewed and rarely to the executive directors, despite the predictions of Curran and Blackburn (2001) cited earlier. The MD exception was a serial entrepreneur on his fourth start-up business with extensive privately owned SME NED experience as a former VC fund founder and investor.

4.5.5.2 *Interview process and transcripts*

The dyad partners were interviewed separately in a quiet room at a time and place convenient to the respondent. A total of 31 interviews were conducted between July 2000 and May 2003⁵². The majority of the interviews were conducted on company premises although twelve of the seventeen NED interviews were held at other mutually convenient locations. All the respondents agreed to the taping of the interviews and were offered copies of the tapes. Assurances were made regarding confidentiality of content and individual and company anonymity. The individual interviews with each respondent ranged between 30 minutes and one hour 30 minutes. The interview tapes were professionally transcribed. Appendices 4 and 5 are example transcripts from Case Dyad A MD and NED respectively. As mentioned earlier, protocol notes captured any points of interest during the interviews.⁵³ Prior to starting the initial analyses, each transcript was checked against the original tape recording and the protocol notes. For example, ANED compared his role with that of an 'admiral coming aboard' with the MD 'going to be captain' (ANED:167). 'Admiral' was thought interesting and noted. The first draft of the transcription reported an '*animal* coming on board' followed by <inaudible text>. The protocol notes prompted the improvement of the transcription accuracy.⁵⁴ The checking of the early transcripts also encouraged reflection on the research interview style adopted, the techniques used and areas for researcher development.

4.5.5.3 *Field notes*

After each interview the Interview Summary Sheet was completed and brief field notes written up, particularly of any informal conversations with respondents either

⁵² First interviews for one MD and one NED from different dyads were conducted by an ACCA team colleague who checked the transcripts for accuracy and added field notes as necessary. The data analysis for Chapters Five, Six and Seven used only the transcripts of the dyad partner interviews.

⁵³ See in *section 4.5.3.1* on page 99

⁵⁴ See Appendix 5 line 167

side of the formal interview. These field notes were a useful aid throughout the data analysis process as an *aide-memoire* for the case. Where the notes captured something of particular interest the transcripts were annotated. For example, in the transcript of CNED's second interview his reaction and body language when asked to discuss another director's boardroom input was added in parentheses as a *contemporary field note*.

4.6 Data Analysis: NED Functional Role

This section discusses the first level analysis which focussed on the *experiences* in the dyad partners' realities by teasing out the different perceptions of the SME NED role. This analysis addressed the first research aim.

4.6.1 Literature-based framework:

The MD and NED dyad relationship was selected as the case boundary.⁵⁵ The analysis process started once the differences in perceptions were uncovered in the earliest first interviews.⁵⁶ The underlying causes of the differences in dyad partners' perceptions proved elusive. A dual literature-based and inductive analysis approach was adopted to manage the experience of 'the shapeless data spaghetti' as described by Langley (1999). Chapter Three described how a deeper review of empirical sources in the UK NED literature was used to create a literature-based framework. An inductive component incorporated the respondents' stories of relationship incidents⁵⁷ which were used to explore and explain new NED role elements and nuances. This dual approach was consistent with the critical realist perspective and was inspired by the qualitative research study of relationship building in small firm dyads (Chell & Tracey, 2005) which used a mixture of methods. The framework of the UK NED role defined elements as **major**, present or *minor* across previous studies of PLC and SME practice. The PLC and SME literatures were analysed separately and the **major** and *minor* roles for the two groups were compared. A set of common or core NED role elements for the UK NED role was identified and the differences in the PLC and SME roles were revealed.

⁵⁵ See section 4.3.3 on page 95

⁵⁶ see Boxer *et al* (2001)

⁵⁷ A relationship incident is an account of dyad partner surprise behaviour as perceived by the respondent

4.6.2 Comparing Theory with Actual Practice:

The framework enabled the exploration and description (Miles & Huberman, 1994) of the UK SME NED functional role in practice. This first level of analysis mapped the role experiences of each respondent against the framework NED role elements. Eisenhardt (1989a) claimed that data analysis was ‘at the heart of theory building from case studies’ (Eisenhardt, 1989a:539) and therefore the analysis process followed her lead and included within case analysis and cross case analysis. (Eisenhardt, 1989a:540).

4.6.2.1 *Within Case Analysis:*

Eisenhardt (1989a) identified ‘within case analysis’ as key, guarding against Pettigrew’s 1988 term of “death by data asphyxiation” (Eisenhardt, 1989a:540). The data was organised by using a role by time data display matrix (Miles & Huberman, 1994:126). The matrix for Case Dyad A is included as Appendix 6.⁵⁸ The presence of each NED role element was located for each respondent by the transcript line number (column A). Where temporal data were available this was noted in the data display, that is, whether the NED role element was present from the outset (column B), whether it emerged over time (column C) or whether it emerged towards the end of the appointment (column D). This process was conducted for each dyad in order to explore and describe the actual NED functional role in the dyad from the separate perspectives of the MD and the NED. There were discernable differences identified in dyad partner perception of the NED role in the specific SME.

4.6.2.1 *Cross Case Pattern Searching:*

Cross case pattern searching aimed to guard against poor data processing skills, by selecting ‘categories or dimensions’ looking for ‘within group similarities coupled with intergroup differences’ (Eisenhardt, 1989a:540). For this stage a composite role by time data display matrix (Miles & Huberman, 1994:126) was compiled across all ten Case Dyads to explore and describe the UK SME NED functional role in practice from the separate perspectives of the MDs and the

⁵⁸ Appendix 6 is the data audit trail for Case Dyad A respondents. It indicates the transcript line location of the evidence for the NED role elements in the literature-based framework and new role elements emerging from the inductive data. The equivalent tables for Case Dyads B to J are available as separate working documents.

NEDs. This is Appendix 7.⁵⁹ Here too there were discernable differences in dyad partner perception of the UK SME NED role. The analysis identified changes in the NED role over time and within the different contexts experienced by the respondents. The NED functional role within case analysis and cross case pattern matching compared the data from twenty respondents' in-depth interviews against the literature-based framework. This is Chapter Five of this thesis. The inductive data identified areas that had not been explicitly explored in the existing literature. These new NED role elements were incorporated into a revised framework for UK SME NED roles and this is Appendix 8. However, this analysis failed to address the differences and nuances in the NED role element ascendancy over time. Despite its revisions to include the inductive data, the framework focus on the NED function was insensitive to changes in the NED role over time and the differences in dyad partner perception. Dwyer and Ross (2007) experienced similar difficulties capturing temporal and 'dynamic' perspectives of SME advisor relationships. Their literature framework had 'only moderate success in fitting our data' (Dwyer & Ross, 2007:139).

4.7 Data Analysis: Dyad Relationship Dynamics

This section discusses the second level of analysis that focussed on the *events* or causal laws by proposing a typology of NED role trust and revealing the different MD and NED patterns of NED role trust. This is the abduction process as discussed on pages 92 and 93 and addresses the second research aim. The differences in dyad partners' perceptions, the changes in NED role element emphases within the specific case context and the changes over time all needed to be better understood and explained. Aware of the hazards in small business case-study research, especially the first disadvantage of researcher tunnel vision (Perren & Ram, 2004:91), a return was made to the wider social science literature.

4.7.1 NED Trust Typology

Drawing on the literature of working relationship trust development and entrepreneurial ventures a NED role trust typology was developed. This was used to map dyad respondents' accounts of relationship incidents. These were similar to stories of critical incidents (Chell, 1998). In this research the incidents related to

⁵⁹ Appendix 7 includes summary data from the audit trail for Case Dyad A (Appendix 6) and the equivalent working document audit trails for Case Dyads B to J

stories of dyad partner surprise behaviour. The NED role trust typology included **NED tells**, **NED advises** and **NED acts** levels of trust. These gave a structure to explore and describe different perceptions of the NED role and then to explain SME MD and NED dyad behaviour over time. This approach followed the interpretation by Miles and Huberman of phenomenological *Interactive synthesis* (Miles & Huberman, 1994:86 & 176). This is Chapter Six of this thesis.

4.7.2 Within case displays:

4.7.2.1 Individual Synopsis

The in-practice NED role over time from the two perspectives was mapped against the NED role trust typology to create an 'individual synopsis' (Miles & Huberman, 1994:86) of the development of trust between in the MD and the NED in each Case Dyad. The Dyad A synopsis is incorporated into Chapter Six. The synopses for Dyads B to J have been created but follow a less formal format.⁶⁰

4.7.2.2 Illustrated Narrative

The 'illustrated narrative' (Miles & Huberman, 1994:86) for each case was captured in the Case Dyad NED Role Trust Patterns and the Relationship Incident matrices. Figure 6.2 and Table 6.1 in Chapter Six explore and describe the dyad patterns of partner trust in Case Dyad A.⁶¹

4.7.3 Cross Case Pattern Searching:

4.7.3.1 General Condensation

The 'general condensation' (Miles & Huberman, 1994:87) process produced composite patterns of NED role trust development from the MD and NED perspective. In Chapter Six Figures 6.3 and 6.4 are reproductions of the original A2 hand drawn charts that informed the composite patterns for MDs and NEDs respectively.⁶² Together with example relationship incidents, these patterns were used to explore each group's differing perceptions of the level of NED role trust over time.

⁶⁰ Case Dyad A synopsis was edited to reflect feedback from peers who found the original format confusing. The information was rearranged; however the synopses for Case Dyads B to J follow the original format. These are available as separate working documents

⁶¹ For the equivalent figures and tables for Case Dyads B to J see Appendices 9 to 17 respectively. The relationship incidents from MDs have the suffix 'm' and from NEDs the suffix 'n'

⁶² See page 190

4.7.3.2 *General Psychological Structure*

This was the final component of the phenomenological *interactive synthesis* approach to analysis. A 'conceptual frame' (Miles & Huberman, 1994:87) was needed to interpret the differences in perception between the dyad partners more accurately. The broader social sciences literature used to explore the ACCA survey dyad partners' differences in perceptions of NED help (Boxer *et al*, 2005) was revisited. In the analysis of the survey data it had been important to seek a theory that reflected the research perspective that '[W]hen people interact, they interpret what is going on, from the meaning of symbols to the attribution of motives to others' (Johnson, 2000:161). Following discussions with colleagues⁶³ Attribution Theory bias was adopted as it focussed on how individuals interpreted their worlds in terms of their own and others' behaviour. However, in the analysis of the ACCA survey dyads, Attribution Theory bias could only suggest why such differences might exist based on limited data from structured responses to one survey question. There was no opportunity to seek further clarification from the survey respondents. The partner perceptual differences first found in the ACCA survey data re-emerged in the analysis of the Case Dyad interviews, a richer data source than the ACCA survey dyads. Therefore, Attribution Theory bias was proposed as the retroduction 'conceptual frame' (Miles & Huberman, 1994) to explain the composite dyad partner differences in perception of the NED role over time and context. This is Chapter Seven of this thesis.

4.8 Data Analysis: Dyad Partner Disagreements and Attribution Theory

This section discusses the interpretation of the *generative mechanisms* by using the Attribution theory bias to explain temporal changes in the dyad partners' NED role trust. This is the retroduction process as discussed on pages 92 and 93 and addresses the third research aim. The section opens with a brief review of Attribution Theory bias.

Hewstone (1989) remarked that the published work on Attribution Theory had 'reached monumental proportions' citing authors who had found 900 'relevant references' when compiling a review in 1980 (Hewstone, 1989:11). Munton, Silvester, Stratton and Hanks (1999) made similar comments about the number of

⁶³ Boxer *et al* (2005) thanked Dr Trix Webber for her insightful suggestion

academic journal articles in the preceding decade that describe how ‘practioners and researchers alike have applied attribution theory to their work’ (Munton *et al*, 1999:1). Therefore the following review is a snapshot, focussing on Attribution Theory bias as an explanation of the different patterns of dyad partner trust development.⁶⁴

4.8.1 Attribution Theory definitions

Attribution Theory is defined as dealing ‘with how the social perceiver uses information to arrive at causal explanations for events. It examines the information gathered and how it is combined to form a causal judgement’ (Fiske & Taylor, 1991:23). The key component is summarised as an individual attributing their own behaviour to environmental factors and attributing others’ behaviour to their dispositions, that is, their personalities (Johnson, 2000; Bullock and Trombley, 1999; Marshall, 1998). The social attribution process is generally accepted as ‘the rules that most people use when they attempt to infer the causes of behaviour they observe’ (Marshall, 1998:29). These ‘draw on people’s social characteristics to form a basis of the attribution’, for example, a ‘talented’ man or a ‘lucky’ woman (Johnson, 2000:19).

4.8.2 Normative Prescriptions and Knowledge Recipes

Shaver (1983) used the term ‘normative prescriptions’ to focus on an observer’s use of prescribed role requirements in making dispositional attributions of an actor’s behaviour. Where individuals follow the ‘normative prescription’ this adds very little to the observer’s knowledge of the actor. Where individuals do not behave as prescribed, this unexpected behaviour is taken as an indication of the actor’s disposition. Consequently the observer is able to add this attribution to their ‘normative prescription’ for this individual’s future behaviour. This is similar to the concept of knowledge ‘recipes’ (Schutz & Luckmann, 1974) that individuals create from a range of information sources available to them. This thesis has adopted ‘recipe’ to represent this concept.

4.8.3 Causal Dimensions

The concepts of Attribution Theory include the causal dimensions of *internal* factors associated with individuals – either as actors or observers, *external* factors

⁶⁴ For fuller details of the key theories of Attribution Theory see Shaver (1983), Hewstone (1989) and Fiske and Taylor (1991).

associated with the environment, *variable* or temporary causes and *stable* causes, that is, 'presumed to remain essentially unchanged over a longer time period' (Shaver *et al*, 2001:9). In 1985 Weiner introduced the concept of intentionality or volition, that is, the degree of *control* an actor has over the situation such that they can influence the outcome. The main components of Attribution Theory have been summarised in Figure 4.5 below.

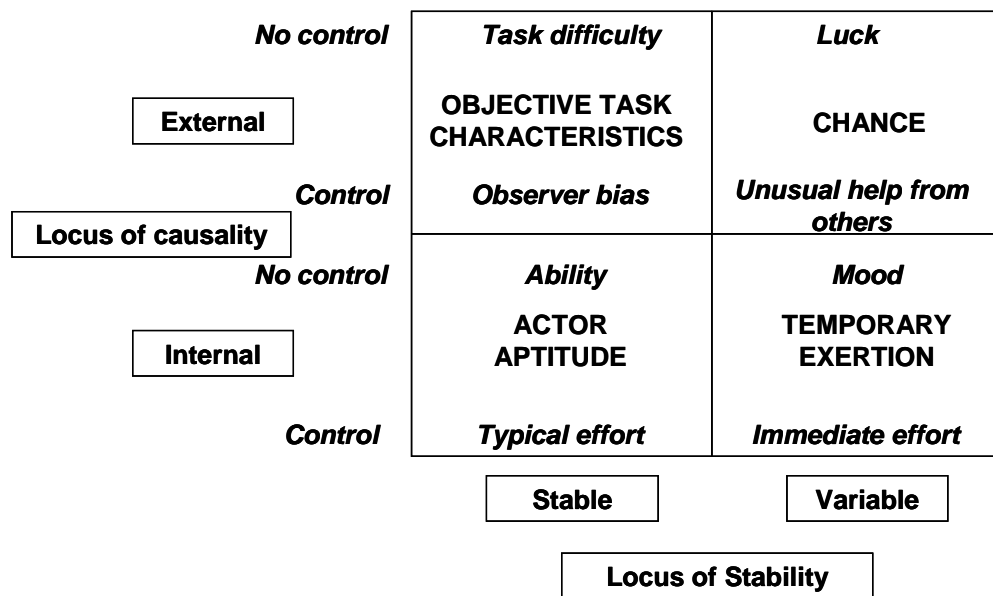


Figure 4.5: The Causal Dimensions of Attribution Theory
(based on Weiner, 1985)

This figure is based on Weiner's (1985) research set in the context of the attribution of achievement, that is, success and failure. There are two levels for each of the three causal dimensions, that is, *control* or *no control*, *stable* or *variable* and *internal* or *external* environmental locus of causality. Recent research in the field of family therapy by Munton *et al* (1999) introduced the additional dimensions *personal* and *universal* causes. These relate to the recipes developed and enacted by dyad partners as a result of their interaction. Personal causes are defined as those that set the actor apart from others, attributing the behaviour as unique rather than 'universal' (Silvester, 1998).

4.8.4 Decisions to Help or Not to Help

In earlier work Weiner (1979) had proposed that the 'tendency to help is influenced by the perceived cause for the need for aid' (Weiner, 1979:16). He found that if the environmental barrier was perceived as the cause for the need 'help is more likely' and posited that '[w]hen a failure is perceived as controllable then help is withheld'

(Weiner, 1979:16). For example, people are biased against helping a drunk, a disposition attributed to volitional *control*, rather than someone ill and in distress, that is, attributed to *no control* (Weiner, 1979).

4.8.5 Attribution Theory Bias

Attribution Theory includes the identification of a number of bias patterns: the *self-serving bias*, the *actor-observer bias* and the *fundamental attribution error (FAE)*. Fiske and Taylor (1991) also identified the *false consensus effect*.

4.8.5.1 The self serving bias

This is the propensity of an actor to credit their successes to the *internal* causal dimensions of their behaviour, that is, their skills, ability and/or motivation, also referred to as the individual's personal disposition. These attributions illustrate the self-enhancement component of the bias. Failures are credited to the *external* causal dimensions, that is, bad luck and/or task difficulty over which the actor perceives they have *no control*, such as an economic downturn. These attributions illustrate the self-protection component and are less prevalent than those promoting ego-enhancement (Fiske & Taylor, 1991). These have been described as 'the desire to present oneself in the best light' and 'ego protection' (Rogoff, Lee & Suh, 2004:367).

4.8.5.2 The actor observer bias

The *actor-observer bias* is the propensity of someone observing another's behaviour to attribute successful behaviour to *external* causal dimensions over which the actor has *no control*, that is, good luck or an economic upturn. Self-attribution of the observer's behaviour in similar contexts is credited to their own personal disposition, following the *self-serving bias* processes of ego-enhancement or protection. Failures are attributed to the actor's lack of skill, ability and/or motivation, that is, *internal* causal dimensions perceived by the observer to be in the actor's *control*. Self-attributions of similar behaviour by the observer follow the *self-serving bias*, that is, failures are credited to *external* causes where the observer has *no control*.

4.8.5.3 Fundamental Attribution Error (FAE)

Normally when observing other people's behaviour, an attribution is made assuming the decision to act in a particular way is made freely and represents the

actor's *stable* dispositional traits, ignoring the influence of *external* factors or role constraints. This leads to the 'most commonly documented bias on social perception' (Fiske and Taylor, 1991) referred to as the *fundamental attribution error (FAE)* (Heider, 1958; Ross, 1977; Fiske & Taylor, 1991; Langdrige & Butt, 2004; Tomlinson & Mayer, 2009). Into any dyadic relationship one partner will carry a bias with which they will judge the other based on their own behaviour in what they perceive to be similar situations. The fact that their own behaviour may be one of many environmental prompts for their dyad partner to react in a particular way is ignored. An assessment of the other's behaviour may be attributed to personal characteristics such as their 'abilities, physical appearance, mannerisms, or social status' (Jones & Nisbett, 1972:90) rather than situational factors. The focus of *actor-observer bias* on the personal movements of the Other (Wagner & Gooding, 1997) underpins and contributes to the potential for the *FAE*. This focus of attention on the actor's behaviour rather than the actor's situation has been explained by highlighting the active nature of people's behaviour when contrasted with the likely, passive nature of situational forces. Put simply, people's behaviour is easily visible, situations are not.

4.8.5.4 Attribution Theory Bias Summary

Figure 4.6 overleaf is a summary of the *self-serving bias* and the *actor-observer bias* components and the perspective tension which creates the *fundamental attribution error* or *FAE*. The *self-serving bias* comprises of self-perceived Personal Strengths, that is, *skills/motivation/effort* which are all perceived to be in the *control* of the actor and which lead to his or her successful behaviour. Failure is attributed to Environmental Threats due to *bad luck/chance* over which the actor perceives he or she has *no control*. Conversely the *actor-observer bias* is comprised of the observed actor's perceived Personal Weakness, that is, a lack of *skill/motivation/effort*, all perceived to be in the *control* of the observed actor and which the observer perceives contribute to the actor's failure. Any successful behaviour is perceived to be due to *good luck/chance*, that is, Environmental Opportunities over which the observer deems the observed actor has *no control*.

4.8.5.5 False Consensus Effect

Fiske and Taylor (1991) highlight a further attribution bias, that of the *false consensus effect*. Observers' perceive their own actions as usual and that 'under

the same circumstances others would have reacted the same way as oneself' (Fiske & Taylor, 1991:75). One explanation given is the propensity of individuals to socialise and interact with those they perceive to be similar to them. Therefore the sample of behaviour used as a benchmark for typical action is biased.

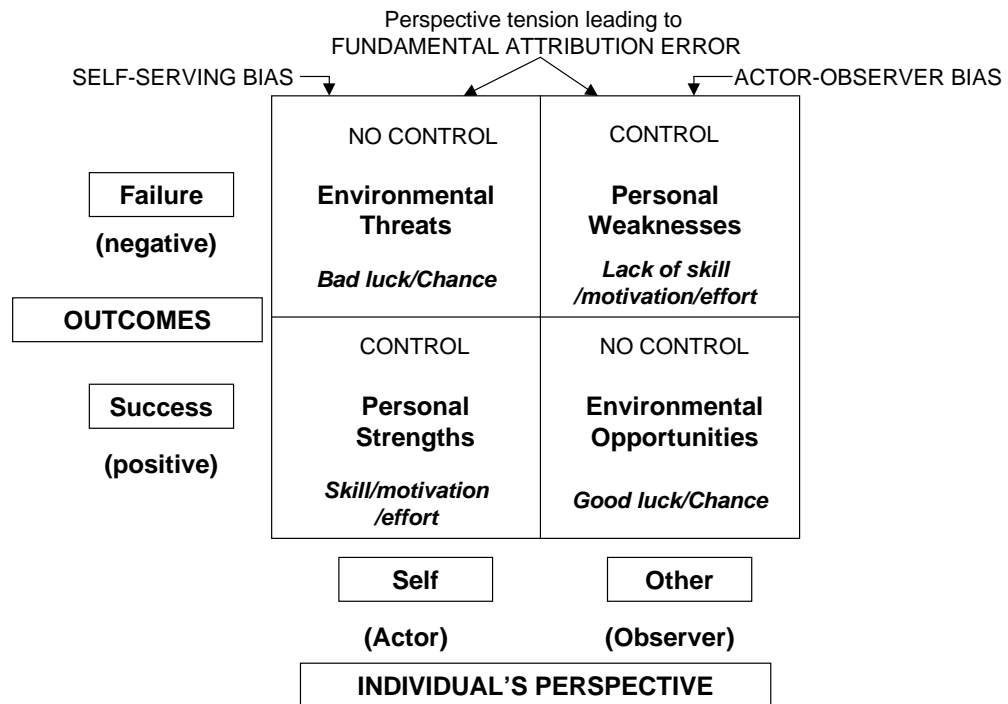


Figure 4.6: Attribution Theory Bias in Action

4.8.6 Attribution Theory Bias in Action

4.8.6.1 Visual Attention

The attribution bias theory of Jones and Nisbett (1972) maintains that in dyadic relationships dispositional traits such as knowledge, social status and personality are used to make attributions by Actors and Observers alike, but from differing stand points. They summarised this difference in two ways. Firstly, Actors and Observers use different information when attributing an Actor's behaviour. The Actor is more likely to bring 'more and more precise, information' about his or her emotions and intentions behind their action, that is, adopting an 'ipsative or ideographic' stance judging the action against their own previous behaviour (Jones & Nisbett 1972:85). The Observer has limited information about the Actor's 'unique history and orientation' and therefore judges the actor against others in similar situations, that is, adopting a 'normative and nomothetic' stance (Jones & Nisbett 1972:85). Secondly, Actors and Observers use the same information differently.

The act is significant to the Observer who believes the environment to be *stable*. His or her focus is on the *internal* causes of the Actor's behaviour. The Actor focuses less on his or her own behaviour and more on the *external* causes that precipitated it (Jones & Nisbett 1972:85). Similar 'significantly different sensemaking proclivities' (Wagner & Gooding, 1997:283) were identified in research into managers' attributional processes. This difference in perspective is described as the different 'visual attention' (Wagner & Gooding, 1997).

4.8.6.2 *Simplifying Assumptions*

Wagner and Gooding (1997) argued that an Actor's 'visual attention' is focussed on environmental cues and that the Observer ignores these cues. Consequently the Observer will tune into cues 'that are particularly pertinent for his (sic) own next responses' and is 'likely to be attracted to convenient simplifying assumptions about the environment' (Jones & Nisbett, 1972: 85). There are three types of these 'simplifying assumptions'. Firstly, because an individual has always acted in a particular way in a particular context they will always act in that way whatever the situation. Secondly, the Observer is unaware of the impact their behaviour has on the Actor. Because of this, they are likely to emphasise the Actor's reaction to the 'perfectly standard' (Jones & Nisbett, 1972: 85) nature of their Observer actions as unique and due to the Actor's personality. Thirdly, as the environment or *external* causes are the same, the extent to which each Actor and Observer dyad partner behaves differently causes him or her to attribute the other's action to *internal* dispositional factors (Jones & Nisbett, 1972). Simplifying assumptions save time and effort in making initial assessments of a dyad partner's behaviour. If the Observer's initial assessments or first impressions of an Actor's behaviour are perceived to be confirmed, little effort is likely to be expended on gaining a richer picture of the causes of the Actor's behaviour. Only when the behaviour of the Actor does not meet the Observer's expectations for the Actor's role will time and effort be invested to answer the question "Why?" These simplifying assumptions and expectations are grounded in the *personal* and *universal* recipes of the dyad partners. Consequently tensions can arise when an Actor's *self-serving bias* self image, judged against their 'recipe' (Schutz & Luckmann, 1974) of a competent practioner, is not confirmed by the behaviour of an Observer as the Observer is exhibiting the *actor-observer bias*. This tension can be exacerbated if the Actor's response to the Observer does not confirm and may threaten the Observer's own

self-serving bias image judged against their 'recipe' of a competent practitioner. As Figure 4.6 illustrates, where both biases are found there is the potential for the perspective tension to develop into the third bias, the *FAE*.

4.8.7 Attribution Theory as a 'conceptual frame'

Boxer *et al* (2005) used Attribution Theory bias when analysing the ACCA dyadic survey responses on how the NED had helped the company. The categories of NED help listed on the survey forms were categorised as having either an *internal* or an *external* cause (Weiner, 1985). A statistically significant greater level of disagreement was found between MDs and NEDs when assessing categories of *internal* help (Boxer *et al*, 2005:15). These *internal* categories were linked to the dispositional traits of the MDs' personal skill and ability, perceived by the MDs to be central to their self image as 'questing heroes' (Perren *et al*, 2000). Very recently the combining of trust and Attribution Theory has started to emerge in the wider management literature. For example, in January 2009 a Special Topic Forum in the *Academy of Management Review* examined the process of repairing trust within and between organisations from different theoretical perspectives (Dirks, Lewicki and Zaheer, 2009) including proposing how 'attribution theories can offer insights into how trust grows, declines and is repaired' (Tomlinson & Mayer, 2009:85). A further study currently available on line proposes a theoretical framework for 'trust attribution styles' (Hatzakis, *in press*). It will be shown that this thesis' contribution to theory is very timely as these emerging theoretical frameworks will be enfolded into the discussion in Chapter Eight: *Synthesis of the Thesis Contribution*.

In this thesis Weiner (1979) was used to explain the NEDs' perceptions as to whether or not they had helped the MD. If the company was experiencing problems due to the MD's *internal* dispositional ability of laziness then help would not be given. Conversely, help would be offered when *external* situational factors, such as the prevailing market conditions, outweighed the MD's lack of appropriate experience rather than a refusal to act. Boxer *et al* (2005) suggested that the *external* climate of increased regulatory activity and the media coverage of corporate governance scandals may have influenced the survey NEDs to exhibit the *self-serving bias* by structuring their responses to reflect PLC boardroom good practice, protecting their self image as a 'diligent director' (Boxer *et al*, 2005:19).

As previously explained in Chapter One, it was the differences in the ACCA survey dyad partners' perceptions on NED help that prompted this research. Although the differences were statistically significant, the data set was limited as it was based on responses to only one question and the restrictive cage of literature-based options.⁶⁵ It was not possible to determine whether the proposed self images of the dyad partners reflected their 'lived experience' (Roberts *et al*, 2005) of the UK SME NED role. However, by collecting a richer qualitative data set this is able to investigate whether these self images exist in practice. Therefore Attribution Theory bias was selected as the 'conceptual frame' (Miles & Huberman, 1994) to explain and predict the different respondent perceptions of the NED role over time and in context. In particular, the operationalising of Attribution Theory bias by respondents provides the 'general psychological structure' (Miles & Huberman, 1994:87), that is, a theoretical underpinning of dyad partner perceptual differences for the UK SME NED role. In Chapter Seven, the incorporation of the dyad partners' attribution processes into the Chapter Six NED role trust typology is an illustration of the links between the critical realist processes of abduction and retroduction, that is, the conceptual frames of working relationship trust development and Attribution Theory bias. The Case Dyad relationship incident nodes were interpreted from both theoretical perspectives to create the NED role process framework.⁶⁶

4.8.8 Conceptual frame enhanced by lifeworld theory (Schutz & Luckmann, 1974)

The analysis after the second interviews was influenced by the lifeworld theory of Schutz and Luckmann (1974); in particular, how an individual creates knowledge 'recipes' (Schutz & Luckmann, 1974). Schutz's main influences were the work of Husserl on the *lebenswelt* or lifeworld, symbolic interaction and *taking the role of the other* of Mead and Weber's *verstehen* or the subjective understanding of people's actions (Wallace & Wolf, 1998). He was a key influence in the work and writing of others, for example, the psychologist Heider⁶⁷ cited a 1945 work by Schutz on multiple realities in *The Psychology of Interpersonal Relations* (Heider, 1958). This work by Heider is acknowledged as the foundation of Attribution Theory. Berger and Luckmann (1967) acknowledged that *The Foundation of Knowledge in Everyday Life*, the first section of *The Social Construction of Reality*,

⁶⁵ Only one survey dyad respondent, an MD used the option of adding their own category of help under 'Other help – please specify' and added *someone to talk to*

⁶⁶ Chapter Seven Figure 7.6 on page 270 and Figure 7.7 on page 272

⁶⁷ Schutz is spelt Schuetz in this work, reflecting the original German spelling of Schütz.

was based entirely on Schutz and Luckmann (1974) *The Structures of the Life-world* (Berger & Luckmann, 1967:219).⁶⁸ Schutz and Luckmann (1974) gave the following definitions of the life-world:

By the everyday life-world is to be understood that province of reality which the wide-awake and normal adult simply takes for granted in the attitude of common sense. By this taken-for-grantedness, we designate everything which we experience as unquestionable; every state of affairs is for us unproblematic until further notice.' (Schutz & Luckmann, 1974:4).

The everyday life-world is that reality in which reciprocal understanding is possible (Schutz & Luckmann, 1974:35)

Schutz and Luckmann further defined the 'everyday life-world and natural attitude' as a person's stock of knowledge at any given time that is based on their stock of previous experience. There were two sources, their own experience or 'immediate' stocks and those gleaned from others, the 'communicated' stocks drawn from, for example, parents, teachers, colleagues and friends. Together these experiences serve as the reference points for an individual's explication of their world (Schutz & Luckmann, 1974:4).⁶⁹ The appearance of a problem or 'special shock experience' (Schutz & Luckmann, 1974:35) involves the individual stepping back from their stream of consciousness and engaging in a period of reflexivity. If as a result of this reflexivity the new experience is accepted, this leads to a modification in the individual's stocks of knowledge, that is, their life-world. Bryman and Bell (2007) refer to Schutz and the attention he drew to the fundamental difference between the objects of social science and natural science research. People are the objects of social science research and 'are capable of attributing meaning to their environment' (Bryman & Bell, 2007:416). Through face-to-face interaction and probing 'beneath the surface' qualitative research has the potential to see 'through the eyes of the people studied' and discover that their view is not what was expected (Bryman & Bell, 2003/2007:416). The relationship incident nodes used in the analyses in Chapters Six and Seven are examples of a 'special shock experience' when respondents' expectations of their dyad partners' role behaviour were not met.

⁶⁸ Schutz died in 1959 before he was able to complete *The Structures of the Life-world*. As his former pupil Thomas Luckmann was asked to edit Schutz's notes and co-author the publication.

⁶⁹ This social process resonates with the beliefs of transcendental realists Miles and Huberman. They argued that an individual's stock of knowledge has both historical and social components and a component based on an individual's interpretation of their own phenomenological experience. It is possible to "transcend" these processes 'by carefully constructing explanations that account for them in plausible ways' (Huberman & Miles 1994:429).

4.8.9 The theoretical consequences of dyad partners' different 'visual attention'

Actors focus on environmental or situational factors when outcomes differ from expectations whereas Observers assume a constant situation and look for answers in the Actors' behaviour. Figures 4.7 and 4.8 are centred on an event or dyadic relationship incident that requires action to be taken. The broad arrows indicate how different sources of information are used to interpret the same event. The solid black arrows indicate how the same event information is used differently by Actors and Observers. In Figure 4.7 the MDs are the Actors and the NEDs the Observers and in Figure 4.8 the NEDs are the Actors and the MDs the Observers. These Figures have been designed and included to illustrate the ways in which the dyad partners view the same event using different information from their unique 'immediate' and 'communicated' (Schutz & Luckmann, 1974) knowledge stocks. The MD and NED have unique 'immediate' (Schutz & Luckman, 1974) knowledge stocks created as the result of their individual *personal* experiences. Theoretically both partners have access to *universal* 'communicated' (Schutz & Luckman, 1974) shared stocks of knowledge gained from, for example, mentors, education and training courses, books and the media. However, these stocks will also include an element *personal* to each individual. These Figures also illustrate that the same event information is used differently. The Actor focuses on the environmental and situational causes that underpin the *self-serving bias* and the Observer focuses on the Actor's behaviour that underpins the *actor-observer bias*.

4.8.9.1 *Attributions of MD action*

In Figure 4.7 the MD is the Actor exhibiting the *self-serving bias* and the NED is the Observer exhibiting the *actor-observer bias*. The figure represents the dyad partners' different 'visual attention' (Wagner & Gooding, 1997) for MD action. As the Actor, the MD's attention is focussed on the environmental or situational factors requiring action, which can include the NED's behaviour. If the causes have been directly encountered before, information is retrieved from the MD's 'immediate' knowledge stocks. An 'ipsative or ideographic' (Jones & Nisbett, 1972) stance is taken that previous successful MD action can be repeated, that is, 'I can always do it again' 'until further notice' (Schutz & Luckmann, 1974). If the causes have been encountered indirectly, resolutions will be retrieved from the MD's *personal* stock of *universal* 'communicated' knowledge.

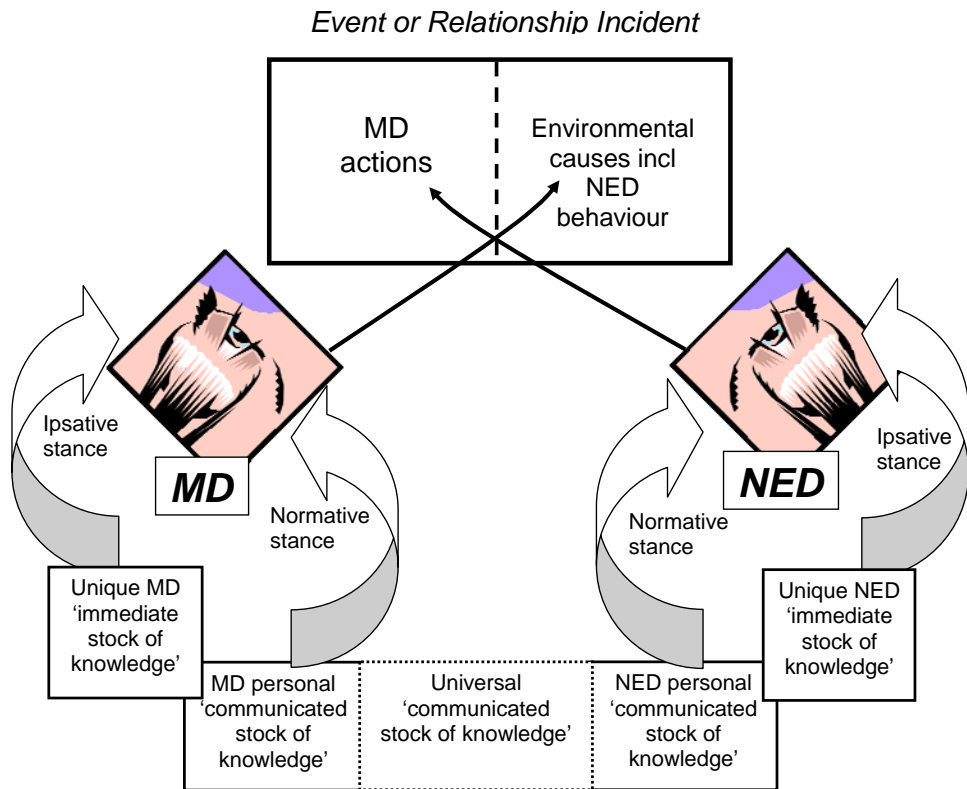


Figure 4.7: The different dyad partner 'visual attention' for the MD as Actor

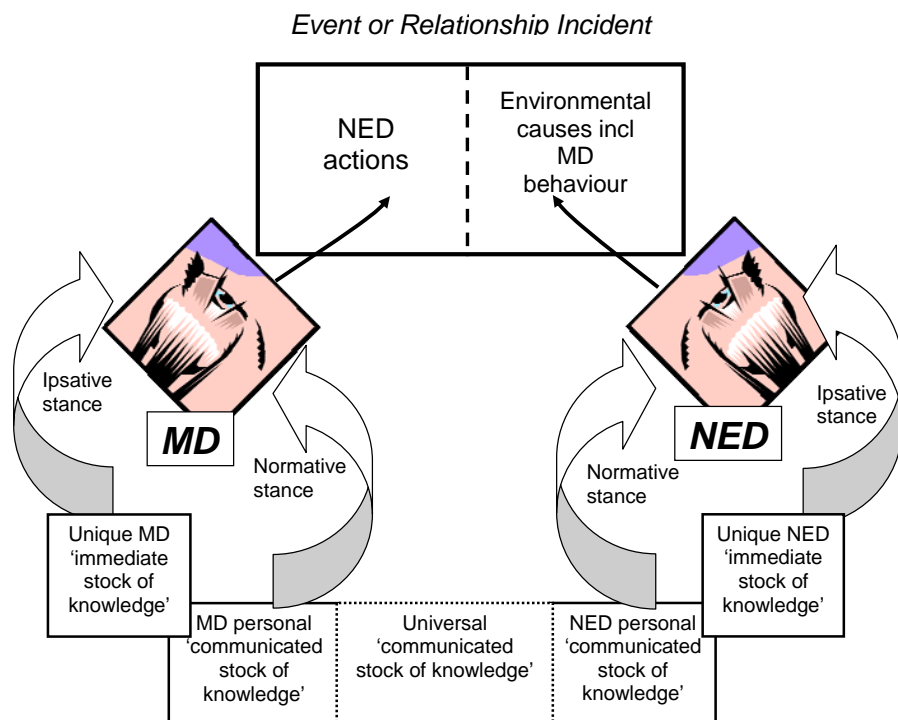


Figure 4.8: The different dyad partner 'visual attention' for the NED as Actor

A 'normative and nomothetic' (Jones & Nisbett, 1972) stance is taken that previous successful action suggested by trusted third parties can be used to resolve the event or relationship incident.

The same event or relationship incident is perceived differently by the NED. As the Observer, the NED's attention is focussed on the MD as the source of any unexpected actions in response to the event. The NEDs assume that both partners are experiencing the same situational factors, ignoring that their own behaviour may be a contributory cause of any unexpected MD action. If the MD's actions have been directly encountered before, an attribution will be made based on the NED's 'immediate' knowledge stocks. An 'ipsative or ideographic' (Jones & Nisbett, 1972) stance is taken that this action is an indicator of the MD's *internal/stable* disposition. Attributions of MD volition, that is, *control* or *no control*, determine whether the NED is inclined to offer help (Weiner, 1974) to resolve the event or relationship incident. If the MD's actions have not been encountered directly, the NED will retrieve examples of others in similar roles exhibiting similar behaviour from their *personal* stock of *universal* 'communicated' knowledge. A 'normative and nomothetic' (Jones & Nisbett, 1972) stance by the NED leads to a 'simplifying assumption' (Jones & Nisbett, 1972) being made about the MD aptitude and ability, based on the known dispositional attributes of these others.

4.8.9.2 *Attributions of NED action*

In Figure 4.8 the Actor and Observer roles and the attribution biases are reversed as it represents the dyad partners' different 'visual attention' for NED action. As the Observer exhibiting the *actor-observer bias* the MD assumes that both partners are experiencing the same situational factors, ignoring that their own actions may be a contributory cause of any unexpected NED action. If the NED's actions have not been encountered directly, the MD will retrieve examples of other advisors exhibiting similar behaviour from their *personal* stock of *universal* 'communicated' knowledge. As the Actor exhibiting the *self-serving bias*, the NED's attention is focussed on the environmental or situational factors requiring action, which can include the MD's behaviour. The NED adopts an 'ipsative or ideographic' (Jones & Nisbett, 1972) stance assumption that their previous successful action can be repeated, that is, 'I can always do it again' 'until further notice' (Schutz & Luckmann, 1974). If the causes have been encountered only indirectly, a

'normative and nomothetic' (Jones & Nisbett, 1972) stance is taken which can include the 'simplifying assumption' (Jones & Nisbett, 1972) that successful action transferred from different contexts can be used to resolve the event or relationship incident.

4.8.10 The 'visual attention' of the thesis

This thesis is a study of the SME NED role and how it is perceived differently by Case Dyad MDs and NEDs. Therefore, its primary focus is on MDs as the Observers and NEDs as the Actors of the UK SME NED role as shown in Figure 4.8. However, as the NEDs also perceive that an integral part of their NED role is to critique MD behaviour, their perspective as an Observer of MD Actors is still critical to understanding and explaining the NED role process.

4.9 Ensuring Methodological Rigour

Methodological rigour maintained by the thesis addressing the hazards in small business case-study research identified by Perren and Ram (2004). These authors mapped the prevalent paradigms in small business case-study research to 'explore the methodological and policy-making consequences' of the researcher's paradigmatic position. Assessing this research's position against the Perren and Ram (2004) criteria, this thesis sat within the 'Multiple Stories Milieu Explorations' paradigmatic position as it aimed to explore the interaction of the 'social actors' in a UK SME, in particular the MD and the NED, accepting that 'they will have different interpretations of the social world' (Perren & Ram, 2004:89).⁷⁰ This position was identified as having three potential advantages and three potential disadvantages. By being aware of these criticisms of the paradigmatic position and its attendant methodological approach, this thesis aimed 'for emancipation through awareness' (Perren & Ram, 2004:95). This section details the advantages and disadvantages put forward by Perren and Ram (2004:91) and reviews how successfully this research addressed the points they raised.

4.9.1 'Multiple Stories Milieu Explorations': The advantages

The three potential advantages were:

⁷⁰ The earlier *objective* bias could imply that the ' "Objective" Milieu Case Explanations' was a closer match; however Perren and Ram posit that cases here 'are focussed in the main on the organization as the primary "unit of analysis" ' (Perren & Ram, 2004:87). The unit of analysis in this thesis was the respondents' relationship with their dyad partner and not the SME.

The stories of multiple actors allows the complexity of the social world to be explored

The competing stories highlight the multiple realities of the social world and perhaps avoids the trap of over simplified models or answers

The presentation of multiple positions through narrative may produce a personal reflexive response within the reader.

(Perren & Ram, 2004:91 *emphasis added*)

The decision to interview both dyad partners using similar semi-structured protocols enabled the exploration of the complex 'social worlds' of the MDs and NEDs. This exploration gave a richer insight into the SME NED role than reported in previous studies. This access allowed the different perspectives, or 'competing stories', of the MDs and NEDs as either actors or observers to be made explicit.

The 'multiple realities' were exposed in two ways. Firstly, the role or 'reality' of the NED is perceived differently by MDs and NEDs. Secondly, MDs and NEDs can adopt the roles or 'realities' of either an Actor and/or an Observer when recounting their stories of the NED role. The third potential advantage of 'multiple positions' producing 'a personal reflexive response' (Perren & Ram, 2004) was evident in the respondents when they switched from Actor to Observer of their partner's and/or their own behaviour during the interview. For example, in his second interview AMD was asked to clarify his first interview comment about a situation involving ANED not being "tight enough".

I have managers here who are not managers. This reflects badly on [Production Director], my Works Director ... which I suppose is a bad reflection on [NED], because he was brought in to tutor [Production Director], it's still not tight enough. ... The trouble is as this goes on the problem gets greater. It's been there for two or three years now and it's not got any better. Keep flagging it up at Board meetings but we choose to be ignoring it at the moment.

(pause and researcher starts next question)

You know, I'm taking [NED]'s advice here and standing away from it and flagging it up. Five years ago I would have been in there and sacked them and taken someone else on. (AMD:1055-1075)

By reading to him from his original interview narrative, the research had produced this 'personal reflexive response' in AMD, who appeared genuinely surprised and proud of his changed behaviour.⁷¹

⁷¹ This is an example of an ideographic approach to data collection as it captured the respondent's 'unique and particular' (Burrell & Morgan, 1979:3) experience of the UK SME NED role

4.9.2 'Multiple Stories Milieu Explorations': The disadvantages

Perren and Ram (2004) identified three possible disadvantages of the 'Multiple Stories Milieu Explorations' approach:

The acceptance of multiple actors and complexity in the social world may inhibit the researcher from searching for patterns and blinker other more conceptually driven explanations.

Accepting multiple subjective interpretations may cloak the lionisation of one group of individuals within the researcher's narrative. All narratives are subjective and equal, but some narratives may be more equal than others.

The complexity of the interpretation may leave readers confused as to the key themes from the research and the actions or policy conclusions that can be drawn. (Perren & Ram, 2004:91 *emphasis added*)

A return was made to the wider social science literature when the literature-based framework failed to capture the NED role nuances and the differences in perceptions described by respondents.⁷² This was an example of addressing the first disadvantage by seeking 'more conceptually driven explanations' (Perren & Ram, 2004:91) and resulted in the model of the NED role trust typology based on the trust development in working relationships literature. This mirrored the 'conceptual frame' (Miles & Huberman, 1994:87), interpreted as the final *General Psychological Structure* stage of the *interactive synthesis* phenomenological methodology (Miles & Huberman, 1994:86 & 176). However, during the initial analysis of the dyad partner patterns of trust development, this first disadvantage re-emerged and was proven as no patterns were discerned. The patterns emerged by stepping back from the individual Case Dyad 'illustrated narratives' and adopting a cross-case analysis approach. All ten MD trust typologies in Figure 6.3 were combined to produce Figure 6.5⁷³ and all ten NED trust typologies in Figure 6.4 were combined to produce Figure 6.6.⁷⁴ The respondents' group composite patterns echoed the Attribution Theory bias used by Boxer *et al* (2005) to explain the ACCA survey differences, providing the 'more conceptually driven explanations' (Perren & Ram, 2004:91) and 'conceptual frame' (Miles & Huberman, 1994:86) in Chapter Seven. During the analysis neither the MD nor the NED perspective of the NED role was privileged over the other. The reader is given the opportunity to judge this by the provision of respondents' verbatim quotes to support the thesis interpretation of dyad relationship incidents. Some

⁷² See sections 4.6 *Data Analysis: Functional role* and 4.7 *Data Analysis: Dyad Relationship Dynamics* on pages 103 and 105 respectively

⁷³ See pages 190 and 193

⁷⁴ See pages 190 and 203

dyads may feature more prominently in the discussions. Rather than any 'lionisation' (Perren & Ram, 2004:91), this prominence reflects the level of access given by the respondents to richer stories of the UK SME NED role.

To address the third Perren and Ram (2004) disadvantage of reader confusion concise diagrams were created to convey the complexity of the dyad relationship development over time. Figures 6.1 to 6.7 and Appendices 9 to 17 demonstrated the NED trust typology in individual Case Dyads and the cross-case composite patterns. Figures 7.6 and 7.7 depicted the opened out MD and NED trust spirals to demonstrate the steps in the NED role process. In addition, the *individual dyad synopsis* (Miles & Huberman, 1994:86) for Dyad A was redrafted in the light of peer reader feedback regarding its confusing format.

4.9.3 Thesis Theoretical perspective revisited

On pages 90 and 91 the research aims were shown to reflect a critical realist perspective. This chapter has explained how this was carried through into the choice of a qualitative methodology and case research and interviewing as the main research methods. It has also shown how a careful choice of conceptual frameworks was able to reveal the *experiences, events and generative mechanisms* that create the Case Dyad partners' realities for the UK SME NED role. Figure 4.9 below summarises the analytical decisions.

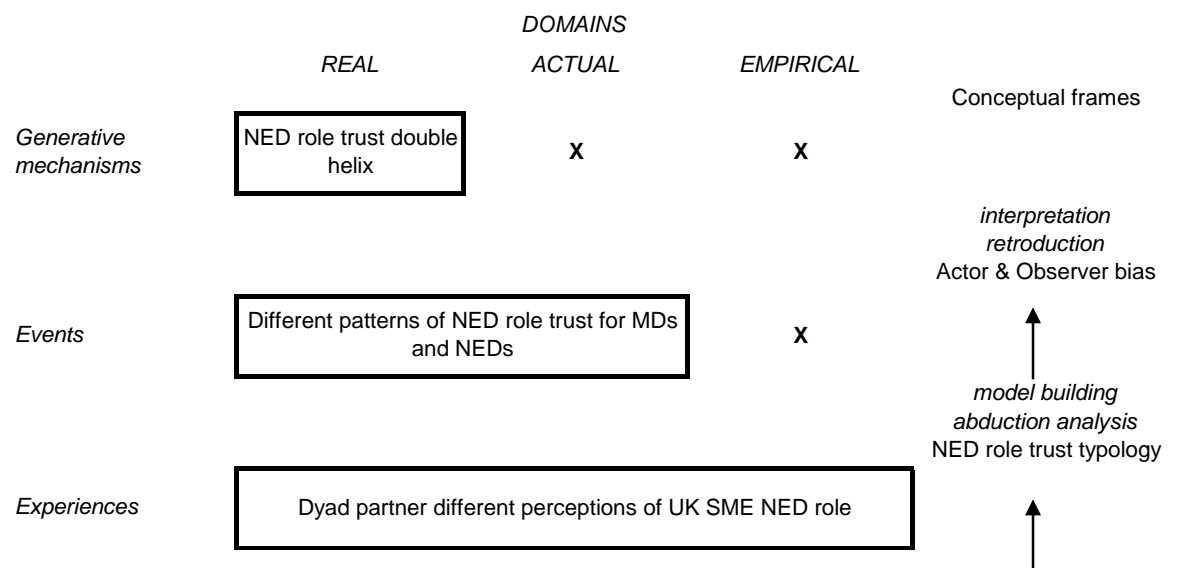


Figure 4.9: Thesis Methodology
(adapted from Bhaskar, 1975)

The mixture of deductive and inductive approaches enabled the observation of the dyad partners' *experiences* in the lowest level of reality, across all three domains. In the context of this thesis these are the dyad partners' different perceptions of the in-practice SME NED role revealed in Chapter Five using the literature based framework from Chapter Three. These *experiences* exist in the real, actual and empirical domains and are the observed phenomenon. The retroduction and abduction approaches of using conceptual frames to interpret and identify causation in Chapters Six and Seven enabled the less visible *events* and inaccessible *generative mechanisms* of NED role trust to be revealed between the levels of *events* and *generative mechanisms* (Easton, *in press*). In this context the *events*, or causal laws for the observed phenomenon, are the different MD and NED patterns of NED role trust. These were made visible by using the NED role trust typology to analyse Case Dyad relationship incidents as discussed in Chapter Six. The conjunction of the dyad partners' different patterns of NED role trust (*events*) and their different perceptions of the NED role (*experiences*) revealed the *generative mechanisms* of the NED role process, that is, the NED role trust double helix as discussed in Chapter Seven. The *generative mechanisms* are second order structures that exist in the real domain but cannot be accessed except through this conjunction. They are revealed through the analysis of the Case Dyad relationship incidents for the dyad partners' Actor and/or Observer attributions of NED role success and failure as shown in Figure 4.10 below.

| | <i>DOMAINS</i> | | |
|------------------------------|---|---------------|------------------|
| | <i>REAL</i> | <i>ACTUAL</i> | <i>EMPIRICAL</i> |
| <i>Generative mechanisms</i> | NED role trust double helix | X | X |
| <i>Events</i> | Different patterns of NED role trust for MDs and NEDs | | X |
| <i>Experiences</i> | Dyad partner different perceptions of UK SME NED role | | |

Figure 4.10: Thesis Reality
(adapted from Bhaskar, 1975)

4.10 Chapter Conclusions

Chapter Two argued that the gaps in the literature highlighted the importance of understanding the context of the respondents' behaviour before assigning any meaning. It stressed the need to value the perceptions of both sides of a dyad relationship and that the respondents' own voices should be sought. This chapter has demonstrated that these gaps have been addressed by the thesis conducting separate collection and analysis of dyad partner NED role 'lived experiences' (Roberts *et al*, 2005). The researcher was influenced by the lifeworld theory of Schutz and Luckmann, that is, 'the wide-awake and normal adult ... attitude of common sense' (Schutz & Luckmann, 1974:4). She believes that an individual accepts the world without question provided it fits with their stocks of 'immediate' and 'communicated' knowledge (Schutz & Luckmann, 1974). In the context of this research these knowledge stocks are their NED role recipes. Examples of unexpected NED role behaviour represented by the dyad partners' relationship incidents offered an insight into their differing realities of the SME NED role.

The decision to adopt a qualitative research methodology reflected that of other researchers, most notably Morgan and Smirich (1990), Miles and Huberman (1994) and Chell and Tracey (2005). The thesis methodology reflected the generic definition of qualitative research from Denzin and Lincoln (1994).⁷⁵

Qualitative research is multimethod in focus ... Accordingly, qualitative researchers deploy a wide range of interconnected methods, hoping always to get a better fix on the subject matter in hand. (Denzin and Lincoln, 1994:2 – emphasis added)

This approach also sat comfortably with the critical realist perspective of the researcher, adopting a mix of the most appropriate techniques and analyses to fulfil the research aims and address the gaps in the literature. Case study method was selected as it was suitable when 'how' and 'why' questions are posed about 'contemporary phenomenon' (Yin, 1994:6) when building theory (Eisenhardt, 1989a; Chetty, 1996; Eisenhardt & Graebner, 2007). The thesis focuses on 'why' the differing perceptions of the SME NED role arise and 'how' these differences affect MDs and NEDs sharing experiences in the same UK SME. By answering these questions the inaccessible structures of the MDs' and NEDs' different realities are revealed through the analytical processes of deduction, induction, abduction and retroduction.

⁷⁵ First cited in *section 4.3.1 Qualitative research* on page 93

The next chapter, Chapter Five *Comparing the SME NED Role in Practice*, explores the observed phenomenon, that is, the dyad partners' *experiences* of their different NED role realities to address the first research aim. It does this by using a combination of deductive and inductive techniques, comparing the literature-based framework from Chapter Three to the NED role data from the ten UK SME Case Dyads. The choice of qualitative methodology and open questioning gave the respondents' own voices equal privilege and transparency when the data⁷⁶ were collected and this approach continued in the analysis. The literature-based framework is extended by discussing how the prevalence of the NED role elements differs in the ten Case Dyads' practice and why this might be. The framework is enhanced by the inclusion of new NED role elements emerging from the inductive data. These give a richer insight into the social role processes and the role complexity of the UK SME NED. The analysis also reveals discrepancies in Case Dyad partners' perceptions of the role and that these change over time. The chapter concludes by suggesting that the investigation of these temporal discrepancies will make the *events* or causal laws of the dyad partners' NED role realities visible.

⁷⁶ From the 20 respondents over 31 semi-structured interviews

Chapter Five: Comparing the SME NED role in practice

5.1 Chapter introduction

This chapter compares the literature-based framework from Chapter Three with the evidence for the same NED role elements in the interview transcripts from the ten Case Dyads. This comparison completes the addressing of the first thesis aim:

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs

The framework grouped 65 NED role elements into the six categories of *Relationship Development*, *Knowledge Transfer/Director Development*, *Boundary Spanning*, *Creative NED Role-making*, *Risk Management – the people* and *Risk Management – the processes*.⁷⁸ In this first level analysis each of these categories was explored and described in the data. Each NED role element in the framework was defined as being **Prevalent** if it was found in seven or more dyad cases. It was defined as being *more* or *less prevalent in practice* if the frequency in SME practice differed from the framework designation of either a **major**, present or *minor* role element.⁷⁹ Again, role element prevalence gave an insight into the practice orthodoxy of the UK SME NED role, based on the perceptions of the ten Case Dyad respondents' experience, albeit an unsophisticated proxy.

In this chapter the data and literature comparison analysis is structured in three sections: where the data *confirmed* the literature, where the data *extended* the literature as the role element Case Dyad practice differed from the framework and where the data *enhanced* the existing literature by enriching the understanding of role elements not discussed or explicitly explored in the framework literature.⁸⁰ One example has been included for a single **Relationship Development** role element in each of the *literature confirmed*, *literature extended* and the *understanding enhanced* sections that follow.

⁷⁸ See Chapter Three Table 3.1 *The NED Role categories* on page 53

⁷⁹ See Chapter Three section 3.2.4.1 *Major and Minor Role Elements* on page 53

⁸⁰ The bulk of the complete analysis has been reduced to increase the analysis transparency. The complete analysis in its original category by category format is available as a separate working document.

Three appendices support this chapter. Appendix 6 is the role by time data display matrix (Miles & Huberman, 1994:126) for Case Dyad A⁸¹ and Appendix 7 is the cross case composite role by time data display matrix for all ten Case Dyads. Appendix 8 is a summary of the framework and data findings for each role element. This appendix follows the complete analysis category by category format and includes the additional *understanding enhanced* UK NED role elements.

The chapter discusses the ways the SME NED role practice in the ten Case Dyads has extended and enhanced the literature framework. Gaps in the Case Dyad NED role practice are identified which raise concerns about SME director liability and SME NED succession planning. The assumption of SME NED role homogeneity is questioned and it is argued that a deeper analysis of the data based on theories drawn from the broader social sciences literature may give a better understanding of the UK SME NED role complexity.

5.2 Audit Trails and the Analysis Process

The following is an example of how the analysis process was conducted and presented in the Appendix 6 and 7 audit trails. The data coded to the NED role element *build quality personal relationships/personal chemistry/trust*⁸² for the Case Dyad A respondents⁸³ are shown below. The examples illustrate how role element evidence was coded to Columns A to D in Appendix 6. The first two quotes were coded to Column A, *role element present in transcript*.

And he [ANED] has a very, what can I say, a kind way of motivating, it isn't a carrot or a stick but you almost finding yourself reaching the same decision with him. (AMD:405-406) **coded to Column A**

...my management style has always been a sort of 'arm around the shoulder and what do you think you are going to do next?' sort of thing, rather than "come up into my office and I'll tell you what you are going to do". That's my style and that's the way I've developed through a big company system. (ANED:385-389) **coded to Column A**

Where the data supported temporal aspects of the role element these were coded to Columns B, C or D as appropriate. This next quote from ANED was coded to Column B, *initial role element*. ANED was recalling the situation when he first

⁸¹ Equivalent tables for Case Dyads B to J exist as separate working documents

⁸² See Table 5.1 **Relationship Development** Literature confirmed first row

⁸³ These examples were selected as Appendix 6 refers to Case Dyad A data

arrived, shortly after the departure of an unpopular consultant recommended by the Bank.

when I came in ... I had to work hard to establish a relationship both in business and personal terms with [AMD] (ANED:12640) **coded to Column B**

The following quote by AMD was coded to Column C, *role element developed over time* and related to how he perceived the dyad relationship had changed over the years.

We're a lot more comfortable with one another (AMD:1031) **coded to Column C**

The following quotes were coded to Column D, *role element in later stages*.

He keeps trotting out the same old dialogue, there's nothing new there (AMD:1028) **coded to Column D**

nine times out of ten we don't have any arguments or problems. We have recently (ANED:1147) **coded to Column D**

Build quality personal relationships/personal chemistry/trust was a major and core NED role element in the Chapter Three framework.⁸⁴ This status was confirmed in the data as shown in Appendix 7. The evidence spanned Columns A to D for this role element; it was provided by all respondents apart from CNED.⁸⁵

5.3 Literature Confirmed

This section discusses where the findings from the framework literature matched SME NED role practice in the ten Case Dyads. Each of the six categories is reported in turn and includes a table summarising the relevant role elements.

5.3.1 Relationship Development

The category included role elements that encouraged the top management team (TMT), especially the CEO or MD, to interact with, inform and involve others. There were four role elements where the data and the literature were a match. Table 5.1 lists these, summarises and which Case Dyads provided evidence.

As illustrated in *section 5.2*, the prevalence of building *personal chemistry* and *trust* between directors in the UK SME NED role was confirmed. The data also

⁸⁴ See Chapter Three *section 3.5.2 NED role core elements across all UK companies* on page 80

⁸⁵ See Appendix 7 **Relationship Development** third row

confirmed the downplaying of the SME NED role as the communication channel to the investor/shareholder, mainly because their fellow directors were the principal shareholders. However NEDs had a role influencing the executives to differentiate between the decisions made by directors and those made by shareholders.

| Relationship Development | Comments | Case Dyads |
|---|--|---------------|
| Literature confirmed | | |
| build quality personal relationships/ personal chemistry/trust | data & literature match: prevalent | ALL |
| reducing (family) conflict/fostering positive board dynamics/director balance/ maintaining board balance (between executives and shareholders) | data & SME literature match: prevalent | A B E F G H J |
| change initiator - for board to act as a team | data & literature match: less prevalent | A B F H |
| investor discussions/shareholder communications | data & literature match: less prevalent | A B F H |

Table 5.1: Relationship Development Literature confirmed

As an example of how the analysis process was conducted under the *Literature confirmed* heading, the complete findings for the role element *Reduce (family) conflict/foster positive board dynamics/director balance/maintaining board balance (between executives & shareholders)* now follow.

The element was defined as a major role in the SME literature and as present in the PLC literature. In practice it was recognised as a major role by MDs and NEDs alike, confirming the SME literature. The quotes selected illustrate that the role element was found in family businesses, for example in Case Dyad E, and VC investment companies such as Case Dyad F.

...I think it's to make sure it doesn't get too incestuous, so they don't run it as a private fiefdom, that they do bring on managers from non family. Sometimes when things go very wrong it's to sort out the family's problems! [laughter] Not very often at [Company E] but it does happen at times. (ENED:357-361) **coded to Column A**

...something about [NED] is that he's, he's got a great talent for being able to say things, you know, in a very non-offensive sort of way. So, he'll, you know, one way or another, even if it is offensive and he's just smiling while he says it, but, he'll, so he can actually be, you know, he can question a lot of things, you know, in a lot of depth and everyone's very happy at the end of it and felt it's been productive. (FMD:409-413) **coded to Column A**

The *maintaining board balance (between executives & shareholders)* part of the role element was prevalent where the executives were also shareholders, irrespective of whether they were family members. For example,

There is a particular issue in here in that some of the exec directors are shareholders as well but again we always joke about it. “We are talking to the execs here not the shareholders. If you want to talk about shareholders we will have another meeting” and I actually do say that and mean it, “we will have separate meeting if you are talking shareholders, at the moment we are talking as directors”. (BNED:499-503) **coded to Column A**

HNED highlighted the two-way process in a VC funded context, linking to the **Boundary Spanning** role of *exec ally/champion* when necessary.

[VC 1] ... from time to time has got frustrated and has said “this company never meets its business plan. We've put this money in and they are failing to deliver” and it's been necessary for me to go and explain to them and say, you know, “your expectations are unreasonable, if you invest in a company which is in a field of high technology, and they say ‘right we are going to do something in six months time and then something else in nine months time’ and they don't exactly make those dates, then that can be very understandable provided that the things which came along were not forecastable, this is just what high tech is about”. (HNED:218-225) **coded to Column A/Boundary Spanning (row 9: exec ally/champion)**

5.3.2 Knowledge Transfer/Director Development

This category included the role elements that reflected the TMT training and development aspects of the NED role. Table 5.2 summarises where the data and literature were a match and where the evidence was found.

| Knowledge Transfer/ Director Development | Comments | Case Dyads |
|---|---|-------------|
| Literature confirmed | | |
| personal knowledge & skills (other than contacts) | data & literature match: prevalent | ALL |
| give advice/sharing & transfer of knowledge/import good practice | data & SME literature match: prevalent | ALL |
| executive emotional support/sounding board/confidant/ease execs' isolation | data & SME literature match: prevalent; | ALL |
| CEO or MD sounding board/confidant | data & SME literature match: prevalent | ALL |
| NED knowledge & skills - general business experience | data & literature match: present but not major role | ALL |
| NED knowledge & skills - same sector/locality experience | data & literature match: less prevalent | A C F G H I |
| developing TMT/encouraging reflection ability to learn & coping with change | data & literature match: less prevalent | A B E F G I |
| process (interpret) information | data & literature match: less prevalent | A F G I |

Table 5.2: Knowledge Transfer/Director Development Literature confirmed

The data confirmed the literature that the NEDs' personal experience was a major role element and confirmed the SME literature that these contributed to the help and support the NEDs offered the MD and TMT. It also confirmed that NED

general business experience, same sector/locality experience, developing TMT and processing (interpret) information were all role elements less prevalent in SME practice.

5.3.3 Boundary Spanning

This category included the role elements that recognised the ‘outside director’ role of NEDs. Table 5.3 identifies where the data and literature matched in terms of role importance and where the evidence was found.

| Boundary Spanning | Comments | Case Dyads |
|--|--|-------------|
| Literature confirmed | | |
| wider vision/outside perspective/ benchmarking | data & literature match: prevalent | ALL |
| fresh perspective/innovatory ideas/ business opportunities/new markets | data & literature match: less prevalent | C E G H I J |
| shareholder investor nominee/'eyes & ears'/safety net/ally | data & SME literature match: less prevalent | A B D F G H |
| raising capital/acquisitions/flotation advice | data & literature match: less prevalent | D E F H I |
| regulator reassurance/confidence to financiers | data & literature match: less prevalent | D E F H I |
| exec ally/champion when dealing with shareholders/stakeholders | data & literature match: less prevalent | A D F G H |
| shareholder/exec liaison | data & literature match: less prevalent | B D F H |
| 'project' company (image) externally/ build credibility/external confidence | data & literature match: less prevalent | C D E F H I |
| role model/track record/credibility | data & literature match: less prevalent | A B F |

Table 5.3: Boundary Spanning Literature confirmed

In this category the UK NED core role element of *wider vision* was confirmed as prevalent in practice. The less prevalent role elements involving shareholders were confirmed, downplaying control style NED activities.

5.3.4 Creative NED Role-making

These role elements emphasised the flexible nature and individual interpretation of the NED role. Those role elements where the data and literature concurred are displayed in Table 5.4 which includes supporting data found in the Case Dyads. Spencer (1983) described how her PLC NED respondents all accepted the general ‘prescribed’ rules for the role or role-taking; however they all defined their individual roles ‘in a manner unique to himself’ illustrating the ‘creative “role-making” aspect of the role’ (Spencer, 1983:28).

| Creative NED Role-making | Comments | Case Dyads |
|---|--|--------------|
| Literature confirmed | | |
| add value/deliver perceived benefits | data & SME literature match: prevalent | ALL |
| complement other directors' skills/ missing exec (operational) expertise | data & SME literature match: prevalent | ALL |
| shareholder | data & SME literature match: less prevalent | F |
| chairman of board/company | data & SME literature match: less prevalent | A B |
| involvement in board sub-committees | data & literature match: less prevalent | G H |
| increasing focus on governance compliance | data & SME literature match: less prevalent (general bureaucracy concerns) | H (A D E) |

Table 5.4: Creative NED Role-making Literature confirmed

In practice the data confirmed that in SMEs NEDs needed to *add value* and *complement other directors' skills/ missing exec (operational) expertise*. The governance related, control style activities were confirmed as less prevalent in these privately owned companies.

5.3.5 Risk Management – the people

This category includes the role elements relating to top team management monitoring. Table 5.5 summarises where the data and literature were a match and where there was supporting data in the Case Dyads.

| Risk Management - the people | Comments | Case Dyads |
|--|--|-------------|
| Literature confirmed | | |
| succession planning: TMT, company | data & literature match: less prevalent | A C D G H J |
| TMT recruitment/remuneration/removal (inc CEO) | data & SME literature match: less prevalent | A B E F H |
| stakeholder interests/social responsibility | data & SME literature match: less prevalent | B C F G |
| brake on exec enthusiasm/focus on stakeholder responsibilities | data & literature match: less prevalent | A F J |

Table 5.5: Risk Management – the people Literature confirmed

The NED role elements in this category were all confirmed as less prevalent and had a control style focus. The data for the role elements *succession planning* and *TMT recruitment/remuneration/retention* reflected the different HRM cultures, that is, SMEs were more likely to adopt informal practice (Marlow, 2006). The lack of prevalence in practice in this category also supported the claims that, in SMEs

where the MDs were more likely to be the major shareholders, such HRM decisions would be taken by them (Smithson, 2004:85). Requests for the involvement of the NED were made only when problems arose (Spencer, 1983:52).

5.3.6 Risk Management – the processes

This category included the role elements relating to Board and company monitoring. In practice only one role element confirmed the literature in this category and Table 5.6 shows that all the Case Dyads provided evidence.

| Risk Management - The Processes | Comments | Case Dyads |
|---|------------------------------------|------------|
| Literature confirmed | | |
| formalising/changing procedures - strategic decisions/business planning/ (improved) business/strategic planning | data & literature match: prevalent | ALL |

Table 5.6: Risk Management – the processes Literature confirmed

The UK NED core role element *formalising/changing procedures – strategic decisions/ business planning/(improved) business/strategic planning* was the sole role element in this category where the data confirmed the literature. Formalising the board meetings and the strategic planning processes were the prominent NED contributions to this role element, although as INED found, introducing formal processes too soon to a very small business was counterproductive.

normally I would email certainly [MD] would have an agenda of what I'm wanting to talk about. In the early days I was too heavy on it, because I took it very, you know, principally, I was very principled about it. It was a bit too heavy for [MD] and he wasn't ready for it, so I backed off. (INED:558-561) **coded to Column B**

5.3.7 Literature confirmed summary

There were 32 of the 65 NED role elements where Case Dyad practice confirmed the literature-based framework findings in Chapter Three. Ten role elements were confirmed as prevalent, one was confirmed as present and 21 were confirmed as less prevalent in practice. The ten prevalent role elements included all five of the UK NED core role elements in the framework and five of the six major UK SME NED role elements.⁸⁶

⁸⁶ See Chapter Three Table 3.10 *Core Elements of UK NEDs' Role predicted by the Literature* on page 80 and Table 3.12 *Major elements of UK NEDs' Role predicted by the SME Literature* on page 82

Although the *literature confirmed* findings were initially of less interest than those that extended or enhanced the literature understanding, there was one observation that linked back to a concern raised in Chapter Three.⁸⁷ The framework flagged the minor role designation of *Stakeholder interests/social responsibility* as a potential danger for SMEs.⁸⁸ The role element was confirmed as less prevalent in Case Dyad practice. The Companies Act 2006 requires all directors under their general duties to ‘promote the success of the company... and in doing so have regard (amongst other matters) to ... the impact of the company’s operations on the community and the environment’ (Companies Act, 2006 clause 172, *parentheses original*). Whilst it is understood that the fieldwork was conducted before the Act became law, the lack of importance given to this role element should be of concern given the current emphasis on environmental issues and interest in the mobilisation of stakeholder pressure groups.

5.4 Literature Extended

This section discusses where the data *extended* the existing literature as the role element prevalence in SME practice differed from the framework. Each of the six categories includes a table summarising the analysis findings.

5.4.1 Relationship Development

Table 5.7 displays the findings from this category and the Case Dyad sources.

| Relationship Development | Comments | Case Dyads |
|---|---|-------------------|
| Literature extended | | |
| (long term) commitment to company | Prevalent in practice | ALL |
| discussing problems/sharing information/ stimulate open debate/ dialogue/bring out best ideas | Prevalent in practice | ALL |
| courage to dissent | Prevalent in practice | A B C D E F G H J |
| independence of mind/independent view (internal & external reassurance) | data & PLC literature match: Prevalent in practice | A B C E F G H I J |
| change initiator - for management style/organisation culture | more prevalent in practice | A B C G H I |
| challenge information supplied & seek supplementary sources | more prevalent in practice | B E F H |

Table 5.7: Relationship Development Literature extended

⁸⁷ See Chapter Three *section 3.5.3.2 SME NED Role* on page 81

⁸⁸ The discussion on the updated framework in *section 3.4.4 Risk Management – the people* on page 78 highlighted the move in PLC practice for NEDs to drive the board’s ethical perspective

The role elements *prevalent in practice* or *more prevalent in practice* emphasised the collaboration style working practice of openness and a culture of sharing of information. There was evidence that this information exchange extended into the wider organisation, as illustrated in the *understanding enhanced* role element of *communication structures beyond the boardroom* discussed later in *section 5.5.2*. NEDs' (*long term*) commitment to the company was also valued highly.

The PLC literature designated *independence of mind* as a major role element. This was confirmed in SME practice and was closely linked to *courage to dissent*. Respondents reported the NED 'standing up' to a strong and/or the dominant personality within the company and putting forward alternative views. This was coded to *courage to dissent* and was *more prevalent in practice* than the minor role designation found in the framework SME sources. As an example of the *literature extended* analysis process the complete analysis for this role element is presented here. The following quotes are grouped in Case Dyads.

his fundamental belief that this ain't right, or he won't back off, he doesn't say "yes" to something to have a quiet life and our previous colleagues could, if the argument got tough then they could back down because they didn't really have the need to pursue it to the end. (BMD:1220-1223) **coded to Column A**

... we have plenty of arguments I can assure you (BNED:1571) **coded to Column A**

I might not always agree with him but the big thing we've got is that we can agree to disagree and I think that's important as well. If somebody comes, a non executive comes into a company and tries to monopolise the thinking of the company then I think he's going to fail. (CMD:180-183) **coded to Column A**

[good dyadic relationship] doesn't stop us having rows. If I think he's not right, I'll tell him so and he will tell me the same. I think that's healthy, anyway. (CNED:170-171) **coded to Column A**

I'm getting to know the way he works. I knew that there was no hope in hell of me getting £15,000, he wouldn't let me double the marketing budget. (JMD:458-460) **coded to Column C**

... there is a part of the [Company J] folklore was that, as their bank manager I turned them down for a loan to consolidate all their finances purely on the basis that it wouldn't hurt. (JNED:388-389) **coded to Column B**

Courage to dissent and *discussing problems/sharing information/stimulate open debate/dialogue/bring out best ideas* were also linked to the *challenge/ask awkward questions* role element in the **Knowledge Transfer/ Director Development** category.

5.4.2 Knowledge Transfer/Director Development

Table 5.8 displays the findings from this category and the Case Dyad sources.

| Knowledge Transfer/ Director Development | Comments | Case Dyads |
|--|--|-------------------|
| Literature extended | | |
| help deal with unusual events/crises/ respond to new challenges/effective problem solving/alternative solutions based on NED experience | data & UK literature match: prevalent in practice <i>dyad data mismatch</i> | ALL |
| informal social interaction with TMT & other directors/accessible for informal discussions | Prevalent in practice | ALL |
| challenge/ask awkward questions/test/ probe (internal information acquisition) /constructive criticism/critique | data & PLC literature match: Prevalent in practice <i>dyad data mismatch</i> | A B C E F G H I J |
| special projects/contribute outside board meetings/direct & involved | Prevalent in practice | ALL |
| NED knowledge & skills - large company/ City experience | Prevalent in practice | ALL |
| NED knowledge & skills - SME experience | Prevalent in practice | A C D E F G H I J |
| NED knowledge & skills - specialist experience | Prevalent in practice | B C D E F G I J |
| accept/learn from advice not taken | partners 'agree to disagree' more prevalent in practice | B F G H I |
| mentor/coach/wise counsellor | less prevalent in practice | A B D F G |

Table 5.8: Knowledge Transfer/Director Development Literature extended

Help deal with unusual events was the only UK NED core NED role element not included in the *literature confirmed* section despite its prevalence in practice. This was because this prevalence relied on NED responses and the MD practice did not confirm the SME literature major designation. *Informal interaction with TMT & other directors* and *challenge/ask awkward questions/test/probe (internal information acquisition)/constructive criticism/critique* were also prevalent in practice and extended the literature by not confirming the framework. The *challenge/ask awkward questions* role element was another example where the dyad data was mismatched. Its prevalence in practice was influenced by the NEDs' perception, which matched the PLC literature major designation. As in the SME literature, there was less support for the role element from MDs. Examples where *challenge* was welcomed were dependent upon the MDs' previous positive experiences, either of other advisors or from following advice from their dyad partner NED.

5.4.3 Boundary Spanning

Table 5.9 displays the findings from this category and the Case Dyad sources.

| Boundary Spanning | Comments | Case Dyads |
|--|---|----------------------|
| Literature extended | | |
| exec director elsewhere (NED elsewhere) | NED elsewhere: Prevalent in practice | B C D E F G H I J |
| equal status with key stakeholders /prestigious name on board | equal status (<i>not name</i>) Prevalent in practice | ALL |
| (use of) contacts & networks (external information acquisition) | less prevalent in practice than SME literature | A B C F G I |

Table 5.9: Boundary Spanning Literature extended

No respondents provided evidence to support the benefits of being an executive director elsewhere for the SME NED role. Being a *NED elsewhere* was prevalent although explicit (*use of*) *contacts & networks* was found to be less prevalent in practice. This was puzzling and would suggest either (1) the (*use of*) *contacts & networks* was so taken for granted by some respondents that they assumed they need not mention it, (2) that being a *NED elsewhere* was synonymous with the (*use of*) *contacts & networks* or (3) the interview protocol or data coding failed to extract the information.

5.4.4 Creative NED Role-making

Table 5.10 displays the findings from this category and the Case Dyad sources.

| Creative NED Role-making | Comments | Case Dyads |
|---|-----------------------|---------------|
| Literature extended | | |
| understanding company/induction/ 'getting a feel' | Prevalent in practice | ALL |
| negotiating role/flexibility | Prevalent in practice | ALL |
| ally of other NEDs/3rd party 'gang'/ coalition formation | Prevalent in practice | A B C D F G H |

Table 5.10: Creative NED Role-making Literature extended

More prevalent in practice was the *understanding company/induction/'getting a feel'* role element. In practice it was found to form part of the initial risk assessment of dyad partners, albeit an informal process in most cases. All Case Dyads also provided evidence for *negotiating role/flexibility*. However this *flexibility*, that is, the ability of the NEDs in practice to 'take' the 'prescribed role' and 'make' it their own as described by Spencer (1983) was viewed as atypical NED role behaviour. One of the striking features of the early interviews was the NED respondents' assertion that either they were not a 'normal' (ANED:80; ENED:21; ENED:169), 'true' (ENED:107) or 'typical' (GNED:258) NED. This appeared to be a source of tension

for SME NEDs because of the mismatch between their practice and their NED recipe stereotype. FNED believed that once a new CEO was appointed his NED role would become more 'traditional' (FNED:394); HNED believed he and his three colleagues provided 'a classic NED role' (HNED:1047) as the company executives were 'self sufficient' (HNED:1046) and did not need the NED input as described in *complement other directors' skills/ missing exec (operational) expertise*.

MDs also felt it was important to dispel the image of the 'fat cat'⁸⁹ NED who came to a board meeting ill-prepared, agreed with everything proposed by their cronies, ate lunch, filed their expenses and disappeared until the next meeting (BMD:498-550; CMD:115-118; GMD:307-308; HMD:1185). This image had been accentuated by contemporary media reports of corporate governance malpractice throughout the fieldwork.⁹⁰ In CMD's case, it was his perceptions of his first NED's behaviour that informed the negative role stereotype.

[previous NED] was a [VC investors] nominee. I obviously had to agree it but he was a [VC investors] nominee. ... but he wasn't really interested. He really wanted to just come, get to the Board meeting, make a few points on the way through, have a lunch, bring his expenses up <in your arm> and then you would hear from him at the next board meeting, you wouldn't hear from him in between at all. (CMD:290-295)

The *ally of other NEDs/3rd party 'gang'/coalition formation* role element was missing from the SME literature selected for the framework apart from Smithson (2004) who implied that such political activity would only be found in family firms.⁹¹ The data suggested that this was a prevalent aspect of all SME NED roles not just those in family firms. For example, in the VC funded Company F, the five directors were able to form alliances easily with different people for different reasons without causing concern or damaging their relationships.

[NED] is in a role in the middle, we've seen recently certain things where I suppose both sides will try and use him towards the other potentially. (FMD:922-925) **coded to Column D**

This process was aided by the directors' willingness to invest the 'irrecoverable resources' (Sharif *et al*, 2005:417) of time and effort beyond the boardroom to develop *personal chemistry/trust*, that is, seeing them in different situations as 'a

⁸⁹ A phrase used by GMD (GMD:307)

⁹⁰ See Figure 1.1 in Chapter One on page 3

⁹¹ NEDs should 'tread carefully', determine the power base and then work out how best to limit the harm to the company (Smithson, 2004: 44)

demonstration that they live by their word' (FNED:1004).⁹² These boardroom colleagues trusted one another, liked and respected one another but formed alliances for different issues to secure what was best for the business. Similar behaviour was noted in PLC NEDs by Roberts *et al* (2005:S18)

5.4.5 Risk Management – the people

Table 5.11 displays the findings from this category and the Case Dyad sources.

| Risk Management - the people | Comments | Case Dyads |
|--|---|--------------------|
| Literature extended | | |
| monitoring exec competence/TMT appraisal performance review/ identifying & addressing poor TMT performance | data & PLC literature match: prevalent; <i>dyad data discrepancy</i> | A B D E F G H I |
| focus exec ideas on objectives/exec discipline | Prevalent in practice | ALL |
| influence execs | Prevalent in practice | ALL |

Table 5.11: Risk Management – the people Literature extended

In practice it was the supportive collaboration style activities that were more prevalent, for example, *focus exec ideas on objectives* rather than *brake on exec enthusiasm*. In practice seven MDs and all the NEDs provided evidence for the former role element. For example, BMD recognised that BNED was able to bring the executives' focus back to the present rather than concentrate on the future (BMD:272). In Dyad J the role element linked back to *maintaining board balance*. When making a difficult decision JNED would get the company partners⁹³ to understand the positive and negative business benefits of a decision and 'whether it on the balance of probability is a good idea or a bad idea or whether we can afford it' (JMD:267). JNED also tried to temper some of JMD's over ambitious plans as he believed that, with constant disappointment, 'eventually it gets you down, because you can't achieve those type of ambitions all the time' (JNED:695).

However, *monitoring exec competence* which was a major role in the PLC literature was confirmed in SME practice. Here there was a pronounced Case Dyad discrepancy with NEDs providing evidence of role element prevalence but not the MDs. This implied another differing perception of the NED role in practice between the partners. There were examples of NEDs critiquing MDs (ANED;

⁹² Described as 'a demonstration of trusting behaviour' (Sharif *et al*, 2005:417) leading to a 'trust spiral' (Howorth & Moro, 2006:512)

⁹³ Company J was a partnership of four members of the same family across two generations

DNED; HNED; INED) and/or other TMT members' behaviour (BNED; ENED; GNED), MDs critiquing TMT members' actions (AMD; GMD) and instances where NEDs had helped with TMT competency issues (FNED) due to the evolution of the business. For example, INED perceived that he needed to be 'a bit more of a *firer conscience*' (INED:988) for IMD when dealing with the possible poor performance of the salesman that IMD had appointed against INED's advice.

5.4.6 Risk Management – the processes

Table 5.12 displays the category findings and the Case Dyad sources.

| Risk Management - The Processes | Comments | Case Dyads |
|---|--|-------------------|
| Literature extended | | |
| duty of care/risk assessment & management/litigation support | data & PLC literature match: prevalent; <i>dyad data discrepancy</i> | ALL |
| transition facilitation | Prevalent in practice | ALL |
| formalising/changing procedures – risk assessment & management | Prevalent in practice | ALL |
| formalising/changing procedures - financial & audit | Prevalent in practice | A B C D E G H I J |
| financial scrutiny | Prevalent in practice: <i>redefined as UK NED core role element</i> | A B C D E F G H J |
| strategic/business plan formulation/ implementation of vision | Prevalent in practice | A B C D F G H I J |
| managing performance indicators | Prevalent in practice | A B C F G H I J |
| limit influence of major shareholders/ represent minor shareholders | more prevalent in practice | A B F J |
| watchdog/policeman (compliance)/ contractual monitoring (VC)/representative (funding requirement) | data & PLC literature match: less prevalent: <i>redefined as minor UK NED role element</i> | H (C E F) |

Table 5.12: Risk Management – the processes Literature extended

The potential danger flagged by the framework of a lack of control and collaboration styles balance across SME NED role elements was not confirmed in practice. This category redressed the collaboration style role element dominance found elsewhere in the framework. The data emphasised the importance of these control style role elements but not from an agency perspective but as co-directors working together with equal responsibility in an atmosphere of trust.

The Case Dyad NEDs understood the need to protect the interests of the shareholders by securing the long term future of the company through the management of risk. They contributed to this by establishing the risk management

processes and by guiding the executives' practice. There was a distinction between NEDs initiating or formalising processes and their active participation. The priority was to establish and improve company procedures and only where the NED had specific technical expertise would they become involved in the process below the level of strategic oversight.

There were three role elements of particular interest in this category and are addressed in turn: *duty of care/risk assessment & management/litigation support, financial scrutiny and watchdogs/ policeman (compliance)/contractual monitoring (VC)/representative (funding requirement)*.

5.4.6.1 *Duty of care/risk assessment & management/litigation support*

The *duty of care* was a major role element in the PLC literature and this importance was supported in practice. Once again it was the NEDs who provided the evidence; the MDs followed the framework expectations. NEDs perceived a sense of their personal risk; if and when these risks became too great they perceived their only option was to resign. There were two sets of pressures. The first was internal pressure from company malpractice or executives' resistance to change. GNED provided the following example.

If I continued to make suggestions that were not taken up, which point I'd think might come fairly soon then I would resign because I'm only there to make a difference (GNED:436-437)

The second set of pressures was external, from increased regulation of director liabilities and business practice, for example, as suggested by the Company Law Review and the Higgs Review. Respondents who were networked with other boards and PLC NEDs were apprehensive of any proposed increase in governance regulation. HNED provided an example.

At the fringes [the increased regulation is] frustrating but on the other hand a lot of it is good management and is good governance. So far, the fringes have not been - become so frustrating that I say (blows raspberry) "I ain't going to do it any more." (HNED:857-860)

The MDs appeared oblivious to their partner's concerns or disregarded them, attributing their behaviour to other causes. For example, GMD did not recognise GNED's frustration, believing that sometimes GNED was too busy to listen and for her advice to be effective (GNED:611/**coded negative to Column C Appendix 7**

duty of care). HMD believed HNEED and the senior NED were interpreting governance regulations too strictly for Company H, a belief confirmed by the external auditors (HMD:897/**coded to Column C Appendix 7 Creative NED Role-making using other advisors as part of NED validation/moderation process**).

5.4.6.2 *Financial scrutiny*

Table 5.12 includes *financial scrutiny*. One of two dilemmas for the framework⁹⁴ was the reliance on 'counting' instances as a proxy reflecting the orthodoxy of normative UK NED role practice. In the framework *financial scrutiny* was defined as major in the PLC literature and as present in the SME literature. This may have influenced the SME literature designation, as where *financial scrutiny* was found it was an important part of the NED role. In practice this role element was perceived as integral to the SME NED role with all but Case Dyad I providing evidence. Therefore *financial scrutiny* was redefined as a core UK NED role element.

5.4.6.3 *Watchdogs/policeman (compliance)/contractual monitoring (VC)/representative (funding requirement)*

NEDs acting as *watchdogs/policeman (compliance)*, a minor role in the PLC literature, was confirmed as not prevalent in SME practice. This was the second dilemma in the framework. The data downplayed this role element even in the venture capital (VC) funded Case Dyads and confirmed the bias in the framework SME literature. By relying on studies of accessible NEDs in VC firms⁹⁵, framework could be interpreted as representing almost 50 percent of UK SMEs. This created a false impression as only one to three per cent of UK SMEs were financed in this way (Bank of England, 2001; Wiseman, Roe & Elliott, 2006:9). The Case Dyad companies were closer to this statistic as only two had VC investment at the time of the interviews.

5.4.7 Literature Extended summary

The Case Dyad practice in the remaining 33 NED role elements extended the literature in the Chapter Three framework. This extension was achieved in three ways. There were role elements that were found: to be prevalent or more prevalent in the Case Dyad practice, to have a mismatch in the dyad partner responses of prevalent practice and to be less prevalent in Case Dyad practice.

⁹⁴ See Chapter Three section 3.2.4 Possible Dilemmas on page 53

⁹⁵ Boussara & Deakins (2000); Deakins *et al* (1999: 2000a; 2000b; 2000c; 2001)

5.4.7.1 *Prevalent (and more prevalent) in Case Dyad practice*

Across the six UK NED role categories there were twenty role elements found to be prevalent in practice across both Case Dyad partners as shown in Table 5.13 overleaf. A further four role elements were more prevalent in practice; these were: *change initiator - for management style/organisation culture; challenge information supplied & seek supplementary sources; accept/learn from advice not taken and limit influence of major shareholders/ represent minor shareholders.*

Table 5.13 includes the role element *informal social interaction with TMT & other directors*. In the framework its minor SME NED role designation was a surprise given the widely held view that SMEs lacked formality. It was only mentioned by Long *et al* (2005:671) and this was in the context of unlisted companies rather than SMEs. In Chapter Three it was suggested such interaction was taken for granted or 'unquestionable' (Schutz & Luckmann, 1974:4) and therefore was not thought important enough to mention by survey or interview respondents.⁹⁶ In practice this suggestion was supported. Important dyad partner *social interaction* was set in work-based contexts rather than the purely social settings and all respondents provided evidence of informal face-to-face interaction, with the exception of CNED.

5.4.7.2 *Difference in dyad partner responses*

Earlier in this Chapter the core UK NED role element *Help deal with unusual events and Challenge/ask awkward questions/test/probe (internal information acquisition)/constructive criticism/ critique* were found to be prevalent in Case Dyad practice.⁹⁷ The major UK PLC NED role elements of *monitoring exec competence /TMT appraisal performance review/identifying & addressing poor TMT performance and duty of care/risk assessment & management/litigation support* were also prevalent in practice.⁹⁸ However, these roles relied upon the NEDs' evidence for their prevalence.

⁹⁶ See **Knowledge Transfer/Director Development** section 3.3.2.2 *Minor Role Elements* page 61

⁹⁷ See **Knowledge Transfer/Director Development** section 5.4.2 on page 137

⁹⁸ See **Risk Management – the people** section 5.4.5 on page 140 and **Risk Management – the processes** section 5.4.6 on page 141

| Relationship Development | Comments | Dyads |
|---|---|-------------------|
| (long term) commitment to company | Prevalent in practice | ALL |
| discussing problems/sharing information/ stimulate open debate/ dialogue/bring out best ideas | Prevalent in practice | ALL |
| courage to dissent | Prevalent in practice | A B C D E F G H J |
| Knowledge Transfer/ Director Development | Comments | Dyads |
| informal social interaction with TMT & other directors/accessible for informal discussions | Prevalent in practice | ALL |
| special projects/contribute outside board meetings/direct & involved | Prevalent in practice | ALL |
| NED knowledge & skills - large company/ City experience | Prevalent in practice | ALL |
| NED knowledge & skills - SME experience | Prevalent in practice | A C D E F G H I J |
| Boundary Spanning | Comments | Dyads |
| exec director elsewhere (NED elsewhere) | NED elsewhere: Prevalent in practice | B C D E F G H I J |
| equal status with key stakeholders /prestigious name on board | equal status (<i>not name</i>) Prevalent in practice | ALL |
| Creative NED Role-making | Comments | Dyads |
| understanding company/induction/'getting a feel' | Prevalent in practice | ALL |
| negotiating role/flexibility | Prevalent in practice | ALL |
| ally of other NEDs/3rd party 'gang/ coalition formation | Prevalent in practice | A B C D F G H |
| Risk Management - the people | Comments | Dyads |
| focus exec ideas on objectives/exec discipline | Prevalent in practice | ALL |
| influence execs | Prevalent in practice | ALL |
| Risk Management - the Processes | Comments | Dyads |
| transition facilitation | Prevalent in practice | ALL |
| formalising/changing procedures – risk assessment & management | Prevalent in practice | ALL |
| formalising/changing procedures - financial & audit | Prevalent in practice | A B C D E G H I J |
| financial scrutiny | Prevalent in practice: <i>redefine as core role element</i> | A B C D E F G H J |
| strategic/business plan formulation/ implementation of vision | Prevalent in practice | A B C D F G H I J |
| managing performance indicators | Prevalent in practice | A B C F G H I J |

Table 5.13: UK NED role elements Prevalent in Case Dyad practice

This difference in dyad partner perceptions echoes the findings of different perceptions of NED help in the ACCA survey dyads. Where dyad partners did not agree about NED help it was suggested that the MD partners perceived that the acknowledgement of certain types of NED help threatened their 'questing hero' Perren *et al* (2000) self image. Using Attribution Theory bias, Boxer *et al* (2005) also presented an argument for differing dyad partner perceptions. NEDs may have wished to portray themselves as 'diligent directors' (Boxer *et al*, 2005), providing certain types of help in the light of the contemporary media focus on high profile boardroom malpractice and the ensuing regulation debate. Although the ACCA survey findings of dyad partner discrepancies were corroborated, this Chapter's analysis of the data against the framework could not make the Case Dyad partners' reasons transparent.

5.4.7.3 *Less prevalent in practice*

There were three role elements that were found to be less prevalent in practice than either the UK NED literature or the specific SME NED literature predicted. These were *mentor/coach/wise counsellor*, the *(use of) contacts & networks (external information acquisition)* and *watchdog/policeman (compliance)/contractual monitoring (VC)/ representative (funding requirement)*. The latter role element was the second of the two framework dilemmas and was discussed earlier in *section 5.4.6. Risk Management – the processes*.

In the SME literature the role element *mentor/coach/wise counsellor* was on a par with the major role of *CEO or MD sounding board/confidant*. In practice MDs and NEDs valued the latter role element more highly. The *mentor* aspect was seen as just one possible element of a NED's contribution and this could involve other executive directors rather than the MD.

The SME major role element *(use of) contacts & networks (external information acquisition)* was also less prevalent in practice. In the literature the evidence for this element was sometimes equivocal, despite being designated a SME major role element. Although it was only an explicit priority selection criterion in two Case Dyads, it was an implicit theme throughout the transcripts; however, MDs were more likely to provide evidence.

Three possible causes were given⁹⁹ regarding the lack of evidence for this role element: (1) it was taken for granted by some respondents and they assumed they need not mention it, (2) that it was synonymous with being a *NED elsewhere*, or (3) the interview protocol or data coding failed to extract the *(use of) contacts & networks* data. These are now addressed in turn.

5.4.7.3i *Taken for granted NED personal knowledge*

One explanation for the lack of explicit discussion in the literature is that a NED's *contacts & networks* are a taken for granted component of their personal knowledge and experience. Only when a NED volunteered a contact to address a significant issue were the NED's *(use of) contacts & networks* likely to be perceived as worth reporting in a semi- or structured research instrument. For example, in Dyad F, the willingness of FNED to share his 'quite wide contacts' (FMD:1033) was useful when considering new investors although it was the distillation of knowledge (FMD:212) from his industry networking that was more highly valued.

not so much "Hey, I'll introduce you to my contact" which is, well [NED] does, but it's really more being able to, you know, distil knowledge. ... [NED] goes around in his context of being with [NED employer] and meets various people in the industry throughout the world ... he tends to get wind of things that are happening, you know, underlying currents, maybe before we would hear which is something that's very useful. (FMD:210-218) **coded to Column A**

5.4.7.3ii *Being a NED elsewhere*

NEDs' interlocking SME board membership also encompassed the *(use of) contacts & networks*. For example, as a portfolio NED, JNED used his other clients' experiences to improve Company J procedures.

So, for example, employment contracts, [Partner 1] is doing the employment contracts at the moment. So ... I said "Have a look at that one" and that's based on the fact I've got five other businesses that I work for that have had that type of thing. (JNED 801-804) **coded to Column A**

Continuing with the Dyad F example, because of his other appointments FNED would 'occasionally give some insight' (FMD:1082). Once again it was not the NED's contacts and networks *per se* that were important but the access to apposite information, its distillation and application to the Case Dyad Company context.

⁹⁹ See *section 5.4.3 Boundary Spanning* on page 137

5.4.7.3iii Protocol Failure

The semi-structured interview protocol did not ask respondents directly about the NEDs' (*use of*) *contacts & networks*. This was deliberate as it aimed to collect data on the NED role as practiced from the respondents' perspectives, without imposing a restrictive cage of anticipated responses.¹⁰⁰ Therefore data was only coded to this NED role element when respondents made explicit references to the (*use of*) *contacts & networks*.

5.5 Understanding Enhanced

This section discusses where Case Dyad practice enhanced the existing literature by deepening the NED role understanding in the framework literature through eleven new role elements that emerged from the data. Each of the six categories is reported in turn. However a single table, Table 5.14 overleaf summarises the analysis findings across all six categories.

5.5.1 Relationship Development

The complete analysis for both *understanding enhanced* role elements for the category **Relationship Development** is provided as an example of the analysis process across all the categories.

5.5.1.1 Learning to play each other's piano

The most important enhancement of the literature in this category related to *learning to play each other's piano*, that is, the 'director socialisation' (Spencer (1983:26) processes). These were inherent in the first and major role element discussed in this category, *build quality personal relationships/personal chemistry/trust*. However there was little discussion in the literature as to how this process was enacted within the dyads, TMT and company. As can be seen in the following discussion of the data, this role element had links to other collaboration style role elements elsewhere in the framework. The data gave an insight into the ten Case Dyad processes and one respondent's description was adopted to describe the development of director relationships.

I think everybody's come to learn as we say how to play each other's piano, now.
(chuckle) (BMD:1349) **coded to Column D**

¹⁰⁰ In contrast with the ACCA survey instruments which presented lists of ways in which the NED may have helped or harmed the company based on the literature (see Berry & Perren, 2000b)

| Relationship Development | Comments | Case Dyads |
|--|-----------------------|----------------------|
| Understanding enhanced | | |
| <i>Learning to play each other's piano: director socialisation processes</i> | Prevalent in practice | ALL |
| Communication structures beyond the boardroom | present in practice | A B C H |
| Knowledge Transfer/ Director Development | Comments | Case Dyads |
| Understanding enhanced | | |
| NED professional & personal development | Prevalent in practice | A B C E F G H I |
| Experience of other NED-style advisors informing 'diligent director' recipes | Prevalent in practice | A B C E F G H I J |
| Boundary Spanning | Comments | Case Dyads |
| Understanding enhanced | | |
| <i>Foot in other families: NED experience elsewhere &/or multiple NED appointments</i> | Prevalent in practice | B C D E F G H I J |
| Creative NED Role-making | Comments | Case Dyads |
| Understanding enhanced | | |
| Establishing role expectations (part of negotiating flexibility) | Prevalent in practice | ALL |
| Using other advisors as a part of a NED validation/moderation process | Prevalent in practice | A B E F G H I |
| <i>Add value to NEDs' self worth</i> | present in practice | A B F G |
| <i>Abdication</i> | present in practice | B C D E J |
| Risk Management - the people | Comments | Case Dyads |
| Understanding enhanced | | |
| succession planning: NEDs shelf life | Prevalent in practice | A B D F G H I J |
| Risk Management - the Processes | Comments | Case Dyads |
| Understanding enhanced | | |
| NED transition facilitation | Prevalent in practice | A B C D E F H I J |

Table 5.14: UK SME NED role elements Understanding enhanced

The directors in Company B always met for dinner during the two days every month BNED visited the company. They had 'light-hearted lunches' together as 'you have to have a relaxed relationship as well as a formal one' (BNED:308-311)¹⁰¹. In Dyad F, FNED was one of three NEDs, the other two being VC investor directors. At his first interview FNED described the effort needed to develop good director relationships.

... we always have things like board dinners and put a lot of effort into trying to ensure that the directors meet, but it's isn't easy to, you've got to build up a relationship over a period of time. When you work with each other day in, day out that can form very quickly and a non-executive director's role, it takes a little bit longer I think. (FNED:402-406) **coded to Column A**

¹⁰¹ The researcher was invited to meet the board at one of these lunches prior to conducting the 1st interviews

At his second interview FNED described in greater detail the time and effort the three NEDs invested in '*getting a feel*'¹⁰² for each other's roles.

... we have regular dialogue as non-execs without the management team around. I think that because we devote time to getting to know each other in a semi-informal setting, ... then I think professional behaviour during meetings. So it's both the amount of time devoted but also then the way that people maintain themselves and act, when they say they are going to do something they do something. So it's a demonstration that they live by their word. (FNED:995-1004) **coded to Column C**

This willingness to invest time in building *personal chemistry/trust* between the NEDs benefited the company as, although there was evidence of shifting patterns of *coalition formation*¹⁰³ between the directors, there was no evidence of any lack of *trust* between the board members. This early investment in the socialisation process had reaped long term rewards. In Dyad H it was the MD who had initiated a series of director and senior manager suppers.

[In] a relaxed environment ... in a much more light-hearted way ... [directors can] test views and create bonding (HMD:865-866). **coded to Column C**

5.5.1.2 *Communication structures beyond the boardroom*

This was the second new NED role element in the Relationship Development category. Its remit was not limited to communication between the dyad partners. The role of NEDs to either initiate or formalise communication structures to make transparent the decisions of the directors within the Boardroom was cited widely in the SME literature. This improvement of boardroom practices is discussed in the **Risk Management – the processes** category under the role element *formalising/ changing procedures – strategic decisions/business planning (improved) business/ strategic planning*.¹⁰⁴ However there was little or no discussion of the NEDs' role in extending the communication improvements *beyond the boardroom*.

In practice this role element was present although not prevalent. For example, in the early stages of his appointment ANED had initiated a communications structure, both within and *beyond the boardroom* in order to eliminate the opportunities for surprise.¹⁰⁵

...this is a small company and in small companies you have the maximum problem of communication because everybody assumes that everybody knows what's going on.

¹⁰² **Creative NED Role-making** NED role element

¹⁰³ **Creative NED Role-making** NED role element

¹⁰⁴ See page 136

¹⁰⁵ AMD described ANED's appointment 'as a surprise to me as I was not consulted' (AMD:111).

They know exactly when the sandwich man arrives outside but they are a bit slow on the fire alarm, you know it's an assumption people make...

(description of the internal communications structure from boardroom via executive directors and middle management to shop floor and reported back to the boardroom via minutes of meetings at each stage)...

So, that in theory everybody should know that we, if you go back to the ship [analogy] again, and the guy at the bottom of the ship stoking the boilers knows that when he gets to the other end knows that he's got to put his shorts on because we've gone to the tropics rather than to the arctic, if you know what I mean.

R: *No surprises?*

ANED: Yes. Well that's a great phrase of mine, no surprises. That's what I keep telling people at appraisal, no surprises. Yes. (ANED:200-224) **coded to Column C**

In Company C the process was less formal and focussed on communicating the company objectives to the employees.

... I think we wrote [the company objectives] down. ... and we actually went through a whole list of these, you know, things like the salary structure, the contract, they were not written down properly, there was nothing there at all. So, all the whole of those we put down, [previous NED] and myself with one or two, God bless him, from [MD] ... and we then, having done all that, said to [MD] "The next move is more important, you've got to tell the people." And he used to stand on his soapbox and tell them and that's correct, that's the way it should be. (CNED:1152-1163) **coded to Column B**

The other side of *communication structures beyond the boardroom* was raised by BMD. Here the problem had been the communication of different messages from the Boardroom, making the directors' disagreements transparent within the company and confusing the workforce. On the appointment of BNED as Board and Company Chairman this practice ceased.

... we had quite a bit of tension in the company for a couple of years when we were trying to change things. My father knew things were wrong but didn't quite understand what all this change was and didn't agree with a lot of it so we would have very conflicting messages coming out of [the boardroom] to the staff. When [NED] came along, at least we got the same message and that if we weren't right we kept it in here, we didn't have the debate on the shop floor as to who was doing all the wrong things and "what a waste of time" this was. (BMD:225-231) **coded to Column B**

5.5.2 Knowledge Transfer/Director Development

The socialisation process extended beyond the dyad partners' interaction and was evident in the influences on their expectations of the NED role. This is the foundation of the prevalent *understanding enhanced role element experience of other NED-style advisors*.¹⁰⁶ Direct experience of previous NED and consultant appointments, NEDs and small business advisors elsewhere all contributed to the *informing of 'diligent director' recipes*. For example, IMD's experience of a local

¹⁰⁶ *Other NED-style advisors* were defined as former NEDs to the company, or NEDs elsewhere with whom the respondents had interacted or were currently interacting. It also included direct contact with people who had fulfilled or were fulfilling a business advice function either in the company or elsewhere.

TEC business planning consultant charged with helping the board of his previous employer had influenced his approach to INED.

I didn't find that very helpful and I think a lot of the reason is because he wasn't so involved in the company as a whole, whereas, you know, like with us [NED] knows exactly what the financial situations are and pretty much every detail and that enables him to be more helpful I think, whereas this guy was coming in once a month and [Parent company owner] was very kind of cards to your chest about the, you know, inner workings of the company. So, he couldn't really be that helpful. (IMD:616-621)
coded to Column B

Indirect experience of the NED role through formal course and business media reports also had an effect. This was the implicit director mentoring and coaching process and contributed to the other prevalent *understanding enhanced* element *NED professional & personal development*. For example, in the interviews the respondents were asked what they thought was the best preparation for being an SME director and whether this differed for NEDs. There was little evidence of executive directors being included in company training plans. Apart from FNED, no respondents had received formal director training although BNED had attended a three-day short course for PLC NEDs. It was the consensus view of the respondents that responsibility for NED continuing professional development belonged to the NEDs themselves. Therefore respondents' previous experiences of NED-style advisors, either positive or negative, formed the basis of SME director development, although two MD respondents had concurrent experience of being a NED elsewhere.

5.5.3 Boundary Spanning

The prevalent new role element *foot in other families* explored the *NED elsewhere* in much greater depth than the original framework literature. The two additional sources¹⁰⁷ highlighted the benefits of NEDs transferring experiences from other boards 'of which they are/or have been members' (Kakabadse *et al*, 2006:291) and 'other companies' experience' (Mallin & Ow-Yong, 2008:31). Neither source specified whether the experience was from being an executive director or NED elsewhere.¹⁰⁸

The data emphasised the role that the director socialisation processes beyond the dyad partners had on the development of dyad partner role expectations and role development. This expression is another direct quote from a respondent.

¹⁰⁷ See Chapter Three *section 3.2.1.1 Selection* on page 51

¹⁰⁸ Apart from Spencer (1983) PLC sources focussed on NEDs as *executive director elsewhere*

...the benefit of the non-exec is their experience elsewhere. You're very isolated - because it's so personal, it's not something you can easily share. And in the family, not many people have a foot in other families. (JNED:795-799)

However this good practice requirement to have contemporary experience elsewhere also made demands on NEDs' time. By serving on more than one SME board, an individual developed a deeper practical understanding of the NED role, its boundaries and how these might vary depending upon the company circumstances.

Apart from the advantages of NED professional development and knowledge transfer, multiple NED appointments also offered companies a double-edged sword. They could be used as a proxy for trustworthiness. If others had invited an individual to join their organisational 'family' surely this person could be trusted to fulfil a similar role within this company? The 'double edge' came from competing demands on a NED's time. Just like **Relationship Development** processes, effective **Boundary Spanning** involved commitment to ensure that the information gathered and experience recounted met the perceived needs of the MD, board and/or company. Multiple board membership equating to the full-time employment of the NED elsewhere, could limit the time available to the NED and restrict their perceived effectiveness. For example, there was a suggestion of partner tension in Case Dyad G.¹⁰⁹ GNED felt that her efforts and advice to encourage the company into 'new business areas' (GNED:401) was being repeatedly ignored. GNED appeared unwilling to devote time to explore why and was on the point of resigning. GMD perceived that on occasions GNED had not devoted sufficient time to listening and understanding the specific company issues, due in part to her being employed full-time elsewhere in a 'pretty full on job'(GMD:614).¹¹⁰

5.5.4 Creative NED Role-making

There were more new aspects to role elements in this category than elsewhere. The first two emphasised the dynamic process of *adding value to NED's self worth* by adding value to the company and by *establishing role expectations*. The data also uncovered an MD evaluation tool, *the use of other advisors as NED validation/moderation process*. Where a potential NED appointee was unknown, either to the MD or the board, asking other trusted advisors for their feedback

¹⁰⁹ See section 5.4.6 literature extended **Risk Management – the processes** on page 141

¹¹⁰ Coded to Column A in Appendix 7

minimised the risk of inviting 'a stranger into their midst' (Lindon-Travers, 1990:101). Where and when unexpected NED behaviour caused concern, other advisors provided an alternative perspective that could confirm or allay these concerns. For example, in Case Dyad H HMD had recruited the help of the company auditors to counter the proposals of HNED and the senior NED, the two board sub-committee chairmen, regarding the proposed IPO corporate governance structures. HMD felt these were inappropriate for the size of company.

[senior non-exec] and [NED] as chair of the two committees use those two committees to try and run the business too much and we think they've gone one notch too far. In fact even our auditors have told us that. ... If we had gone to our senior audit partner and said "Write those terms of reference for us," they would have been considerably weaker. (HMD:894-898) **coded to Column C**

He also used the senior NED and then major investors to challenge HNED's actions as Remuneration sub-committee chairman in HMD's personal share option negotiations (HMD:1083-1088; 1564-1569). This illustrated that MDs used their own *contacts & networks* either as part of the process of recruiting a NED or as an alternative *CEO/MD sounding board* when a NED's behaviour surprised them.

On occasions the SME NED role moved beyond *complementing other directors' skills* to the *abdication* of responsibility of operational tasks to the NED. However, where MDs did 'abdicate'¹¹¹ from areas of the business by handing executive responsibility to the NED, this was another potential double-edged sword. Risks were reduced by having an expert, for example, a qualified financial person to act as 'de facto financial director' (DNED:122). However unless that person's continued competence could be assured there were also huge risks in ceding this level of control. In Dyad D the trust in DNED competence had developed over the thirteen years he was DMD's auditor (DMD:38-39; DNED:123-125). The dangers of *abdication* were illustrated by ENED.

[The banks] were looking for someone to go in and, you know, get [Company E] out of the mess it was in. The owners were saying they had put in a finance director, a deputy managing director, who was at that time a partner in their firm of auditors, and it didn't work. He made a 'pig's ear' of it and it was an awful mess. The banks were leaping up and down saying they weren't getting figures, the overdraft was going up so it was, you know, a question of either sorting it out or taking our money home (ENED:146-152) **coded to Column B**

¹¹¹ Used by JNED to describe situations where clients other than JMD had delegated all financial responsibility (JNED:144)

As a result of this *abdication* the banks insisted that the company employ a financial consultant. ENED held this role in Company E for eleven years, prior to being appointed as a NED.

5.5.5 Risk Management – the people

The NEDs' involvement in SME HRM processes was limited in practice.¹¹² There was also an absence of data relating to NED appointment HRM practice. However, there was a new role element associated with HRM practice that was not discussed in the literature. This was *NED succession planning*. The SME literature suggested that companies may need to change NEDs as the business evolved (Deakins *et al*, 1999:28; Berry & Perren, 2000b:17) but there was no discussion of the process. One of the additional sources highlighted the importance assigned by AIM directors to the 'appointing of future NEDs to reflect future activities of the company' (Mallin & Ow-Yong, 2008:26). Again there was no discussion of how this was achieved. The data enhanced the literature by exploring how dyad partners were approaching or were likely to approach *NED succession planning*. Associated with this new role element was a missing component in the framework for the shelf life of the NED, that is, the *monitoring NED competence/NED appraisal performance review/identifying & addressing poor NED performance*.

5.5.5.1 Time bound NED appointments

An individual NED's NED shelf life was not covered in the literature and the data confirmed this deficiency. However, two MDs gave useful insights on *addressing poor NED performance* based on their previous experiences of NED appointments. Although not part of the formal board review process BMD recognised the importance of NED currency recounting how their second NED's expertise 'phased out' (BMD:1683) over the decade he was on the board. In this instance it was the NED who indicated he wished to retire from the board. In Company H it was the MD who raised the issue. HMD's first NED was appointed a couple of years before HNED. This individual had moved 'beyond being a passenger' (HMD:1103) and started to harm the company. This problem prompted the MD to create a formal period of NED appointment to the board.

Regrettably I didn't do what we do now, I didn't give him a fixed three year term forcing a renewal process. So when I started to recruit the other non-execs I persuaded

¹¹² See the literature confirmed *section 5.3.5 Risk Management – the people* on page 133

everybody including [previous non-exec] to then move to fixed term. So I was able to very gracefully say to [previous non-exec] "The three years is up." (HMD:1134-1137)

This lack of a time bound contract was not unusual in SMEs and is discussed later in *section 5.5.7*.¹¹³

5.5.5.2 *NED appraisal*

In the literature there was reference to 'periodic appraisals of board performance' with the board chairman appraising the NEDs (Roberts *et al*, 2005:S15), a recommendation of the Higgs Report (Higgs, 2003:50). In a 2002 survey by the Hay Group less than half of boards had taken time to review their own performance whereas 80 per cent of NEDs had reviewed executives' performance (Pye & Camm, 2003:64). Returning to the data for insight into the *NED appraisal performance review* practice again there was little formal activity. In Dyad A, as the NED had acknowledged he was part of the company training plan it had been assumed that he was also part of the company appraisal system which he had introduced.

Nobody has ever appraised me. I noticed that question on your questionnaire and that's my fault. When I say nobody's appraised me, let me put that differently. I have an annual contract and [Owner] has renewed it. And I think I might have been slightly rebuked a couple of times for maybe going, taking things in a direction in which she didn't want it, but for past experience reasons I was not aware of, but she said "I would like you to continue again" and I said, "Well, how are we're doing?" and she said "fine". So, if you call that a sort of an appraisal and she's renewed the contract. Otherwise she has the opportunity to say, "Now everybody has gained from your experience, thank you very much". (ANED:550-557)

The NEDs in Company H were not appraised although HMD acknowledged that they should be (HMD:1468). Likewise FNED commented that although others in the company were appraised, NEDs in Company F were not (FNED:653). He was appraised as a NED in a listed company (FNED:1117). In Dyad G, GNED commented that 'peer group' appraisal had been suggested to the directors but this had yet to be implemented (GNED:592). In Dyads I and J there were no formal reviews or appraisals of the NED. Again this was not unusual behaviour in SMEs and is also discussed in *section 5.5.7*.

5.5.6 Risk Management – the processes

The prevalence in practice of *transition facilitation* extended the literature that linked the prompt for a NED appointment to a company 'undergoing some

¹¹³ See page 157

transition period' (Deakins *et al*, 2000c:185) or a 'crisis' (Johannisson & Huse, 2000:368). In practice this was a two way process, as all but one of the NED respondents also talked of personal *NED transition facilitation* as a motivating factor to become a NED. The PLC NED role 'couplet' of 'independence and involvement' (McNulty *et al*, 2002:4) could apply equally to SME NED motivation. The NED respondents sought the satisfaction from the greater involvement in SMEs generating the feeling of 'making a difference', being valued and improved *self worth*. At the same time they were taking back or maintaining a level of control over their own lives, that is, a level of physical and financial autonomy as opposed to *independence of mind*. This applied equally to those respondents who had taken up the NED role upon retirement ...

It was really about transition, giving up the day job. I certainly knew that I was not going to be the sort of person who would be fully active on Friday and nothing to do on Monday and so for me the process of retirement actually took place over two years. ... and in the process said "Okay, what am I going to do?" So, [Company H] came along as an opportunity... So, the motivation was "Hey, I want to keep interested" ... I have gradually said ... "Well, I don't need to do this, do I? So I'll stop doing that and then I can travel more," ... it's a question of a balance in life (HNED:832-848) **coded to Column B**

... and those who had become a portfolio NED¹¹⁴ as an alternative career path to working full-time for a sole PLC employer.

at the end of last year well we got into the FTSE 100 ...I personally found that I had put a lot of my working life into [NED employer] and it would be a shame not to do ...something like it again. You work 24 hours a day, I think there was one year I didn't see my parents all year. ... And I thought what I need to do is I need to cut my involvement a little bit, give myself some breathing space and then maybe I'll do it again. So I retired from the main board in October last year... (FNED:245-250) **coded to Column B**

FNED disliked the lack of privacy associated with the PLC director role, preferring to work with privately owned start ups.

5.5.7 Understanding Enhanced summary

Table 5.14 on page 149 displayed the new role elements emerging from the data across all six categories under this heading. There were eight new role elements that were prevalent in practice and three that were present in practice. The three new role elements that were present in practice were: *Communication structures beyond the boardroom*; *Add value to NEDs' self worth* and *Abdication*. The eight new role elements that were prevalent in practice were: *Learning to play each*

¹¹⁴ Portfolio NEDs generate their income from a number of NED/NED-style appointments rather than to supplement a PLC senior executive pension or a transition to full-time retirement

other's piano (director socialisation processes); *NED professional & personal development*; *experience of other NED-style advisors informing 'diligent director' recipes*; *Foot in other families* (NED experience elsewhere &/or multiple NED appointments); *establishing role expectations* (part of negotiating flexibility); *Using other advisors as a part of a NED validation/moderation process*; *succession planning* (NEDs) and *NED transition facilitation*. These new elements enhanced the understanding of the UK SME NED role emphasising the importance of dyad partner socialisation processes, between each other and in the wider business community, to create an effective NED role to address the specific SME context.

The *understanding enhanced* prevalent role elements also indicated a gap in the literature and in UK SME practice regarding NED HRM processes. For example, the lack of importance associated with NED training¹¹⁵ was confirmed in data from the unpublished ACCA survey of SME NEDs. Table 5.15 displays these data.¹¹⁶

| ACCA NED Survey question: What training have you received for your role as a non-executive director? | Percentage response (n = 140) |
|--|-------------------------------|
| No training received | 60.0 |
| Training received prior to appointment to the board of this company | 15.0 |
| Training received after appointment to the board of this company | 6.4 |
| Training received after appointment to the board of this company on an on-going basis | 13.6 |
| Other (please specify) | 16.4 |
| - Previous executive &/or life experience | 7.9 |
| - Formal organised training | 5.0 |

Table 5.15: Training of NEDs in SMEs

In the interview data two NEDs remarked on the lack of opportunities for SME NEDs to meet as a network to share experiences.

I don't know any other Non-Execs, I don't have, I don't bump into Non-Execs so, I, surprising isn't it really, so I can't say "How do you do it in your company?" and "What," you know "What do you do in your company?"

R: *I mean is that something that you would have found useful at all?*

Well, I suppose in the early days I probably would, because I didn't quite understand what they did, and I've developed it the way I've developed it and they've accepted it that way (ANED:1591-1604)

... you can get formal development on the role of a non-exec and we've done some of that at [NED employer]. I think it's different for a small company and so I think what would have been interesting and perhaps useful is some sort of workshop based approach where perhaps you meet with other non-execs, independent non-execs,

¹¹⁵ Raised in **Knowledge Transfer/Director Development** on page 152

¹¹⁶ The Walker Review (2009b) is recommending that greater attention be given to personalised NED induction, training & development and annual appraisal in PLC BOFIs (Walker, 2009b:14)

there is both some sort of guided training but also the opportunity to brainstorm and work with each other. That would probably be quite a good idea. The Institute of Small Directors! (FNED:574-581)

FNED had his own mentor, one of his FTSE 100 former employer’s NEDs whom he consulted to aid his understanding of the NED role.

The lack of NED time bound contracts was noted as not unusual SME practice.¹¹⁷ In the previously mentioned unpublished ACCA survey of SME NEDs, over 70 percent had open-ended contracts. In this same survey only seven percent had been formally appraised. In practice, based on the sample interviewed only where a NED was a member of a listed company board (FNED) or where HRM was their specialism (GNED) was there any discussion of NED appraisal. Apart from the Smithson (2004) comment that such review activity could be difficult if the TMT were also the main shareholders, there could be a further explanation for this absence, linked to the contracts issue. The data from the unpublished ACCA survey illustrated that only 35.7 percent of NEDs had a formal contract with the company. Table 5.16 summarises the figures.

| ACCA NED Survey question | Percentage response “Yes” (n = 140) |
|--|--|
| Has this company conducted a formal appraisal of your performance as a non-executive director? | 7.1 |
| Do you have a formal contract with this company? | 35.7 |
| How long is your period of appointment? - open ended | 70.7 |

Table 5.16: NED Appraisal and Contracts in SMEs

The data suggest this lack of formality can cause problems where or when the director socialisation processes break down due to a mismatch of NED role expectations.

5.6 Synthesis and Discussion

Seven key points emerged from this chapter’s comparison of the literature-based framework and the empirical data from the ten Case Dyads. These explore and explain the literature framework dilemmas, surprises and concerns raised in Chapter Three. They warn of potential SME director social responsibility liabilities

¹¹⁷ See section 5.5.5.1 Risk Management – the people on page 155

and missing NED HRM practices. They highlight the changes in the SME NED role over time and the differing dyad partner perceptions.

5.6.1 The framework dilemmas confirmed

The first finding resolves the two framework dilemmas described in Chapter Three. The data for *financial scrutiny* proves that counting instances of a role element without taking account of its contextual importance is an unsophisticated proxy for normative practice. However this was the only role element where the proxy's use fails significantly. More importantly, the data confirms the VC company bias in the framework SME literature sources and demonstrates the effects. NEDs acting as *watchdogs/ policeman (compliance)/contractual monitoring (VC)/representative (funding requirement)* was less prevalent in SME practice than the literature framework suggested. The Scottish ACCA study data¹¹⁸ contributed to this bias and is an example of how access issues can evoke a 'lamp syndrome' (Huse, 1998:218; 2000:282) approach to research study sampling, that is, limiting research to aspects of board phenomenon where data are easily accessible.

This thesis supports the argument that, when adopting or adapting research findings, users should be aware of the specific research context (Pye & Pettigrew, 2005), theoretical perspective (Arthurs & Busenitz, 2003) and methodology (Huse, 1998 & 2000). This is especially apposite if the research is informing policy.

5.6.2 The framework surprises described and explored

The second finding relates to the role elements which were taken for granted by Case Dyad respondents, that is, *informal social interaction with TMT & other directors* and *(use of) contacts & networks*. Both those role elements were found to underpin UK SME NED role practice. The Case Dyad data confirmed the framework suggestion that *informal social interaction with TMT & other directors* did exist, albeit only in a work-related context. The *(use of) contacts & networks* data underpinned *understanding enhanced* findings such as **Knowledge Transfer/ Director Development** *experience of other NED-style advisors* and **Boundary Spanning** *foot in other families*. It also came into focus when the MD and/or TMT *contacts & networks* were used as a tool by MDs to evaluate potential NEDs and unexpected behaviour of NEDs as described in **Creative NED Role-making**.

¹¹⁸ Boussara & Deakins (2000); Deakins *et al* (1999; 2000a; 2000b; 2000c; 2001) all used the same data which accessed SME NEDs from private equity or government-funded start up ventures

This thesis argues that the data have explained the equivocal nature of the *informal social interaction with TMT & other directors* and *(use of) contacts & networks* role elements found in the SME literature. They are ‘unquestionable’ (Schutz & Luckmann, 1974:4) and therefore rarely volunteered as an explicit role element for a UK SME NED. However both role elements were found to underpin the UK SME NED role in practice.

5.6.3 The framework concerns unfounded

The third finding addresses a bias found the framework findings which is a potential cause for concern. In Chapter Three the major role elements of the UK SME NED predicted a collaboration style.¹¹⁹ The balance between the control and collaboration styles that McNulty, Roberts and Stiles believed necessary for NEDs to be effective (McNulty *et al*, 2002:4; Roberts *et al*, 2005:S11) was missing. This lack of balance is not confirmed in the Case Dyad practice.

This thesis demonstrates that in practice, UK SME NEDs exhibit a balance between the control and collaboration styles of NED role elements.

5.6.4 SME director liability warning bells

The fourth finding raises a concern across all UK NED roles not just those in SMEs. Although SME NED practice addresses the collaboration style bias predicted in Chapter Three, the minor role designation of *Stakeholder interests/ social responsibility* is also a cause for concern. Unlike the previous finding, here there is a corresponding lack of data in the *literature confirmed* analysis. In the PLC NED role there is an increased interest in corporate social responsibility, as the additional sources included in the framework illustrate (see Kakababse *et al*, 2006; Mallin & Ow-Yong, 2008). In Anglo-American PLC boards it was the NED leading the CSR debates (Kakababse *et al*, 2006). However, privately owned company directors may lack experience of the LSE boardroom regulation that applies to PLCs and the ‘soft case law’ (Proctor, 2005) that has emerged from listed company regulatory prosecutions.

This thesis argues that the combination of the codification of director general duties in the Companies Act, 2006 and the growing emphasis on environmental

¹¹⁹ See Chapter Three *section 3.5.3.2 SME NED Role* on page 81

issues by stakeholder pressure groups raises the potential for SME director statutory 'hard case law' (Proctor, 2005) to emerge from private company director litigation.

5.6.5 SME NED HRM practice reported missing

The fifth finding from this Chapter's analysis highlighted the dearth of formal HRM practice associated with SME NED appointments, reflecting SMEs informal approach to HRM (Marlow, 2003 & 2006). This lack of practice explains the absence of role elements in the framework as previous studies failed to report this absence.

For example, *NED succession planning* was missing from the literature. This was despite the acknowledgement in the literature that the need for a specific SME NED skill set could change as the company developed (Deakins *et al*, 1999:28; Berry & Perren, 2000b:17). The new role element of *using other advisors as a part of a NED validation/moderation process* is associated with this lack HRM practice. As a substitute for formal HRM procedures, MDs use their own contacts and networks to help select potential NEDs and to evaluate unexpected NED behaviour.

This thesis demonstrates that NEDs are seen as outside the jurisdiction of company HRM practice. The lack of agreed procedures to identify when the NED no longer adds value to the business has the potential to harm privately owned UK SMEs by wasting valuable resources, for example, the other directors' time or company cash. Support for this thesis proposition comes from three sources: the Case Dyad *NED succession planning* data, the other *understanding enhanced* role elements¹²⁰ and from the previously unpublished ACCA 2000 NED survey data. The latter report the lack of formal time bound SME NED contracts and SME NEDs' exclusion from company appraisal processes and director training plans.¹²¹

5.6.6 SME NED role pattern over time

In the third finding the Case Dyad practice indicates SME NED role element balance. The data also indicate that respondents move between control and collaboration style role elements as they perceive the need arises. In the PLC NED role this movement was described as a 'condition and consequence of

¹²⁰ Summarised in Table 5.14 on page 149

¹²¹ See Tables 5.15 and 5.16 on pages 158 and 159 respectively.

continuous processes of accountability' (Roberts *et al*, 2005:S18). The sixth finding reflects that in practice there was no such thing as a typical UK SME NED. Each Case Dyad NED role was influenced by the partners' experience beyond the relationship and their experience of working together creating a unique UK SME NED recipe for the specific context, matching each other's needs and building trust.

This thesis proposes that the *understanding enhanced* role elements address the contextual and dyad process gaps in the UK SME NED and advisor role literature identified in Chapter Two. These new elements focus on firstly, respondents gaining an understanding of their dyad partner based on trust and secondly, building a UK SME NED recipe from interacting with their partner and others who have held similar roles. These findings emphasise the time and effort intensive investment or 'irrecoverable resource' (Sharif *et al*, 2005:417) needed by director socialisation processes and information asymmetry reduction, in the boardroom and beyond. However, the framework is not sufficiently sophisticated to predict and explain any patterns in the Case Dyad relationship development processes over time.

5.6.7 Dyad partner differences

Chapter Two highlighted the lack of studies giving equal status to the perceptions of both partners in a dyad relationship. The seventh and final finding of this chapter is informed by the Case Dyad partner perceptual mismatches in the analysis of particular role elements. The MD differences suggest the MDs follow the SME literature findings that they want a collaboration-biased NED role. The NED differences broadly follow the PLC role literature findings of a NED role balanced between advising the MD and also controlling them on behalf of the shareholders. However, such perspective differences were not explicit in the UK NED literature used to create the framework. This was because no findings reported the separate analysis of dyad partners, or whether such data had been collected and a dual analysis conducted. The differences in partner perceptions of NED help had been discovered in the analysis of ACCA survey dyads (Perren *et al*, 2000; Boxer *et al*, 2005). However these findings were based on the ACCA survey dyad responses. They could only speculate why such differences might exist based on very limited data, that is, provided by answers to one question in a structured research instrument.

This thesis argues that the causes of the differences in dyad partner UK SME NED role perceptions need to be revealed together with how the partners perceive the NED role changes over time. This transparency will contribute to a richer insight into the role complexity of the UK SME NED. This understanding can then be used to alert SME MDs and NEDs of potential areas of dyad relationship tension.

5.7 Chapter Conclusions

Supported by the literature-based framework in Chapter Three, Chapter Five has fully addressed the first thesis aim:

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs;

The literature framework illustrated that the UK NED role is not homogeneous between the SME and PLC contexts. The data confirm that there are differences in the in-practice role of the UK NED in privately owned SMEs and empirical studies of UK NEDs in un-listed SMEs and large listed PLCs. These differences reflect the different regulatory environments and cultures of the types of company. However not all the differences predicted by the framework materialised in the data and new ones emerged. The data reveal that the perceptions of the in-practice UK SME NED role are not homogeneous. The dyad partners' personal experiences of operating in one environment and/or culture is a possible explanation of why they have different perceptions of the NED role, leading to dyad partner mismatches in the data. The framework was incapable of revealing other explanations and how the partners accommodate these differences. Neither could it explain why nor how dyad partners' perceptions of the NED role change over time and again how these affected the partners' relationship. In the review of the literature in Chapter Two, Dwyer and Ross (2007) remarked that their literature framework was found to have 'only moderate success in fitting our data' (Dwyer & Ross, 2007:139). They suggested that a temporal and 'dynamic' perspective would lead to a better classification of advisors' key explanations of their relationships with SME clients (Dwyer & Ross, 2007). This thesis experienced similar levels of success addressing all of the gaps identified in the literature when applying the Chapter Three framework to analyse the Case Dyad data.

The combination of deductive and inductive analysis observed the phenomenon of different UK SME NED role perceptions by creating the literature framework and using it to map the NED role practice in ten UK SME Case Dyads. These are the *experiences* of the dyad partners' empirical domain reality as illustrated in Figure 4.10 in Chapter Four on page 124. However, a higher level of abstraction that included abduction analysis and retroduction interpretation is needed to address firstly, the gaps in the literature relating the NED role process, secondly, the findings in the data that the dyad partners perceive this role differently and thirdly, that these perceptions change over time. The analysis needed to move to the second level of abduction analysis to model the temporal and dynamic patterns emerging from the Case Dyad data. This will make visible the causal laws influencing the dyad partners' different perceptions of NED role reality. As suggested by Dwyer and Ross (2007), the wider social science literature was consulted for ways to model and explain the framework and data anomalies. This approach fitted with a critical realist lens as, by considering 'more conceptually driven explanations' (Perren & Ram, 2004:91), it could avoid claims of researcher tunnel vision.¹²²

The literature review identified trust as important in the contexts of small business advice, PLC governance and SME governance. However little was understood about the process of trust development in these settings. In the next chapter, Chapter Six *A model of the UK SME NED role over time* the wider social sciences literature informs a typology which models dyad relationship trust over time. It is based on the three levels of working relationship trust development posited by Lewicki and Bunker (1996) and modified by Dibben (2000) for trust in entrepreneurial ventures. Their models have been adapted by this thesis to create the NED Role Trust Typology of **NED tells**, **NED advises** and **NED acts**. This model explores the temporal changes in NED role trust from the separate perspectives of the MD and the NED in the ten Case Dyads. These results are interpreted as the *events* or causal laws in the dyad partners' Actual domains of reality.¹²³

¹²² See Chapter Four *Methodology* discussions of the hazards in small business case-study research identified by Perren and Ram (2004) on pages 120-123.

¹²³ see Figure 4.9 in Chapter Four on page 123

Chapter Six: A model of the UK SME NED role over time

6.1 Chapter Introduction

This chapter addresses the second thesis research aim in Chapter One:

To develop a model of dyadic working relationship trust development for managing directors and non-executive directors in UK SMEs

In Chapter Two the argument that for NEDs to be effective there should be a balance between the control and collaboration role styles (McNulty *et al*, 2002:4; Roberts *et al*, 2005:S11) was noted as an attempt to address PLC NED role complexity.¹²⁴ This argument was used again when reviewing UK NED role core elements in Chapter Three, *A Framework for the UK NED Role*. The literature-based framework assumed a collaboration style bias for SME NED roles and this was flagged as a concern.¹²⁵ As reported in Chapter Five, this concern was not confirmed in the ten Case Dyad NED role practice. However the data suggested that any balance between the control and collaboration role elements in practice was neither uniform across the ten Case Dyad SMEs nor was it static within the individual dyad relationships. Nor did the dyad partners always share perceptions of the NED role in practice. The literature-based framework was unable to explain temporal dyad relationship development process patterns in Chapter Five. This was due in part to the limited discussion in the literature of changes in the role of a UK NED over time. The roles changed either because the required NED competencies altered as the SME developed (Deakins *et al*, 1999:28; Berry & Perren, 2000b:17) or there was role movement in PLCs as a 'condition and consequence of continuous processes of accountability' (Roberts *et al*, 2005:S18). As a Chairman and participant observer, Huse also found a temporal element to Scandinavian SME board dynamics.

The Chairman found that his feelings towards other people and their feelings towards him and towards each other varied over time depending on the situation and the issues under discussion. From time to time directors, managers and stakeholders might have doubts about each others' competence, capacity, timing, even their integrity, their good intentions and their reliability. The trust might be mutual, or the trust could be only in one direction. (Huse, 1998:222, *emphasis added*)

¹²⁴ Chapter Two section 2.5.3 *Research theoretical lens* on page 43

¹²⁵ Chapter Three section 3.5.2 *NED Core Role Elements across all UK companies* on page 80

In Chapter Five the data confirmed that there were changes in the Case Dyad NED role over time but that there was no evidence for a prescribed UK SME NED role. The changes were dependent upon the context, including individual Case Dyad partners' previous and contemporary NED role experience, their dyad relationship development and the environment in which the company operated. The new *understanding enhanced* role elements that emerged in Chapter Five were a part of the social processes of change and focussed on building dyad partner trust and Case Dyad specific SME NED recipes. The latter were formed from interacting with their partner and others who have held similar roles. In an attempt to explain this dynamic NED role change component, a NED role trust typology of **NED tells**, **NED advises** and **NED acts** was developed. This typology was based on the three levels of trust development in working relationships first proposed by Lewicki and Bunker (1996) and later adapted by Dibben (2000) in his work on trust in entrepreneurial ventures. From a critical realist perspective, Chapter Five presented the observed phenomenon, or the domains of reality *experiences*, that is, the dyad partners' different NED role perceptions. This chapter is the model building abduction analysis process that reveals the imagined causal laws or *events* as shown in Figure 4.3 on page 93.

Chapter Five concluded that the causes of dyad partner differences in SME NED role perceptions needed to be made transparent to alert partners to the potential for relationship tension. In this chapter the theoretical origins of this NED role trust typology are explained. The typology is then used to explore the changes in the NED role over time in the ten Case Dyads from the perspectives of the MD and the NED. The empirical data from both respondents is analysed and mapped separately to make transparent the complexity of the UK SME NED role over time, addressing a gap in the literature as described in Chapter Two. The separate dyad partner NED typology findings are discussed and linked back to the working relationship development literature. This chapter concludes by suggesting reasons for any emergent differences in Case Dyad partner perceptions of NED role trust over time and how these might access the structures or *generative mechanisms* of the dyad partners' Real domains of reality.

Appendices 9 to 17 support this chapter.

6.2 Underpinning Literature

The 'conceptual frame' (Miles & Huberman, 1994) for this chapter was the work of Lewicki and Bunker (1996) on the evolutionary development of trust in working relationships and on the work of Dibben (2000) and his development of a dyadic model of trust in entrepreneurial ventures. Lewicki and Bunker (1996) proposed that 'understanding how trust changes and evolves may also help us understand how relationships change and evolve' (Lewicki & Bunker, 1996:119). Their model started from the premise that the parties in a new business relationship were not known to each other and assumed a level of partner uncertainty and vulnerability.

The three levels of trust identified were 'calculus-based', 'knowledge-based' and 'identification-based'. They stressed that their model of trust development was not a 'normative model' (Lewicki & Bunker, 1996:137). They argued that the types of trust 'are related and build on each other'; however these were 'are very different but not necessarily better than each other'. The purposes of business relationships were not uniform and therefore different levels of trust were appropriate at different times and in different contexts. These evolutionary trust typologies also informed the work of Dibben (2000). He incorporated Clark's 1993 typologies of trust in a relationship, which at any one time focussed on situational cues, with Lewicki and Bunker's illustration of 'the dynamic nature of trust' (Dibben, 2000:51).

6.3 Unit of Analysis: Dyad Partner Trust Development

Trust development was chosen as the unit of analysis as 'trust and emotions... are among the most neglected parts in the current literature' (Huse, 2005:S75); confirmed by the gaps identified in the thesis' literature review in Chapter Two. Trust was also one of the core UK NED role elements identified in the Chapter Three literature-based framework¹²⁶ and its importance was confirmed in Case Dyad practice in Chapter Five.¹²⁷ Huse suggested using 'board life stories' and director interviews as a way of accessing 'actual board behaviour' especially collecting responses from different directors on the same board as 'actual board behaviour is perceived differently by various groups of board members' (Huse, 2005:S76).

¹²⁶ section 3.5.2 NED Core Role Elements across all UK companies on page 80

¹²⁷ section 5.3.1 Relationship Development literature confirmed on page 129

6.4 Trust Map Template

Figure 6.1 is the template which was developed to illustrate changes in NED role trust levels over time. It maps the trust levels from the separate perspectives of the NED and MD throughout the life of the dyad relationships. The data from each NED and MD in the ten Case Dyads was mapped onto this template and the results are presented in Figure 6.1 and in Figures 9A to 17A in Appendices 9 to 17. These Figures were used to inform the understanding of the UK SME NED role complexity and heterogeneity.

The left hand column in Figure 6.1 represents subjective time and indicates key events in the dyad relationship as described by the respondents. The year numbers cited after the NED appointment relate to the specific NED relationship and not the length of time the partners had known one another or the age of the company. Broken vertical lines denote compressed time. The horizontal line represents the NED's formal appointment to the role. The remaining column in Figure 6.1 represents the NED typology **NED tells**, **NED advises** and **NED acts** as described later.¹²⁸

In Figure 6.2 and Figures A9 to A17 the NED's perception of their trust in the competence of their MD partner is represented by a hollow fill line to the left. The MD perception of their trust in the competence of their NED partner is represented by a solid fill line to the right. Each respondent's recollection of the relationship from their first meeting to the date of the latest interview is represented by an unbroken line. A respondent's prediction of the dyad relationship length beyond the latest interview to its closure is represented by a dashed line.¹²⁹

The numbers on these lines with the suffix (m) relate to dyad relationship events¹³⁰ in MD accounts and with the suffix (n) relate to dyad relationship events in NED accounts. These events are the relationship incident nodes and are itemised for each Case Dyad in the data matrices, Tables 6.1 and Tables A9 to A17. These tables list each relationship incident node, summarise the causal event and provide the transcript line numbers as an audit trail back to the data.

¹²⁸ See in *section 6.5* on page 171ff

¹²⁹ In appendix 12 Case Dyad E *Relationship Incidents and NED Role Trust Typology* Figure A12 the dashed line has a different format, representing ENED shadow director action.

¹³⁰ A relationship event is a perceived change in the level of trust in their dyad partner or self

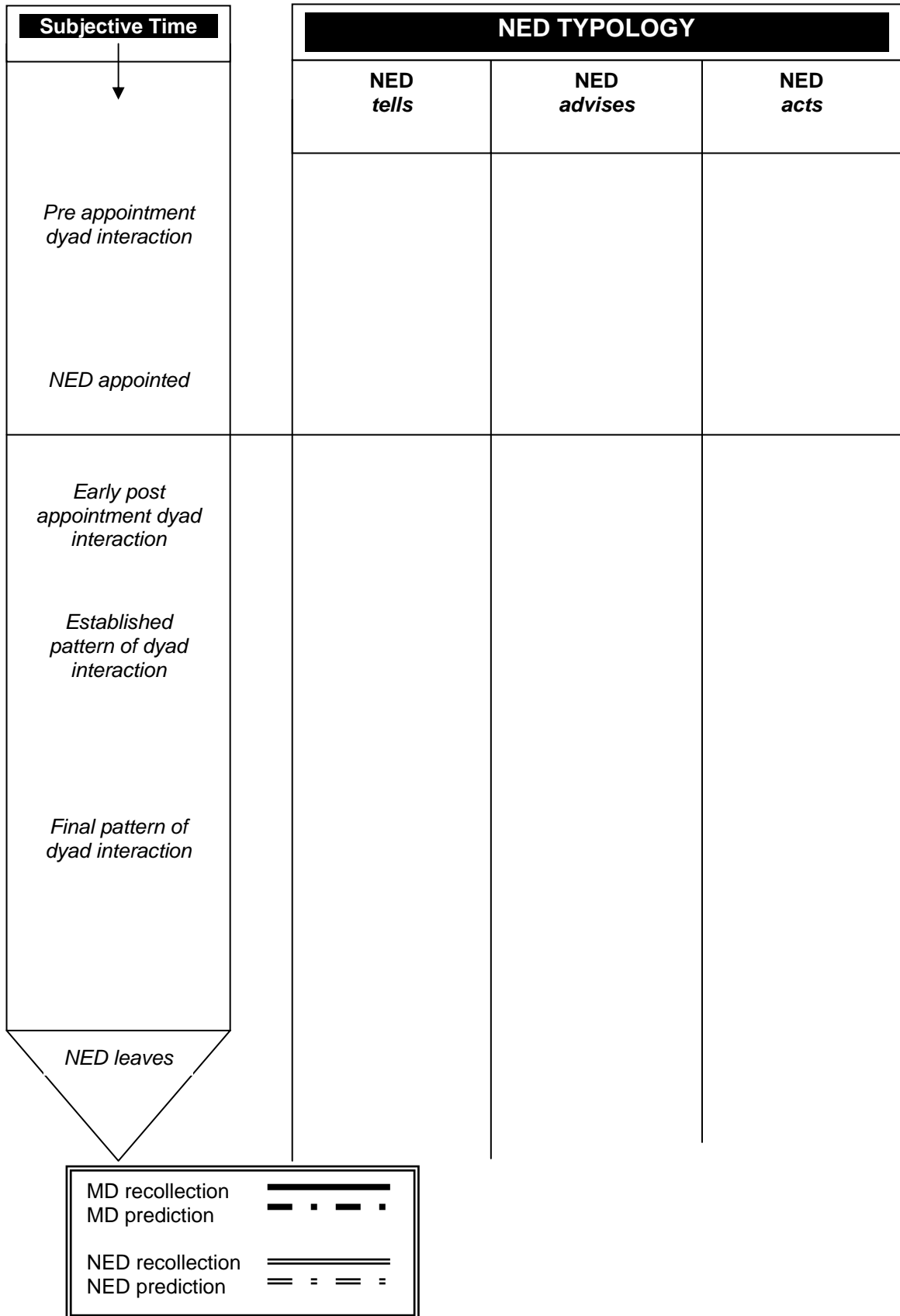


Figure 6.1: NED Typology Template

6.5 NED Typology

This thesis model extends the existing polarised NED roles discussed in the literature review in Chapter Two¹³¹ that are based on either the 'control' or the 'collaboration' perspectives. It will achieve this by incorporating a component based on the Lewicki and Bunker (1996) and Dibben (2000) models of trust types. The three components proposed by the model typology reflect the different levels of NED role trust negotiated by NEDs and MDs over time. They are: **NED tells** based on 'calculus-based' trust, **NED advises** based on 'knowledge-based' trust and **NED acts** based on 'identification-based' trust.

6.5.1 NED tells

6.5.1.1 *Snakes and Ladders metaphor*

NED tells is rooted in Lewicki and Bunker's lowest level of trust, which they defined as 'calculus based trust' (Lewicki & Bunker, 1996:120). The trust is 'an on-going, market-orientated, economic calculation' such as a consultancy agreement or professional service provided by a context specific expert. Here the NED-MD relationship is influenced by the relative professional status and positional power of the partners. Consequently the relationship can be fragile. Likened to a game of 'chutes (snakes) and ladders' (Lewicki & Bunker, 1996:121 *parentheses added*), the relationship between the NED and MD has the potential to make slow steady progress up the 'ladders' as trust in each other's competence grows. However one unexpected or inconsistent act by the NED or MD can send the offending actor down the 'snake' of their partner's distrust. In the worst cases this act can negate all previous positive acts, destroying any trust already established and the relationship ends.

6.5.1.2 *Small Business Context*

NED tells represents a combination of two trust types identified by Dibben (2000). Although influenced by Lewicki and Bunker (1996) his operational model was developed by exploring interpersonal trust specifically in small business ventures. Firstly there is the 'faith-based trust' of temporary groups where the members have limited previous knowledge of each other. They are working to a definite aim and deadline, for example, a one-off consultancy contract where the trust is 'conferred *ex ante*' (Dibben, 2000:265). Individuals from temporary groups that

¹³¹ See section 2.5.3 *Research theoretical perspectives* on page 43

continue to work together develop into the second category of 'dependence-based trust' after 'a period of initial interaction' where each partner can assess the other's trustworthiness and the benefits from working together (Dibben, 2000:266). Once established this type of trust relies on 'frequent exchange of values'. When the relationship no longer adds value to one or other partner it will be easily terminated as these are normally regulated by formal, bounded contracts.

This division of the 'calculus-based' trust addressed an observation of Lindon-Travers (1990). He argued that small company boards, composed of either long serving executive directors who have worked hard to gain their position or a 'tight-knit, buoyant team' (Lindon-Travers, 1990:101), are unlikely to invite a total stranger to join them. Lewicki and Bunker (1996) assume no previous association in their model. Dibben (2000) offers a two step 'try before you buy' process in a SME context where individuals from a one-off temporary group can work together again more closely before making an assessment of, and commitment to, board level trustworthiness.

6.5.1.3 *Typology indicators*

Lewicki and Bunker (1996) argued that this level of trust would be prevalent until the relationship evolved to the point where the partners knew each other 'sufficiently well so that that the other's behaviour is anticipatable' (Lewicki & Bunker, 1996:121). Dibben (2000) argued that partners in relationships exhibiting this level of trust 'would be more aware the differences between the individuals, than their similarities' (Dibben, 2000:266).

6.5.2 **NED advises**

6.5.2.1 *Gardening metaphor*

NED advises was informed by the next level of trust defined by Lewicki and Bunker (1996), that is, 'knowledge based trust' where the partners were able to predict each other's behaviour having worked together long enough, regularly communicating and sharing information. Lewicki and Bunker (1996) used the metaphor of gardeners experimenting with different soil conditions and plants over many years. Partners would engage in 'courtship' (Shapiro, Sheppard and Cheraskin, 1992; Lewicki & Bunker, 1996; Roberts & Stiles, 1999) where they would 'cultivate their knowledge of each other by gathering data, seeing each

other in different contexts, and noting reactions to different situations' (Lewicki & Bunker, 1996:121).

The literature informing this model stressed the need for the partners to continue to invest 'irrecoverable resources' of time and effort in the relationship 'as a demonstration of trusting behaviour' (Shariff *et al* 2005:417) and so develop higher levels of trust (Lewicki & Bunker, 1996; Dikken, 2000). The main vehicle for this investment was 'regular communication' (Lewicki & Bunker, 1996), 'regular and frequent interaction' (Stiles & Taylor, 2001) across a variety of contexts so that by understanding the 'varied facets' of another person an individual could 'come to understand and appreciate those domains where it is appropriate... to trust' the other person (Lewicki, McAllister and Bies,1998:442).

6.5.2.2 *Small Business Context*

Once again Dikken (2000) identified two types of trust that mapped into Lewicki and Bunker's 'knowledge-based' trust. There was trust developed from dyad partners having worked together in a variety of settings even if the current situations were novel for both parties. This Dikken styled 'familiarity reliance-based trust' (Dikken, 2000:266) implying a history of multifaceted and multiplex contact beyond the confines of the specific relationship. Single surprise acts were ignored as the relationship was closer than the 'arms length' of 'dependence-based' trust. In the Graham & O'Neill (1997) model of small business advisors NEDs had the potential to progress along the advice continuum from Shepherd to Sherpa, moving from a context specific 'expert' to a generic collaborative advisor (Graham & O'Neill, 1997:498). In the context of this model this movement would signify the development of a higher level of trust between the partners as they spent time together, that is, moving from the **NED tells** to **NED advises** typology.

In the Lewicki and Bunker (1996) model a higher level of trust developed when the partners had been meeting regularly and in a variety of contexts. Therefore some level of familiarity must have developed. Dikken's parallel typology identified trust based on familiarity with the situation, styled 'comprehensible situational cue (CSQ) reliance-based trust' (Dikken, 2000:266). An actor felt that they had seen the situation before and seen how others had acted therefore could predict their partner's behaviour even if they did not know each other particularly well. 'CSQ

reliance-based trust' could be thought to fit more closely in the **NED tells** typology as there appears to be little concession to the specific context. Alternatively it could be seen as offering MDs and NEDs, who had not worked together previously, a direct route into a business mentor-protégé style relationship. In Chapter Five, although the data disputed the literature prediction of a major role, in practice the NED as a *mentor* was still perceived as a valid role element. Research into business mentor relationships by Kram (1983) argued that the protégé developed 'a strong positive fantasy' about an admired and respected mentor based on the latter's professional competence (Kram, 1983:614). During the same period the mentor identified the protégé as 'someone with potential, someone who is "coachable"' (Kram, 1983:615).

6.5.2.3 *Typology indicators*

Dibben (2000) suggested that, in relationships with this level of trust, the partners would be 'increasingly aware of the similarities between the individuals, rather than the differences' (Dibben, 2000:266). Lewicki and Bunker (1996) argued that many relationships remained at this level of trust as either the partners lacked 'the time or energy to invest beyond knowledge-based trust', or they had 'no desire for a closer relationship' (Lewicki & Bunker, 1996:125).

6.5.3 **NED acts**

6.5.3.1 *Musical metaphor*

The Lewicki and Bunker (1996) model defined the highest level of trust as 'identification based trust' where the 'mutual understanding' had developed to such an extent that one partner 'can effectively act for the other... and substitute for the other in interpersonal interactions'. The partners also understand what actions they need to take to 'sustain the other's trust' (Lewicki & Bunker, 1996:122). They argued that only a few relationships achieved this level of understanding where the partners 'maximise their strengths' and 'compensate for ... weaknesses' (Lewicki & Bunker, 1996:123). They offered the musical 'harmonizing' metaphor to illustrate the trust development process where 'the parties use their voices to sing in a harmony that is integrated and complex' (Lewicki & Bunker, 1996:123).

However, in the corporate governance context with the dominant influence of an agency theory perspective, this level of trust could be a 'double edged sword' (van Ees *et al*, 2008:90). It could be interpreted as the NED moving away from the

'control' style *independence of mind*, identified in Chapter Three as a major role element in the PLC literature.¹³² The NED 'turns native' (Lindon-Travers, 1990) through the loss of 'cognitive conflict' (Forbes & Milliken, 1999:499) or contracts 'cognitive blindness' if they become too familiar with the CEO as this could have a 'detrimental effect on the monitoring process' (van Ees *et al*, 2008:90).

6.5.3.2 *Small Business Context*

The model of entrepreneurial trust devised by Dibben (2000) has 'confidence based trust' at its apex. Over time and through the wide range of contact in a variety of contexts, the partners know and trust each other to such an extent that, for example, they can deputise for each other in 'non-routine exchanges with other individuals' (Dibben, 2000:267) and actions perceived as 'high risk' (Dibben, 2000:267) by outsiders are acceptable practice. However, just as in the PLC corporate governance context, the dangers of SME NEDs becoming socialised (Berry & Perren, 2000a:25) have been flagged as this threatened the NEDs' *independence of mind* and *wider vision*, both highly valued 'control' style role elements by those adopting an agency perspective for the NED role.

6.5.3.3 *Typology indicators*

According to Lewicki and Bunker (1996) relationships can move from **NED advises**, where partners just gained more knowledge about each other to **NED acts**, that is, 'a more personal *identification* with the other' (Lewicki & Bunker, 1996:125 *emphasis original*). Here a 'clear identification with the other is apparent' (Dibben, 2000:267) as the partners have gone beyond describing each other in terms of their similarities and emphasise shared attributes.

6.5.4 **Dissolving the dyad**

Lewicki and Bunker (1996) described how trust levels could decline and be repaired at each level; however, there was no discussion of how relationships ended beyond 'relationship rupture' as a result of 'trust violation' coupled with 'violation disagreement' (Lewicki & Bunker, 1996:126). The Dibben (2000) model indicated that relationships retreated in a 'step-wise fashion' (Dibben, 2000:60) to lower levels of trust if and when repeated violations occur. He maintained that for a relationship to be terminated by one or other partner the levels of trust must have reverted back over time to those of either 'faith-based' or 'dependence-based

¹³² See section 3.5.3.1 PLC NED role on page 80

trust', that is, **NED tells**. This assumed that trust eroded gradually rather than being lost by a single surprise act by a dyad partner. Both models implied that the ending of a relationship was a negative and emotionally upsetting process.

For an alternative perspective on the dissolution process the thesis model turned to the business mentor-protégé relationship work of Kram (1983). She delineated the process of mentor-protégé *Separation* into 'structural' and 'psychological' prompts (Kram, 1983:670). Timing was everything and Kram acknowledged that a successful separation depended upon the emotional readiness of each dyad partner to move on rather than a set time. Timed correctly, structural separation triggered the psychological separation; the protégé was able to demonstrate their skills and abilities independent of their mentor and the mentor was able to demonstrate their ability to develop 'the next generation' both to peers and to themselves. The *Separation* process ended when both partners in the dyad recognised that 'the relationship is no longer needed in its previous form' (Kram, 1983:620). Kram (1983) also identified a process beyond *Separation*, that of *Redefinition* where the partners had become friends, contact was informal and the support mutual, albeit conducted at a distance.

In the small business advisor context Graham and O'Neill (1997) argued that in a supportive mentor-protégé Sherpa-Expeditionary relationship, over time the Expeditionary should take charge of their own learning. This inferred that in Sherpa style NED-MD relationships any control ceded to the NED was only temporary. At such time as the MD and/or the major shareholders regarded that any incompetence had been addressed, the role of the NED had been fulfilled.

If the data follows the Kram (1983) mentoring model there will be evidence of one or both partners identifying the 'structural' and 'psychological' prompts that will signal the end of their relationship. This is not to say that the business and/or the MD would not benefit from the continuance of the NED role *per se*. Rather it is that the dyad partners will have recognised that their particular NED-MD relationship had concluded.

6.5.5 NED Role Trust Typology Summary

This typology has drawn on literature sources that have been used in the corporate governance, entrepreneurial firm, small firms' advisor or mentoring

relationship contexts. These sources have given pointers as to how different forms of dyadic business relationships develop over time and how these might explain the dynamic nature of dyad partner trust development and the differences between the SME NED roles in the ten dyads in this study.

6.6 NED Typology in Practice

As described in Chapter Four *Methodology*, the NED role in practice and over time was mapped against the NED trust typology to create an 'individual synopsis' (Miles & Huberman, 1994:86) for each Case Dyad.¹³³ These included separate narratives to map each partner's perspective. Each Case Dyad synopsis was an account of the development of trust between in the MD and the NED.

Case Dyad A has been incorporated into the main body of the thesis to demonstrate method and the data condensation processes. This case was selected because it was the longest running NED relationship still in existence at the time of the latest interviews. It was in its eighth year. Due to their combined size the individual synopses for Case Dyads B to J are available as separate working documents.

6.6.1 Dyad Relationship Incident Nodes and NED Typology Templates

Table 6.1 summarises the dyad relationship incident nodes and episodes of tension in Case Dyad A that were key influencers in the Case Dyad partners' trust development.¹³⁴ Figure 6.2 is the NED typology template for Case Dyad A. It was constructed using the relationship events from Table 6.1 as relationship incident nodes to map the development of trust over time from the separate perspectives of AMD and ANED.¹³⁵ These relationship incident nodes provided insights into the changes between the different levels of trust exhibited by individual dyad partners.

In Case Dyad Companies where there were larger top management teams (TMT) and more than one NED, teasing out the levels of trust between the specific partners was more complex. For example, on occasions these respondents found it difficult to differentiate between the MD and other executive directors.

¹³³ See Chapter Four *section 4.7.2.1 Individual synopsis* on page 106

¹³⁴ These incidents are linked back to the transcripts in Appendix 4 for AMD and Appendix 5 for ANED.

¹³⁵ The equivalent tables and figures for Case Dyads B to J are included as Appendices 9 to 17

6.6.2 Dyad A synopsis

6.6.2.1 Company history

AMD joined the shopfloor of Company A in the mid 1970s and progressed to Works Manager and then Works Director by the late 1980s.

In '87 I was elected on to the Board of Directors. We had diversified; we had invested heavily... [Founder] was killed in a road traffic accident in 1987, September... [Owner] had not been involved with the company on a day to day running basis. It was a very steep learning curve for her, a very steep learning curve for me because she elected me as her managing director then and with a recession that was hitting us then, I was in for quite a tough time. (AMD:74-81)

AMD developed the business in a new sector based on plans he and the Founder had made in the early 1980s. AMD negotiated the Company's own unit within a major client's premises to improve their service. Company A experienced financial difficulties during the early 1990s recession and the bank recommended they appoint a financial consultant from a national firm of accountants.

in the grip of that recession and heavily involved with the bank, the bank [pause] in their wisdom advised [Owner] that we should use more professional advice; to this end they recommended [Accountants & Management consultants]. I wouldn't pay them buttons. They ripped this place apart and we're still reaping the benefit of it now. (AMD:84-87)

This advisor was described by AMD as 'some besuited, coiffured whiz kid who's out to feather their own nest' (AMD:981) and had tried to buy the company from the Owner (AMD:976). He downsized the workforce and sold off assets. This was not a good experience for the company and the consultant was asked to leave. While the consultant was there the Owner's elder son was contracted to install the new IT system. In the mid 1990s he joined Company A as Production Director (PD).¹³⁶

And that's where [Production Director] came in because he's an excellent computer programmer, didn't know anything about the business other than what he had seen from the outside looking in and he came on board as works director but with a brief to give me IT information (AMD:106-108)

Around this time the Owner sought business advice from a trusted social network friend who recommended the appointment of a NED, in particular ANED.

R: *There is a theory that all NEDs are found on a golf course!*
That's very true, in fact that's where [NED] came from. [Owner] was a member of the local golf club and an associate of hers there, who she had taken advice from in the past, informally let her know about [NED] and so that's how they were introduced (AMD:225-228)

¹³⁶ AMD referred to this person variously as the Technical, Production or Works Director

| Ref. | Descriptor | Audit trail |
|-------------|---|--------------------------|
| AMD | | |
| 1m | ANED appointed to mentor to new Production Director | AMD:152-155; |
| 2m | ANED appointed to review under-performance of unit(s) | |
| 1/2m | Joint discussion of each other's roles | AMD:962-963 |
| 3m | AMD appreciated ANED style of mentoring support | AMD:405-406 |
| 4m | AMD impromptu purchase of new capital equipment | AMD:760-762 |
| 5m | AMD feels ANED capital equipment purchase system unresponsive to new opportunities | AMD:191 |
| 6m | AMD adopts ANED system for all subsequent purchases of capital equipment | AMD:777-799 |
| 7m | AMD senses control style elements receding from ANED role | AMD:1028 |
| 8m | AMD feels ANED too forgiving, possibly due to age | AMD:1039 |
| 9m | AMD feels ANED moved too close to company to add value and Owner has yet to recognize this | AMD:1046-1049; 1100-1103 |
| 10m | AMD identified ANED last role in advising new Finance Director & acting as their mentor | AMD:1180-1192 |
| 11m | Predicted ANED will have 'run his course' in 2 years time | AMD:1168-1171 |
| ANED | | |
| 1n | original role to mentor new Production Director & AMD | ANED:63 |
| 2n | original role to tell execs how to run the company | ANED:64-66; 71 |
| 3n | initiated communications structure & mentored board level debate | ANED:67-69 & 533 |
| 4n | AMD changes took 2 years through regular & open debate | ANED1328-1330 |
| 5n | tension from AMD flouting capital equipment purchase system; comparison of old & new systems mentioned in both interviews | ANED:224-230; 958-960 |
| 6n | ANED had resumed a balanced role between the control and collaboration styles | ANED:147-150 |
| 7n | ANED accepts original role completed some time ago | ANED:1386-1388 |
| 8n | Positive impact of new equipment unforeseen | ANED:768-770 |
| 9n | Impact of new equipment purchase still in doubt | ANED:1014-1017 |
| 10n | Encouraging AMD to adopt Boundary Spanning 'control' role of seeking new opportunities | ANED:1019-1022 |
| 11n | Production Director now competent if AMD out in new role | ANED:1021 |
| 12n | ANED senses an increasing number of Boardroom disagreements | ANED:1145-1148 |
| 13n | No need for another NED when ANED retires; he can be consulted even after retirement | ANED:1538-1542 |

Table 6.1: Relationship Incidents Dyad A

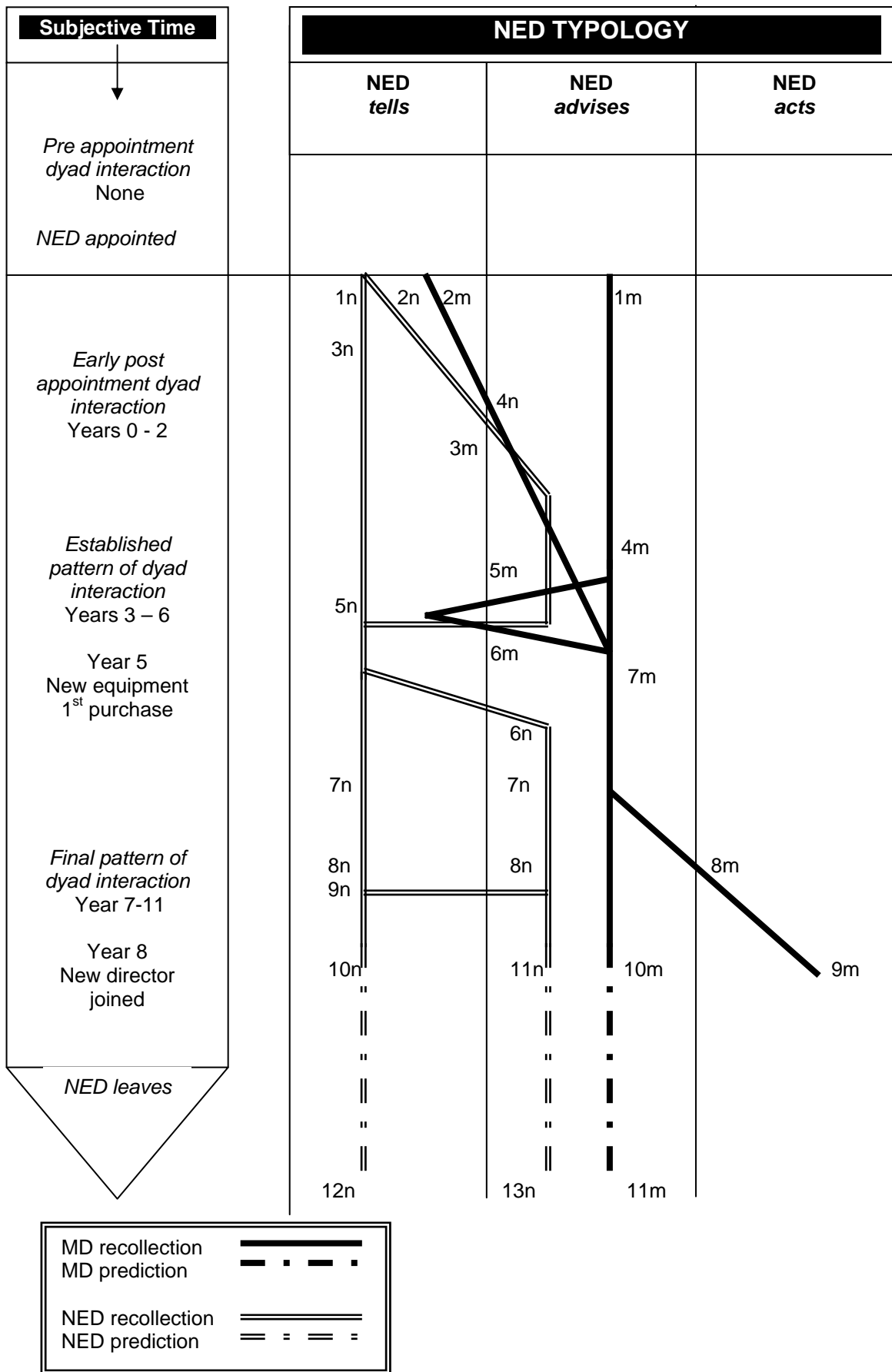


Figure 6.2: NED Typology Template Dyad A

In the early 2000s the Owner's second son joined the business as Financial Director designate although AMD did not mention this familial connection.

6.6.2.2 *NED history*

ANED had a successful career in a PLC-related sector in which Company A traded. Initially he was in technical services, he then moved to sales and in the later stages of his career was the MD of multinational subsidiaries. Although he achieved the level of Vice President of a group of subsidiaries at his last employer, he had no direct executive director experience.

I worked most of my life for [Metals PLC] a metal bashing company in [City 2] and worked my way up till Managing Director, now that is not Executive Director in [Metals PLC] terms, because you've got an Executive Director layer and, which are really basically Group Directors and they have groups of people and I was a Managing Director of one of their, of two of their businesses, having been a Works Director and a Sales Director – I've been everything but a Financial Director. (ANED:712-719)

He retired in the mid 1990s. One year after retiring he was approached by the friend of Company A's Owner and encouraged to take up the role of NED.

[Owner] knew a friend of hers that was a friend of mine and either she approached him to do it or he said it wasn't his field and he approached me. He said, "look it's metals, its alloys and you know the language and everything else and its oil and dirty fingernails [chuckles] and you've been involved in that so would you do it?" (ANED:109-112)

He had no other NED appointments, nor had he been a NED elsewhere.

6.6.2.3 *Pre-appointment interaction and role: none*

ANED and AMD did not meet prior to ANED's appointment.

it must have been 9 or 12 months after [Production Director joined board] [NED] came along. That was a surprise to me because I wasn't consulted. I think [Owner] recognised her son's shortcomings. (AMD:110-112)

The appointment was made by [Owner] (ANED:164)

The Owner interviewed ANED, gave him access to financial reports and a two fold remit. The Owner's elder son had no directorial experience but had joined the board as Production Director (PD) after setting up Company A's IT management systems. He needed a business mentor. The Owner also wanted to change the company culture away from the Founder's, and AMD's inherited, autocratic style to a more democratic, inclusive style of management.

[Owner]'s son [Production Director], ... decided that he would join the business. ... and he came in with a fantastic IT knowledge and a very good mechanical brain, obviously a lot of his father in him but he never had run meetings, hired or fired or whatever, knew no structure of industry. So, one of the reasons for the appointment, my appointment was to be his mentor. So, I'm sort of to steer him and the other area which was clear was that we had to change it from an autocratic, you know, I shout and you jump attitude into the more properly structured organisation (ANED:59-66)

ANED was appointed Chairman although the Owner remained on the Board and AMD continued to chair the board meetings.

[AMD] chaired [the Board] for [Owner] because she felt more comfortable when he chaired it when there were just 3 of them, I think. So I've let him carry on chairing, although ostensibly I am chairman of the company (ANED:188-190)

6.6.2.4 *NED-MD Interaction*

ANED attended Company A two days a week; he walked the factory floor and had informal conversations with AMD. ANED attended formal monthly board meetings. ANED and the Owner conducted AMD's formal appraisal interviews. ANED and AMD travelled together on trips to customers, suppliers and exhibitions and used the time to talk through issues.

I had occasion to take [NED] to customers in the past where I have sat him in a car for three hours at a time and we have got to know each other. (AMD:207-208)

he goes up to [UK region]... it's a two or three hour car journey, so I'd go up with him and sit and talk all the way up there and all the way back. We went to see some large customers together and talked and I talked and talked to him (ANED:1267-1270)

On these external occasions ANED also had opportunities to see AMD interacting with customers and AMD's peers. Occasionally ANED and AMD attended business related social events together.

6.6.2.5 *The NED's Story*

6.6.2.5i *Early/Initial post-appointment interaction and role: Years 0-2*

ANED described the first year of his appointment as 'interesting' due to the actions of the previous financial consultant.

Did the appointment make the MD and other directors feel insecure? And one of the reasons for saying that is that the consultant brought in by the bank certainly made everybody feel shaky. (ANED:171-177)

ANED saw his original role as being split between the collaboration role of mentoring the PD (node 1n) and the control role of telling the executive directors

how to organise and run a company and advising AMD how to be a managing director (node 2n).

one of the reasons for the appointment, my appointment was to be [PD] mentor (ANED:63) **coded as 1n**

and the other area which was clear was that we had to change it from an autocratic... into the more properly structured organisation ... I have considerably changed [MD's] role (ANED:64-71) **coded as 2n**

He acknowledged the sensitivity of the latter task, bearing in mind the previous success of AMD in very difficult circumstances.

if you put yourself in [MD]'s seat, it must have been quite difficult for him because ... he had command, total command of the ship and could probably see there was an admiral coming aboard ... and he was going to be captain, and that we might not sail at the same time as he thought (ANED:164-168)

I never really, intentionally undermined his authority or denigrated it, or made him look silly if I could something glaringly wrong I wasn't going to raise it in a Board meeting, I'd more or less say "Well, let's have a talk about it." (ANED:1272-1274)

ANED initiated a communications structure of regular monthly board meetings with structured agendas and a series of executive director, middle management and shopfloor meetings feeding down from and up to the board meetings (node 3n).

you have board meetings, managing director's meetings. The operations director has a meeting with his managers and so there is a cascade of information downwards (ANED:67-69) **coded to 3n**

[They [the directors] are trained to operate] at the correct level for a board discussion (ANED:533) **coded to 3n**

He estimated that the transition to 'advising' AMD had taken two years (node 4n).

it probably took about two years... because of the ... change we required, I required and ... to do the things that I thought were good for this company (ANED:1328-1330) **coded to 4n**

He had achieved the necessary changes by building a good relationship with AMD through regular formal, private appraisals of AMD performance and monthly Board meetings. The partners met informally for coffee when ANED was at the company.

6.6.2.5ii *Established/stable interaction pattern and role: Years 3-6*

During this period a serious tension had arisen relating to AMD's purchase of a type of capital equipment without seeking the Board's approval first. ANED referred to this tension (node 5n), albeit obliquely.

we have a formal capital expenditure proposal system here which is brought to the Board, discussed and signed. So, you can't just go out with your cheque book and buy a couple of things, which you could do at one stage. (ANED:958-960) **coded to 5n**

ANED recounted this formal system in Year 6 when there were three machines and in Year 8 when there were seven. By Year 6 the above tension had been resolved and ANED resumed his role of challenging the executives' decisions, that is, a role balanced between the control and collaboration styles (node 6n).

since 95 when I came in the whole thing has progressed but I can't put that as the result of my appointment, it is everybody - everybody going in the right direction and certainly responding to many of the changes I have suggested. (ANED:147-150) **coded to 6n**

6.6.2.5iii *Final interaction pattern and role: Years 7-11*

By Year 8 ANED accepted that his original roles had been completed (node 7n), an example of a 'structural separation' prompt (Kramm, 1987).

...there are some days I come in and think, 'What am I going to do today?' Whereas before I'd got a list of things as long as my arm, you know. (ANED:1386-1388) **coded to 7n**

However, AMD's challenge had opened up a new strategic direction for the company, requiring reorganisation of the factory and which had been unforeseen by ANED (node 8n).

It's interesting in the way that we can, we can produce a fairly large strategy document business plan and two years later we're up an alley which was not even, that was hardly mentioned ... So, we've got to somehow find a way to decide our own destiny and lay down a plan which can be followed and is profitable, rather than bumping into opportunities. (ANED:768-776) **coded to 8n**

The company was negotiating to set up a separate unit of these machines on another client's premises to reduce Company A's costs and offer an improved client service. ANED was now waiting for the full impact of the new direction to be understood (node 9n).

I'm waiting now for the feedback of the financial results to see if it is truly profitable because on paper it says it is but the true test is when we've have been doing it for two or three months, is that part of the business profitable or not? (ANED:1014-1017) **coded to 9n**

Although his original role had been completed, ANED believed that this role of financial monitoring and restraint was still required and he would not compromise.

there would be matters which are probably non-personnel matters or financial matters where I wouldn't be talked around (ANED:1185-1186)

As a direct result of the new equipment purchases ANED was now intent on developing AMD's role by persuading him to investigate more strategic opportunities to protect the long term future of the business (node 10n). ANED believed that his former protégé, PD, was competent to run the company (node 11n).

one of the things I'm very keen on is to use [MD], the Managing Director, as in an identifying role for new business coded to 10n... [Production Director] is now totally competent to run the day-to-day operation (ANED:1019-1022) **coded to 11n**

When asked what he had learned from Company A, ANED hinted at a movement from **NED tells** to **NED advises**.

I've learned that in terms of Non-Executive Directorship you can express an opinion strongly, but in the end, they don't have to take any notice of it, if you know what I mean. (ANED:1338)

Such occurrences were rare but had increased recently (node 12n). He now sensed that his advice was no longer universally accepted and that he was losing his intellectual edge¹³⁷, an example of a 'psychological separation' prompt (Kramm, 1987). By Year 8, ANED did not think the executives needed another NED when he resigned from the Board. Instead they could use him on a consultancy basis (node 13n) as part of a network of advisors. This contrasted with his earlier comments about the difficulties of finding a successor as requested by the Owner in Year 6.

What she has asked me is interesting. ... If and when I pack it up, would I recommend somebody to take over? So she obviously wants it continuing, a NED presence. (ANED:557-559)

I don't think they need anybody looking over their shoulder now that it's all in place They probably need somebody occasionally to take a second opinion on and, well, I'm prepared to do that till I'm totally senile, but there are people ... that you could have for short-term consultancy. (ANED:1538-1542) **coded to 13n**

6.6.2.5iv *Respondent's perceptual paradigm: Similarities & Differences*

ANED emphasised the differences rather than the similarities implying that he perceived a 'calculus-based' trust **NED tells** relationship.

¹³⁷ In his 2nd interview ANED made seven references to his age, as compared to only one in his 1st interview. This was interpreted as ANED perceiving a loss of his intellectual ability

Well, only that we're both, we're very keen for the business to succeed. But we're very different people ... my appreciation of broader issues, of personnel, of accounting, of man management I think, I think we're very different in that respect and maybe we are in what we want out of life. (ANED 1489-1498)

This contradicted the earlier interpretation of his comment that he had been able to adopt a **NED advises** level of trust in the TMT. Although he appeared to trust AMD's entrepreneurial ability to read the market and seek out new strategic opportunities, this **NED advises** level of trust was only because he trusted his former protégé to run the operational side. Therefore the **NED tells** level of trust dominated throughout ANED's relationship with AMD, although Figure 6A indicates NED role oscillation between the 'control' and 'collaboration' styles.

6.6.2.6 *The MD's Story*

6.6.2.6i *Early/Initial post-appointment interaction and role: Years 0-2*

AMD assumed ANED's original role was mentoring PD as a director (node 1m) and to review units' performance within the Company on behalf of the Owner (node 2m).

Not having been party to the terms of reference why he was employed, I can only assume it was for the development of [Owner]'s son and to give external view on the profitability on various parts of the company (AMD:152-155) **coded to 1m and 2m**

He described how they had sat down together the second time they met to discuss their respective roles.

We sat down together at [NED]'s invitation and had a frank informal discussion on who I was, who he is, what we're doing, where are we going (AMD:962-963) **coded to 1/2m**

As previously he had run the Company 'by the seat of my pants' (AMD:931), AMD appreciated the supportive way in which ANED had acted as a mentor to him in his role as MD (node 3m).

NED] has a very... kind way of motivating, it isn't a carrot or a stick (AMD:405-406) **coded to 3m**

6.6.2.6ii *Established/stable interaction pattern and role: Years 3-6*

In Year 5 AMD had challenged ANED's new financial management control systems and purchased capital equipment taking the company in a new direction (node 4m).

myself and my Works Director saw this type of equipment, recognised it for what it was and promptly bought one when the Board had already made a decision that we were going to have no capital expenditure (AMD:760-762) **coded to 4m**

This had caused some tension as AMD felt that ANED's insistence on justifying and debating new equipment prior to purchase could mean Company A failing to respond quickly to new opportunities (node 5m).

If we had gone down [NED]'s path and did a justification we would still be pontificating and debating it now (AMD:191) **coded to 5m**

For the subsequent purchases the executive directors had learned to present their arguments in a format that ANED would find acceptable (node 6m).

we justified [next 3 machines] with quite an elaborate spreadsheet. [as] It's the easiest way to look at the information that you've got (AMD:777-799) **coded to 6m**

6.6.2.6iii *Final interaction pattern and role: Years 7- to date/Year 11?*

AMD was concerned that after eight years ANED was no longer adding value but that the major shareholder had yet to recognise this. AMD had recognised psychological prompts for separation in terms of ANED's contribution, as the **NED tells** style elements of his former role were receding (node 7m).

He keeps trotting out the same old dialogue, there's nothing new there (AMD:1028) **coded to 7m**

He believed that ANED was now too forgiving and had mellowed, possibly due to his age (node 8m). AMD also perceived a shift in the perceptual paradigm of ANED towards 'identification-based' trust, the **NED acts** role (node 9m).

(pause) He's a lot more familiar with all members of the Board, because he's not just a NED who's come in to do a job; he's almost become part of the family at the company. That would be the major change I would suggest. (AMD:1046-1049) **coded to 9m**

AMD believed that ANED had moved close to the company and had 'a more personal *identification* with the other' (Lewicki & Bunker, 1996:125 *emphasis original*). However, he thought that ANED had one last role. The Owner's second son had joined the Company in Year 8 as Finance Director designate (FDd). Like his sibling the PD, the FDd would need a reprise of ANED's **NED advises** mentor role on how to be a director (node 10m). Therefore ANED would likely leave the Board in Year 11 (node 11m).

I shall want [NED] to help schooling [potential FD] (AMD:1180-1192) **coded to 11m**

6.6.2.6iv *Respondent's perceptual paradigm: Similarities & Differences*

Despite his reservations about ANED's movement into **NED acts**, AMD exhibited the 'knowledge-based' trust (Lewicki & Bunker, 1996) of a **NED advises** relationship. He emphasised partner similarities rather than differences and he couched the differences positively, that is, ANED was better educated and worldlier wise.

We certainly enjoy socialising, enjoy good food. Unless there's that sort of common bond there, I don't think there's any chance for a development of a relationship other than a working one and a working one where a guy comes in once a month or once to a Board meeting is fairly tenuous. (AMD:1150-1153)

6.6.2.7 *Synopsis summary*

ANED had a dual role at the start, formalising business processes and changing the MD's role (control/**NED tells**) and mentoring the TMT to be directors (collaboration/**NED advises**). After the first purchase of the new capital equipment, ANED reverted to the single control role of **NED tells** until his trust in AMD was restored to **NED advises** by the confirmation of the profitability and strategic importance of the new capital equipment. AMD perceived a dual **NED tells** and **NED advises** role initially but over time saw ANED as a source of business advice and personal mentoring for the role of MD, a single collaboration **NED advises** role. His perception shifted back to a dual role, this time **NED advises** and **NED acts**, when he felt ANED had reached the end of his contribution and had become too close to the company.

6.6.3 **Case Dyad synopses B to J**

As reported earlier these are available as separate working documents. Chapter Four *Methodology* recorded that the Case Dyad A synopsis was edited to reflect feedback from peers who found the original format confusing. The information was rearranged. The synopses for Case Dyads B to J follow the original format.

6.7 **Synthesis and Discussion**

6.7.1 **Dyad Partner Patterns of Trust Development**

The key incidents and episodes of tension depicted in Table 6.1, Figure 6.2 and Appendices 9 to 17 provided insights into the changes between the different levels of trust exhibited by dyad partners within individual dyads.

There was no pattern discerned across the ten Case Dyads, that is, there were no examples where both partners' perceptions of their trust development mapped precisely onto each other or where the dyad partner patterns were consistent. Consequently the maps of trust development in Figure 6.1 and in Figures A9 to A17 were used to construct two further figures, one displaying all ten MD maps of trust development and the other displaying all ten NED maps of trust development. These were originally drawn on two A2 charts by tracing over the respondents' trust patterns. They have been reduced and are included as Figure 6.3 and Figure 6.4 respectively. The vertical lines denoting the boundaries between the **NED tells**, **NED advises** and **NED acts** have been included as a guide on Case Dyad AMD and ANED only. The horizontal lines denote the point at which the NED was appointed.¹³⁸ It was the separation of the Case Dyad MD and NED maps that teased out the different patterns of trust development. In Figure 6.3 over time the MDs appeared to move from lower levels of trust on the upper left to higher levels of trust on the lower right, including the highest level of 'identification based' trust or **NED acts**. In Figure 6.4 the NEDs appeared to exhibit a different temporal pattern. Over time, they oscillated between **NED tells** 'calculus based' trust¹³⁹ and **NED advises** 'knowledge based' trust, that is, enacting simultaneous roles of control and collaboration.

Table 6.2 is a meso-level cross case analysis summary. It was constructed from the nodes in the Case Dyad Relationship Incident matrices, Table 6.1 and Tables A9 to A17.¹⁴⁰ These identified the specific phenomena described in the following *section 6.7* discussions to the Case Dyad respondent data. The rows contain an audit trail to these discussions. The upper half of the table displays the relationship incident nodes with the suffix (m) and refers to the MD perceptions discussed in *section 6.7.2*. The lower half displays the relationship incident nodes with the suffix (n) and refers to the NED perceptions discussed in *section 6.7.3*. The shaded cells in Table 6.2 represent the relationship incident nodes that have been incorporated into the text. Consequently all the cells for AMD and ANED are shaded. The relationship incident nodes in unshaded cells illustrate the prevalence of each phenomenon beyond the quotes cited in the text.

¹³⁸ The Case Dyad D partners disagreed on timing. DNED perceived he acted as a NED 18 months before DMD formally appointed him as a director. The stepped line reflects this disagreement.

¹³⁹ Where there was a complete loss of trust this is shown by the NED appearing to cross into the preceding map; for these NEDs a curved line extends their boundary.

¹⁴⁰ See Appendices 9 to 17

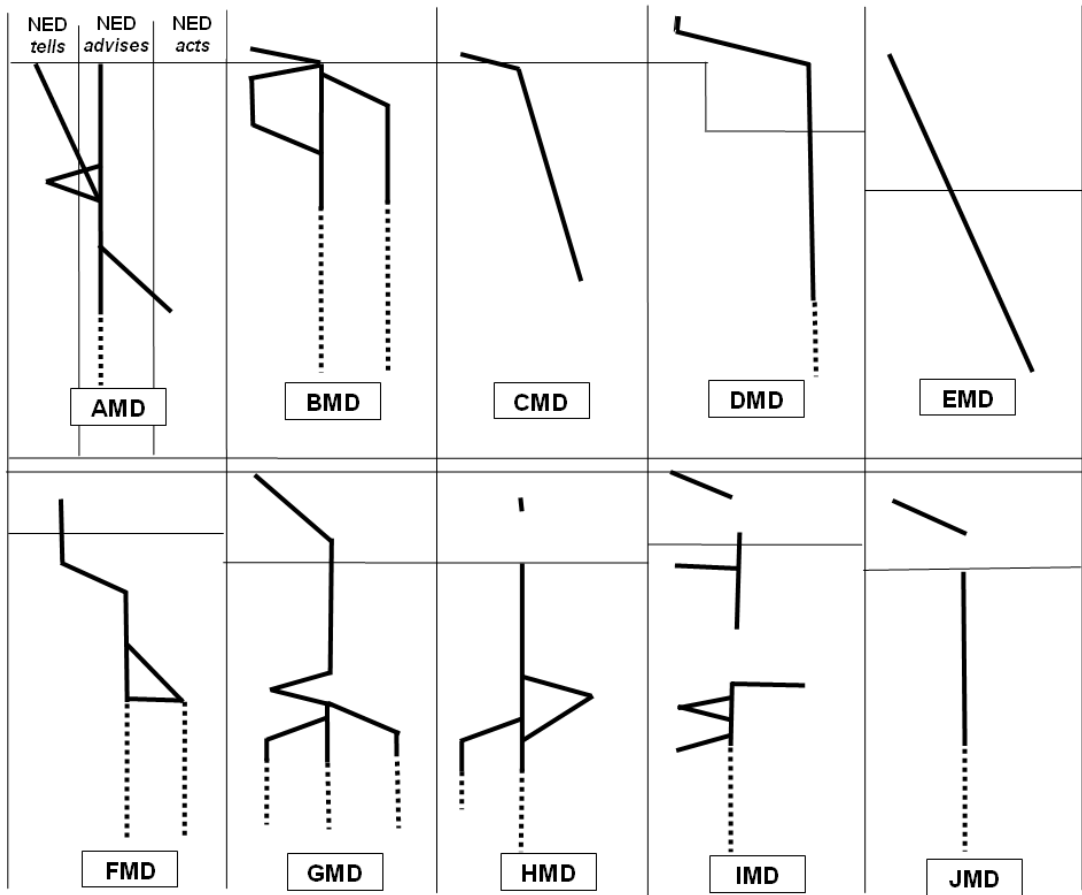


Figure 6.3: Case Dyad MD maps of trust development

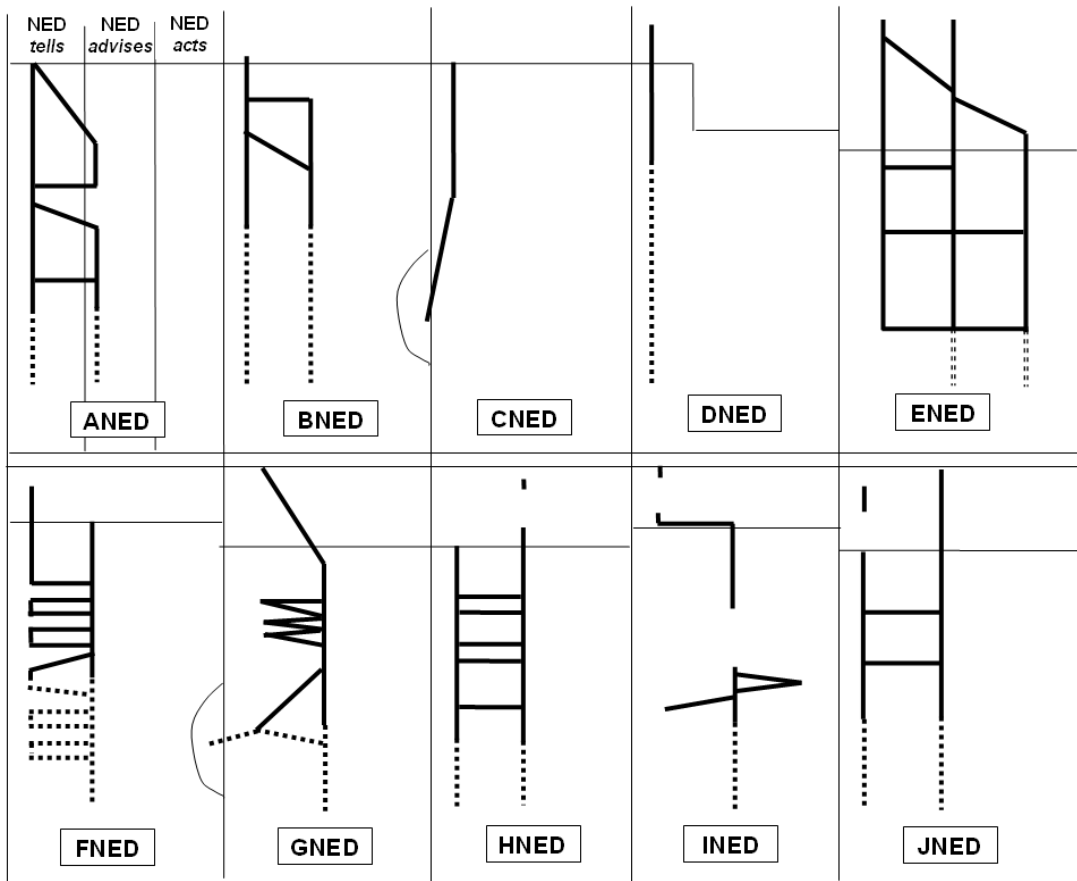


Figure 6.4: Case Dyad NED maps of trust development

| Chapter Six Reference | Relationship Incidents | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|------------------------|------|------|--------|-----|------|-----|------|-----|------|-----|------|-------|-------|-----|-------|-------|-------|-----|------|
| | AMD | ANED | BMD | BNED | CMD | CNED | DMD | DNED | EMD | ENED | FMD | FNED | GMD | GNED | HMD | HNED | IMD | INED | JMD | JNED |
| 6.7.2 MD perception | 3m | | | | | | 1m | | | | | | 2m | | | | | | 1m | |
| 6.7.2.1 emotional response | | | 5m | | 1m | | | | 2m | | | | | | 2m | | 3m | | | |
| 6.7.2.1 detached response | | | 6m | | 6m | | 6m | | 2m | | 8m | | | | | | 7m | | | |
| 6.7.2.2i comfort zone: exec role | 3m | | | | | | 1m | | | | 7m | | | | | | 3m | | | |
| 6.7.2.2ii comfort zone: mentor | 8m | | | | | | | | | | | | 8m | | 4m | | | | | |
| 6.7.2.2iii discomfort zone | 5m | | 4m | | | | | | | | | | 9m | | 4m | | | | | |
| 6.7.2.3i temporary loss of trust | 7/8m | | | | | | | | | | | | 8/10m | | 6m | | 10m | | | |
| 6.7.2.3ii on-going loss of trust | 1/2m | | 5m | | | | | | | | | | | | | | 9/10m | | | |
| 6.7.2.4i dual NED role (1) | 9/10m | | | | | | | | | | 8m | | | | 6m | | | | | |
| 6.7.2.4ii dual NED role (2) | | | 4-6m | | | | | | | | | | 8/10m | | | | | | | |
| 6.7.2.4iii triple NED role | | | | | | | | | | | | | | | | | | | | |
| 6.7.2.5i dyad rupture | | | 12m | | | | 7m | | | | 9m | | 11m | | | | | | | |
| 6.7.2.5ii dissolution: company | 7/11m | | 11m | | | | | | | | | | | | 10m | | 12m | | 8m | |
| 6.7.2.5ii dissolution: NED change | | | 12m | | | | | 8m | | | | | | | | | | | | |
| 6.7.2.5ii dissolution: NED ready | | | | | | | | | | | | | | | | | | | | |
| 6.7.3 NED perception | AMD | ANED | BMD | BNED | CMD | CNED | DMD | DNED | EMD | ENED | FMD | FNED | GMD | GNED | HMD | HNED | IMD | INED | JMD | JNED |
| 6.7.3.1 single role | | | | | | 1/2n | | 2/7n | | | | | | | | | | | | |
| 6.7.3.2i dual role oscillation | | 5n | | 7-9n | | | | | | 6n | | 8n | | 5/6n | | 5/10n | | 9/12n | | 5/8n |
| 6.7.3.2ii dual role learning | | 8n | | 6n | | | | | | | | | | | | | | 5n | | |
| 6.7.3.2iii dual role strain | | 5n | | | | | | | | | | | | | | 9/12n | | | | |
| 6.7.3.3i temporary NED acts | | | | | | | | | | | | | | | | 10n | | 7n | | |
| 6.7.3.3ii permanent NED acts | | | | | | 7n | | | | 3/8n | | | | | | | | | | |
| 6.7.3.4i dyad rupture | | | | | | | | | | | | | | 11n | | | | | | |
| 6.7.3.4ii dyad step wise retreat | | | | | | | | | | | | | | 13n | | 11n | | 13n | | |
| 6.7.3.5i dissolution: NED change | | 12n | | 13n | | 7n | | | | 7n | | 9n | | 9n | | 11n | | | | |
| 6.7.3.5ii dissolution: external | | | | | | | | | | | | 10n | | 9n | | 11n | | | | 11n |
| 6.7.3.5iii dissolution: temporal | | 12n | | 13/10n | | | | | | | | | | 9/13n | | | | | | |
| 6.7.3.6 Relationship redefinition | | | | | | | | | | 3n | | | | | | | | | | |

Table 6.2: Meso Level Cross Case Analysis Summary for Chapter Six

There are quotes that have already been cited in Chapter Five and are repeated in this chapter, this time in the context of dyad partner trust development processes. Other quotes have been included in the discussions that were not coded as Case Dyad partner relationship incidents. These still gave insights into the respondents' perceptions of UK SME NED role. However, as these were not coded to either (m) or (n) relationship incident nodes, they do not appear in Table 6.2.

6.7.2 MD Patterns of Trust Development

Figure 6.5 represents the composite pattern of MD trust development based on an interpretation of the ten Case Dyad MD patterns in Figure 6.3. To create this composite pattern each of the ten MD patterns in Figure 6.1 and in Figures A9 to A17 in Appendices 9 to 17 was overlaid onto one A4 template. The numbers displayed on Figure 6.5 relate to the corresponding section discussions. In the cross Case Dyad separations of the MD trust development maps in Figure 6.3 there was a clear movement from the upper left quadrant of the NED Typology template to the lower right quadrant. That is, over time MDs moved from a lower level of trust in their Case Dyad NEDs to a higher level of trust. The transition from the 'calculus-based' trust of **NED tells** to the 'knowledge-based' trust of **NED advises** had already taken place in relationships where the MD knew their NED, or had an opportunity for a period of 'courtship' (Shapiro *et al*, 1992; Lewicki & Bunker, 1996; Roberts & Stiles, 1999) prior to the Case Dyad NED appointment being confirmed. There were examples where this 'courtship' had given the MD an additional insight into a prospective NED; the transition from **NED tells** did not take place and the appointment was not confirmed.

we actually did consider a lot earlier on someone else as non-exec and he had been the CEO of a company in our industry. ... because of partly his personal style he was fairly autocratic and ... well we experienced it, he kind of came on as sort of an observer to our board for a few meetings and ... actually wanted to run the show and make the decisions rather than being content to be a more non-executive, advisory role (FMD:481-490)

6.7.2.1 **NED tells to NED advises**

Figure 6.5 and the upper half of Table 6.2 illustrate that all MDs made this transition over time, even those who had no 'courtship' opportunity with the Case Dyad NED.

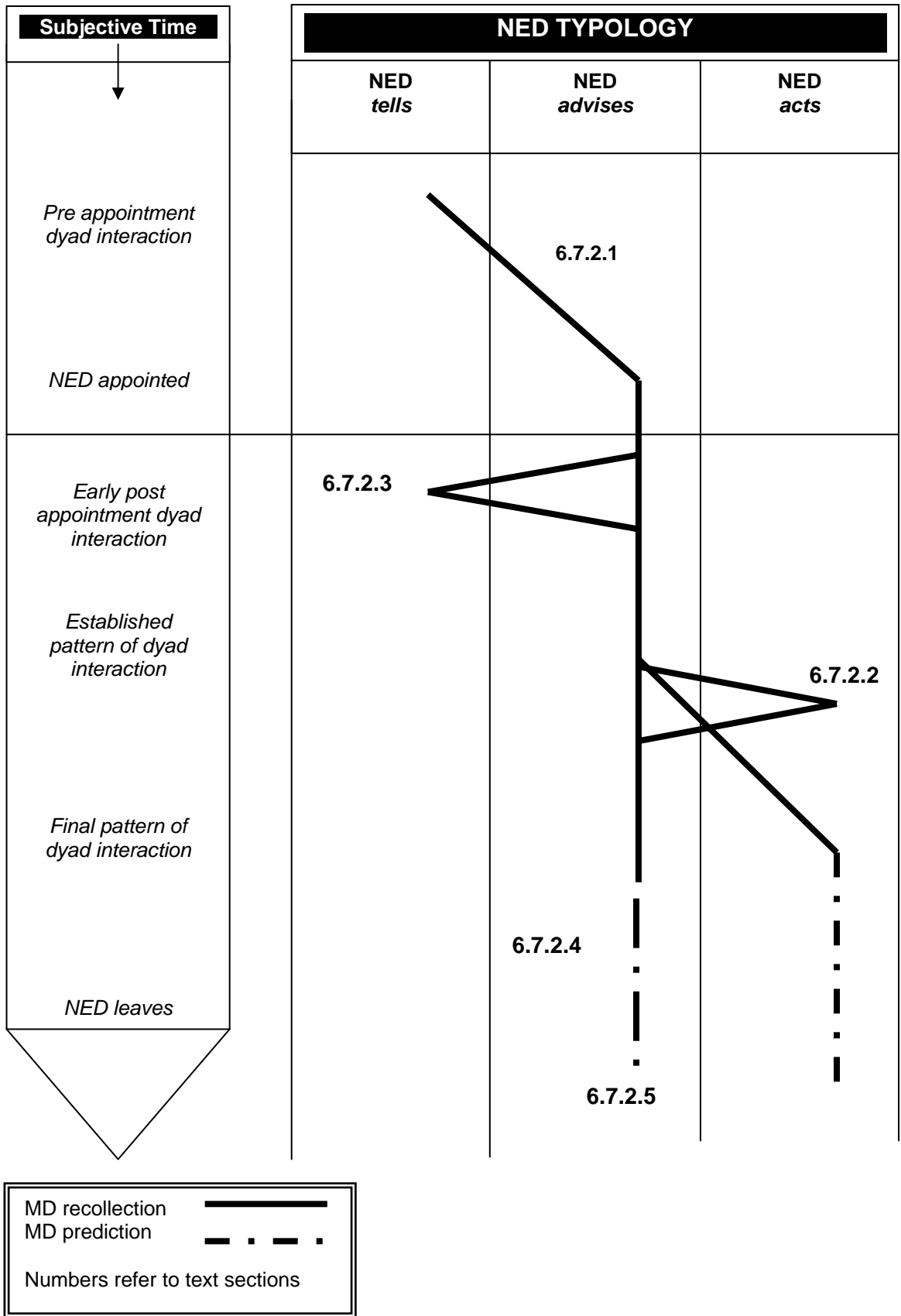


Figure 6.5: Composite Pattern of MD Trust Development

From the perspective of the MD, the incidents that triggered this movement to **NED advises** were grouped into an emotional response to NED actions and a more detached observation of NED actions. The following quote illustrates the first category of emotional response.

she showed an interest in us ... gradually the relationship developed (GMD:121-123)
(GMD/1 & 2m)

The following quote illustrates the detached observation category.

I thought this guy is ...very well connected and he has an instinct for sales. That's really, if I was honest, what I had taken [first NED] on for and it wasn't working.
(CMD:82-83) (CMD/1m)

These inductive categories were similar to the two categories of knowledge-based trust development proposed by Dibben (2000). The emotional response resonated with 'familiarity reliance-based trust' (Dibben, 2000:266) which implied a history of multifaceted and multiplex contact beyond the confines of the specific relationship. The detached observation category resonated with 'comprehensible situational cue (CSQ) reliance-based trust' (Dibben, 2000:266). Incidents triggered the MDs' responses that they had seen the situation before and seen how other NEDs or advisors had acted. Therefore they believed they could predict this Case Dyad NED's behaviour even if they did not know them particularly well.

6.7.2.2 **NED advises to NED acts**

There was evidence of MDs perceiving the achievement of the highest level of trust, that is, **NED acts**. Here again there were two groups of respondents, those that were comfortable with the situation and those who were not.

6.7.2.2i *Comfort zones: de facto executive*

Where the MD was comfortable with the level of trust vested in their NED, the NED had assumed a *de facto* executive director responsibility with an external focus. For example, in Dyad E when the banks had threatened to foreclose due to the company's financial problems the owners appointed ENED on a consultancy contract. Eleven years later the company was thriving and ENED had expressed a wish to retire from this original role. The owners had appointed him as a NED so they could retain his expertise as they still had no executive financial director.

the bank was discussing expansion plans. We were buying other companies ... he had expertise of due diligence procedures and it seemed the obvious thing to put him

on the Board as non executive director. He then talks to the bank directly in that sort of role. (EMD:149-152) **(EMD/2m)**

In Dyad I, this highest level of trust was vested temporarily to address a particular issue. It is represented in Figure A16 by the line crossing the boundary into **NED acts** and returning back across the boundary to **NED advises**. INED had commercial property experience and was asked by IMD to negotiate the lease for their new premises.

Moving has been quite a difficult [decision] ... because of the negotiations that [NED] had with the agent and the way that he's got the pricing structured and so on it has helped a lot. (IMD:557-558) **(IMD/7m)**

INED had helped the executives to see that this move was an integral part of the Company vision and strategic plan.

6.7.2.2ii *Comfort zones: mentor*

There was evidence that movement to **NED acts** was also an indicator that MDs perceived a strong mentor-protégé bond. Early in his appointment FNED had influenced the board in a major decision. This made a deep impression on FMD and is shown on Figure 6F as FMD moving to the **NED advises** level of trust.

that was a particular, one major example there where he thought that management were potentially making the wrong decision. I think we'd have actually realised it was wrong but maybe a few weeks later on. So we would have wasted some time, but, you know, we could always have not realised. (FMD:643-646) **(FMD/4m)**

By Year 2 FMD cited his similarities with FNED to such an extent that he was exhibiting the **NED acts** level of trust (node 7m), where he had 'a more personal *identification with the other*' (Lewicki & Bunker, 1996:125 *emphasis original*).

[any difference] that's material I can't really think of anything that's, actually, you know remarkably just coincidental that we both have two children that are exactly the same ages. So, there is actually quite a lot of coincidence and similarities. (FMD:1281-1284)

Consequently, FMD had developed a higher level of trust in FNED as someone whom he respected and whose success he admired.

it would be good see [Company F] go through a sort of similar kind of pattern to [NED former employer] ... he's really seen the whole lot. So, I can't actually see anything in the immediate future that would mean that he wouldn't be able to contribute (FMD:1400-1403) **(FMD/7m)**

Returning to the research into business mentor relationships by Kram (1983) here FMD was exhibiting protégé behaviour as he had developed ‘a strong positive fantasy’ (Kram, 1983:614) about FNED as a mentor and role model. He also exhibited a ‘clear identification with the other’ (Dibben, 2000:267) as he had gone beyond describing FNED in terms of their similarities and emphasised their shared attributes, moving him into the **NED acts** level of trust for the foreseeable future. This level of trust in mentors was rare. Although the Table 6.2 MD data shows that others also regarded their NEDs as mentors, none exhibited this level of ‘a more personal *identification* with the other’ (Lewicki & Bunker, 1996:125). For example,

he’s very motivated by money not that, you know, we all have to a certain degree but he is different from me from that point of view. (chuckles) (BMD:1593-1595)

6.7.2.2iii *Discomfort zones*

Where the movement in the **NED acts** level of trust made MDs uncomfortable the triggers cited had an internal focus, that is, the NEDs were becoming too close to the company operations. As the MD data in Table 6.2 indicates there was limited evidence for this movement. Temporary and longer term situations were implied in the responses.

There was a period when [senior non-exec] and [NED] were almost acting as part time consultants ... we’ve openly discussed the need for them to back - to become a bit more independent. If you’re not careful you go too native and you lose then the very independent mind that you need (HMD:1205-1215) **(HMD/4m)**

The data suggested that these MDs had ‘no desire for a closer relationship’ (Lewicki & Bunker, 1996:125), put forward as one of the reasons not all relationships move beyond the level of ‘knowledge-based’ trust. In entrepreneurial settings Dibben (2000) argued that single surprise acts at levels of ‘knowledge-based’ trust were ignored. As the relationship was closer than the ‘arms length’ of ‘dependence-based’ trust, such acts could be accommodated (Dibben, 2000).

Despite feeling uncomfortable with this **NED acts** level of trust the MDs recognised that their NEDs still had more to offer. For example, HMD had taken action to redress the balance through open discussion.

6.7.2.3 *Loss of trust to NED tells*

Lewicki and Bunker (1996) discussed the loss of trust in a relationship and how it was possible for this to be repaired at any level. Dibben (2000) described how

repeated violations of trust could lead to a 'step wise fashion' (Dibben, 2000:60) retreat to the lower levels of trust. He posited that a retreat to the lowest level of trust was necessary before the relationship could end.

6.7.2.3i *Temporary losses of trust*

The data confirmed that MDs did experience a loss of trust in their Case Dyad NED's advice. However, it had been possible for the trust to be restored because these relationships were predominantly sited in 'knowledge-based' trust and so temporary losses of trust could be tolerated (Dibben, 2000). These temporary losses of trust related to the amount of effort being invested by the NED. That is, perceptions of either too much control being exerted by the NED or not enough understanding of the MD's' expertise. By both partners investing in the 'irrecoverable resources' of time and effort (Shariff *et al*, 2005:417) over time, MDs perceived that the original levels of trust had been restored.

there was a bit of a period ... where we were trying to decide who hell the boss was round here ... He also has a style of infinite more probing ... than our previous colleagues had done. ... So, it was a two way thing of getting to know each other and he hadn't not been the boss before in a company that was privately owned and it was a different agenda from where he had been the boss of a plc ... we worked out each other's position and balance and space and who's the boss and who has got the responsibility to do it and who's got the responsibility to check that it's alright and challenge everything in the background (BMD:215-255) **(BMD/4m)**

Relationship incident nodes 5m, 7m, 8m, 9m in Figure A9 and Table A9 gave an account of how 'regular communication' (Lewicki & Bunker, 1996), 'regular and frequent interaction' (Stiles & Taylor, 2001/2002) across a variety of contexts enabled BMD and BNED to gain an understanding of the 'varied facets' of each other. Through this action they could 'come to understand and appreciate those domains where it is appropriate... to trust' each other's judgement (Lewicki *et al*, 1998:442). BMD described this process as learning 'how to play each other's piano' (BMD:1349), a phrase adopted for the prevalent *understanding enhanced* role element in the **Relationship Development** category in Chapter Five.

6.7.2.3ii *On-going losses of trust*

The data also gave an insight into the gradual erosion of trust over time as not all the examples of an MD's loss of trust had been resolved at the time of the fieldwork. The examples centred on MDs' perceptions that their NEDs were not prepared to invest the 'irrecoverable resources' of time and effort to understand

the MD's point of view 'as a demonstration of trusting behaviour' (Shariff *et al*, 2005:417).

she can be quite preoccupied and too busy herself at times... and that has an effect on whether in my view whether she's really listening or whether she's kind of sounding off on some idea of her own ... which can in my view lessen her effectiveness and her helpfulness at times. (GMD:610-613) **(GMD/10m)**

The MD data indicates that this loss of trust was an unusual situation.¹³⁷

However, as these relationships were anchored in 'familiarity reliance-based trust' (Dibben, 2000:266) in the **NED advises** levels of trust, where it did occur the MDs were willing to justify and forgive this behaviour.

6.7.2.4 *Multiple levels of NED trust*

As Figure 6.3 illustrates not all MDs perceived a single track of NED role trust that progressed over the years from **NED tells** to **NED advises** and **NED acts**.

6.7.2.4i *Dual levels: NED tells and NED advises*

There was limited evidence that MDs perceived the dual NED roles of 'control' and 'collaboration', or **NED tells** and **NED advises**, existing simultaneously. MDs that had NEDs imposed upon them without a period of 'courtship' (Shapiro *et al*, 1992; Lewicki & Bunker, 1996; Roberts & Stiles, 1999) experienced this dual role, that is, AMD and BMD. For example, the Dyad Synopsis reported there had been no 'courtship' for AMD as ANED's appointment had been a 'surprise' (AMD:111). The lack of a 'courtship' period meant that for about four years AMD perceived dual levels of trust, **NED tells** (*financial scrutiny* node 2m) and **NED advises** (*mentor* node 1m). These dual role situations were perceived as temporary, that is, the 'control' or **NED tells** element diminished over time as the delayed 'courtship' progressed as described by BMD.¹³⁸

IMD had known INED prior to appointing him. This Case Dyad was the youngest relationship¹³⁹ and IMD was beginning to cherry pick INED advice. For example, in relationship incident nodes 9 and 10m, IMD believed INED's advice could harm the Company.

¹³⁷ See Table 6.2 row 9 on page 191

¹³⁸ See section 6.7.2.3i *temporary losses of trust* on page 197

¹³⁹ Dyad I had existed for only nine months at the time of the interviews.

the biggest things recently have been the fact that we now have someone on full time sales. So, I'm not sure, we did have a debate about that, whether the company was ready for somebody full time direct sales and I really feel it needs it... [INED] was not sure we were ready, but I went and did it anyway (IMD:504-511) **(IMD/9&10m)**

This relationship reflected the Sherpa:Expeditionary (Graham & O'Neill, 1997) style of relationship because IMD was learning from INED and becoming more confident in making his own commercial decisions. IMD had identified his lack of business skills as a reason for appointing INED (IMD node/3m).

6.7.2.4ii *Dual levels: **NED advises and NED acts***

In *section 6.7.2.2* examples of temporary and permanent moves to **NED acts** were discussed in terms of MDs' comfort of discomfort. Permanent, simultaneous dual roles provoked similar feelings. For example, AMD was uncomfortable with ANED's emerging closeness to the TMT (AMD node/10m). BMD was comfortable having BNED keep a 'watching brief' (BMD:279) on a subsidiary close to BNED's home (BNED node/6m). FMD was happy to have FNED visit customers to review the sales process to reassure anxious investors.

he's got a [Company F] company card that says Strategic Consultant ... he is a consultant of the company, he's a director and he can, you know, take part in the meeting because of that quite legitimately (FMD:1173-1175) **(FMD/8m)**

This was in addition to the *mentor and role model/track record* 'identification-based trust' he ascribed to FNED.

6.7.2.4iii *Triple levels of NED trust: **NED tells, NED advises and NED acts***

There was limited evidence of this phenomenon. Where it did occur there was a temporal issue.

In Dyad B it occurred early in the relationship. Although BMD had contact with BNED in the three months leading up to BNED joining the board, his perception of the triple roles only emerged once BNED assumed the role of Company and Board Chairman. There was a temporary loss of trust due to BNED's misunderstanding of privately owned company shareholder goals (node 5m) and his treatment of the accounts (nodes 7m & 8m). BMD also acknowledged the **NED acts** operational role of BNED, monitoring a subsidiary on the TMT's behalf (BMD/node 6m). It was only after a further eighteen months of post-appointment

'courtship' that BMD perceived that the 'control' role had dissipated (BMD/node 9m), and the MD trust reverted to the dual levels of **NED advises** and **NED acts**.

In Dyad G the evidence emerged at a later point in the relationship. GMD had a concern from the outset that the people who would make the best NEDs were likely to have 'a lot of other irons in the fire... so the question is going to be whether they really have the time and the commitment and the energy' (GMD:288-290). This was the cause of her **NED tells** loss of trust in the effectiveness of GNED's help as described earlier (GMD/node 10m)¹⁴⁰, although GMD did justify this behaviour as being due to GNED's 'pretty full on job' (GMD:614). Unlike BMD, GMD had not openly discussed her concerns with GNED. This lack of open debate was the cause of the triple role component, **NED acts**. It came from GMD's reflection that the two NEDs were unwilling to criticise the TMT.

we're in danger of missing out ... on using the experience of everybody by having good debate and disagreement ... rather too much sort of general agreement whereas I don't think we all agree all of the time at all really (GMD:805-807) (**GMD/8m**)

She speculated as to cause for this lack of disagreement and whether the owners and the NEDs were too close, that is, 'maybe that one of the unwritten laws is that [MD spouse] and [MD] are kind of good sorts' (GMD:808).

6.7.2.5 *Dyad dissolution*

The first interviews asked MDs what might prompt the removal of a NED from the Board. The second interviews invited MDs to predict the likely resignation date of the Case Dyad NED. At the time of their interviews all the MD respondents perceived that their relationships were current. Therefore there was no evidence of 'relationship rupture' as a result of 'trust violation' (Lewicki & Bunker, 1996:126). The use of mentor-protégé relationship 'structural' and 'psychological' (Kram, 1983:670) separation prompts was supported by those MDs asked to predict when the Case Dyad NED was likely to resign. It was difficult to link the examples back to the literature because the MD respondents were predicting the Case Dyad dissolution process rather than describing a formal HRM process for *NED succession*. This was a gap in UK SME practice and reported Chapters Two, Three and Five. However the data showed that these relationships were expected to follow the *Separation* model of Kram (1983), that is, end by mutual agreement

¹⁴⁰ See section 6.7.2.3ii *on-going losses of trust* on page 197

when both partners in the dyad recognised that ‘the relationship is no longer needed in its previous form’ (Kram, 1983:620).

6.7.2.5i *Structural separation: Company changes*

Where MDs accepted that NEDs’ roles were finite, examples of two sets of ‘structural’ prompts were given. There were those changes associated with the company, as suggested by Deakins *et al* (1999) and Berry and Perren (2000b). For example, in Dyad D, DMD speculated whether DNED would remain on the board once DMD had retired.

that would be up to [Other Director Company D2] as he will be in control of the company then if he feels the [NED] is still a useful asset. (DMD:304-305) **(DMD/7m)**

6.7.2.5ii *Structural separation: NED situation*

The other ‘structural’ prompts were those associated with changes to the NED’s situation, for example, access to personal resources such as expertise and time. For example JMD expected JNED to continue with him all his business lifetime, about twenty years, unless JNED’s own business grew.

he owns another company which he’s the director of and if that gets too big and he can no longer give me any time (JMD:1001-1002) **(JMD/8m)**

HMD believed HNED the best of his four NEDs but recognised that HNED’s contribution could be finite due to a decline in his *wider vision* (incident 10m).

there would be a harder question in a year or two as to whether he’s gone stale. (HMD:1493) **(HMD/10m)**

6.7.2.5iii *Psychological separation*

MDs also identified the likely ‘psychological’ prompts for NEDs to resign. As BNED was his third NED, BMD was able to base his predictions on his previous experience of similar appointments. This insight was rare in the MD data.¹⁴¹

...it will be a combination of when [NED] feels he can no longer make a constructive contribution and/or he hasn’t got the energy to travel down here and be involved; (BMD:1058-1060) **(BMD/12m)**

6.7.2.6 *MD Patterns of Trust Development Summary*

Figure 6.5 illustrated the key patterns of trust development across the MD respondents. Firstly, there was the movement over time from the lowest levels of

¹⁴¹ See Table 6.2 row 16 on page 191

MD trust in the NED to the ‘knowledge-based’ trust of **NED advises**. This higher level of trust developed through one of two routes predicted by Dibben, either ‘familiarity reliance-based’ or ‘CSQ reliance-based’ trust (Dibben, 2000: 266).

Secondly, the MD’s perception of a single role of **NED advises** predominated the Case Dyad NED appointment period. This echoed Lewicki and Bunker’s observation that the majority of working relationships achieved this level of trust (Lewicki & Bunker, 1996:125). The exceptions were if the Case Dyad NED’s advice was perceived as inappropriate to the specific company or SMEs in general and there was a temporary loss of MD trust towards **NED tells**. Alternatively, if the MD perceived that part of the NED role included representing the company externally, there was movement into the greatest level of MD trust **NED acts** in that specific context whilst remaining as an advisor for more generic matters.

Long term delegation of internal, operational responsibility to NEDs was unusual and linked to financial management. Where the MD perceived **NED advises** ‘knowledge-based’ trust levels, the data confirmed that single surprise acts were ignored as the relationship was closer than the ‘arms length’ of ‘dependence-based’ trust (Dibben, 2000). In practice this was as applicable to Case Dyad NED behaviour perceived by MDs as being too collaborative, or **NED acts**, as it was to any Case Dyad NED behaviour thought to be too controlling, or **NED tells**.

6.7.3 NED Patterns of Trust Development

Figure 6.6 represents the composite pattern of NED trust development based on an interpretation of the ten Case Dyad NED patterns in Figure 6.4. To create this pattern of NED trust development each of the ten NED patterns in Figure 6.1 and in Figures A9 to A17 in Appendices 9 to 17 was overlaid onto one A4 template. The numbers displayed on Figure 6.6 relate to the following *section* discussions.

The relationship incident nodes for the NEDs have the suffix (n) and are displayed in the lower half of Table 6.2.¹⁴² The nodes in unshaded cells illustrate the prevalence of each phenomenon beyond the shaded cell quote(s) cited in the text.

¹⁴² See page 191

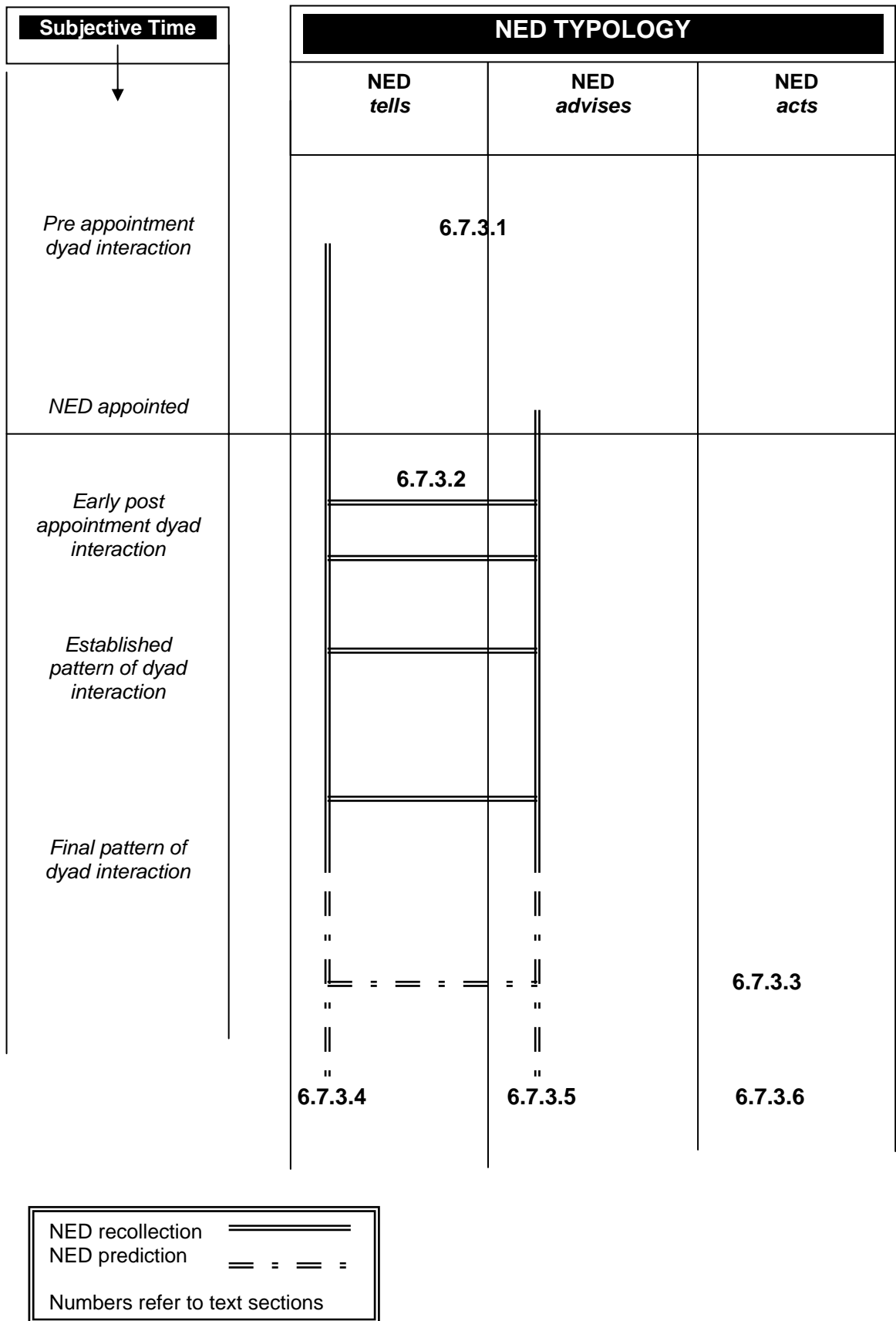


Figure 6.6: Composite Pattern of NED Trust Development

In the cross dyad separations of the NED trust development maps in Figure 6.4 the dominant pattern was of the dual roles of 'control' and 'collaboration', or **NED tells** and **NED advises**, existing simultaneously. That is, after a period of pre-appointment single NED control role a parallel collaboration role emerges. The relationship incident nodes indicated a temporal oscillation between the parallel roles. There was no indication of NEDs progressing beyond **NED advises** to **NED acts**. There was a rich source of data identifying the oscillation between the dual roles throughout the NEDs' appointments. This resonated with the PLC NED literature citing the theoretical work of Lewicki *et al* (1999) on the existence of simultaneous relationship trust and distrust when explaining PLC NED behaviour (Roberts *et al*, 2005:S18). For example, this behaviour was coded to *ally of other NEDs/3rd party 'gang'/coalition formation* in the Chapter Three literature-based framework.¹⁴³

This dual role pattern was no different for the Case Dyad NEDs who knew the MD prior to taking up the appointment, or had an opportunity for a period of 'courtship' (Shapiro *et al*, 1992; Lewicki & Bunker, 1996; Roberts & Stiles, 1999), and those who had not met or worked with their MD previously. The dual role pattern did differ with the career histories of the NEDs. Those NEDs who exhibited a relatively equal weighting between the **NED tells** and **NED advises** levels of trust over time had not run their own small businesses prior to becoming a NED (ANED; BNED; ENED; HNED; JNED). Those NEDs who exhibited a bias towards the **NED advises** level of trust¹⁴⁴ had run a small or start up business prior to their becoming a NED (FNED; GNED; INED). This supported reports that Scottish entrepreneurs favoured a NED with business start up rather than PLC experience (see Boussara & Deakins, 2000:219; Deakins *et al*, 2000a:322; 2000c:181; 2001:363).¹⁴⁵

6.7.3.1 Perception of a Single Role: NED tells

The NED knowing their partner for a number of years was no guarantee that the level of trust would develop beyond **NED tells** as illustrated in Case Dyads C and

¹⁴³ See Chapter Three section 3.3.4 **Creative NED Role-making** on page 65

¹⁴⁴ Indicated by a continuous **NED advises** line in Figures A13; A14; A16 in Appendices 13; 14; 16

¹⁴⁵ However, as the findings in Chapter Five illustrated, the MDs in this study did not follow the Scottish findings. See Appendix 8 the cross case analysis audit trail *NED personal knowledge & skills: large company/City experience and SME experience*

D.¹⁴⁶ These NEDs did not perceive that they had moved from a context specific 'expert' to a generic collaborative advisor (Graham & O'Neill, 1997:498). They perceived their relationships as 'Shepherd:Shepherdee' rather than 'Sherpa:Expeditionary' (Graham & O'Neill, 1997), that is, neither NED believed their respective MDs had the potential to become competent in the NED's area of expertise.

For example, DNED had been DMD's auditor for fifteen years prior to his retirement and joining the board. As the auditor DNED had given DMD strategic advice and had been intimately involved in company acquisitions.

I don't think it has changed largely from when I was the partner of the audit firm responsible for the audit, frankly. Because it was a company without a qualified financial person, you were the *de facto* financial director ... and you may define that as a conflict of interests ... I always believe that the advice aspect of professional work is much more important than the score keeping that a set of accounts are (DNED:120-125) (DNED/2n)

[Other Director Company D2] has to recognise that I was partly instrumental in taking over his business (DNED:208)

[DMD] has had a go at [a cash flow]. ... I am going to sort it out this afternoon. (DNED:322-324) (DNED/7n)

As the last comment confirms, DNED still saw himself acting a 'Shepherd' role rather than as a 'Sherpa' (Graham & O'Neill, 1997).

These **NED tells** relationships had not progressed from 'an on-going, market-orientated, economic calculation' (Lewicki & Bunker, 1996:120) similar to a consultancy agreement or the original professional service agreement. They believed that their dyadic relationship was influenced by their relative professional status and positional power over their MD, based on information asymmetry. Their perceptions confirmed the findings of learning in dyadic transactional relationships within small business/stakeholder networks, that the party that gained the greater insight into the other's world gained relational power (Hannon, 1998).

6.7.3.2 *Balancing dual NED roles: Relationship stability*

The Case Dyad NEDs' perception of their roles¹⁴⁷ confirmed the Lewicki *et al* (1998) theory that stable relationships were those where both a 'healthy dose of

¹⁴⁶ Figures A10 and A11 in Appendices 10 and 11

¹⁴⁷ Figure 6.4 on page 190 displays all ten Case Dyad NED patterns of trust development

trust and distrust' existed at the same time as this created a 'tension of confidence' (Lewicki *et al*, 1998:450). Case Dyad NEDs A, B and E to J illustrate the predominant pattern of simultaneous NED dual roles¹⁴⁸, with an oscillation between these roles.

6.7.3.2i *Financial scrutiny and role oscillation*

The dominant relationship incident nodes triggering role oscillation related to the NEDs' perceptions of a lack of financial management by the MD. These included: capital expenditure return on investment (ANED/node 5n; ENED/node 6n; JNED/node 8n); inaccurate or misleading accounts (BNED/nodes 7n - 9n); falling sales/income (GNED/node 5n); the sales process (FNED/node 8n; GNED/node 6n; INED/nodes 11n & 12n); TMT remuneration (HNED/node 9n) and new premises lease deal (INED/node 9n). This Case Dyad A example was the earlier of the two references to AMD's purchase of a new range of equipment at an exhibition.¹⁴⁹

If we want to spend anything we have a capital expenditure proposal form. '... the reason I want it is this, it's going to bring us in this, the cost will be recovered in this da-de-da". Rather than somebody, as in the past, just going out and buying something ... it would be up to a director to bring an expenditure proposal to the Board (ANED:224-230) **(ANED/5n)**

This dominance of *financial scrutiny* in practice helped to confirm its status as a UK NED core role element in Chapter Five, despite the ambivalent findings in previous empirical studies of the SME NED role.¹⁵⁰ Another cause of this oscillation was the **Relationship Development** *courage to dissent* role element described by NEDs as 'standing up' to MD on behalf of others (HNED/node 5n; JNED/node 5n).

my role is to be a counter-balance to [MD]. ... Because [Partner 1] and [Partner 2] will let him do whatever he wants even if they disagree. Now that's putting it too strongly but if [MD] really wants it [MD] will get it (JNED:402-404) **(JNED/5n)**

Although less prevalent than *financial scrutiny*, in these Case Dyads *courage to dissent* was an important aspect of the NED role due to the MDs' strong personalities.

¹⁴⁸ Figures 6.1, A9 and A12-A17 respectively

¹⁴⁹ See *section 6.6.2.5ii* on pages 183/4 for the later reference, also coded to (ANED/5n). This incident contributed to the relationship strain indicated in Table 6.2 and *section 6.7.3.2iii*, page 207

¹⁵⁰ This was the role element where the Chapter Three literature-based framework reliance on counting instances in the literature as a proxy for importance was accepted as unsophisticated. See Chapter Five *section 5.4.6.2 Financial scrutiny* on page 143

6.7.3.2ii *NED learning*

There was also evidence of NEDs having to change their PLC inspired style behaviour to match the SME entrepreneurial style and private company ethos. For example, initially IMD was not comfortable with INED's large company style formal approach to meeting preparation.

[MD] would have an agenda of what I'm wanting to talk about. In the early days I was too heavy on it, because I took it very, you know, principally, I was very principled about it. It was a bit too heavy for [MD] and he wasn't ready for it, so I backed off. (INED:558-561) **(INED/5n)**

This was interpreted as an example of the Sherpa:Shepherd relationship being reversed and the NED learning from their MD. This was because the NED's style did not suit the learning style of the MD (Dalley & Hamilton, 2000) rather than as a result of the protégé no longer needing a mentor (Graham & O'Neill, 1997). As a result of similar oscillations between trust and distrust, the 'tension of confidence' (Lewicki *et al*, 1998:450) created a change in the Case Dyad NEDs' self-perceptions. For example, GNED made the following observation.

in a way I've almost lessened my commercial edge which when I went to [Company G] would have been much more powerful because it's taught me that, you know, making a difference in lives has a value as much as making money, which is quite a surprise to me. ... it's changed my view and it was a lifetime's view, so it's quite good really. (GNED:675-679)

This demonstrates that NEDs were capable of acknowledging that they had learned from their Case Dyad experience, even if this was a surprise.¹⁵¹

6.7.3.2iii *NED role strain*

HNED did not perceive a need to change his PLC inspired behaviour to accommodate HMD's entrepreneurial style and this was a cause of strain and disagreement. Although HNED was not the only NED not to have owned their own company, this strain was uncommon.¹⁵²

there are tens of millions of pounds of peoples, of investors' money invested in the company, he still likes to behave as if it is his own personal company, and his own personal domain. (HNED:364-366) **(HNED/9n)**

Because I chair the Remuneration Committee then in fact I am the person who talks to him about salary and bonus structure and remuneration packages and that type of

¹⁵¹ See Table 6.2 row 20 on page 191

¹⁵² See Table 6.2 row 21 on page 191

thing, and that can potentially be prickly, because he never thinks he's paid as much as he should be (HNED:1584-1586) **(HNED/12n)**

The Dyad A strain for ANED arose from AMD's unauthorised purchase of new capital equipment which had taken the company into a new strategic direction.

6.7.3.3 *Moving to NED acts: Relationship Instability*

Stable relationships were those with a 'healthy dose of trust and distrust' (Lewicki *et al*, 1998:450). From the perspective of the NEDs, there was evidence of relationship instability when they perceived that their relationship with the MD had strayed or moved permanently into the highest level of trust, **NED acts**. The NEDs regarded this level of trust to be unhealthy when they mapped their actions against their own personal NED role definitions.¹⁵³ Consequently such instances were rare.¹⁵⁴

6.7.3.3i *Temporary forays into NED acts*

Similar to the MDs' accounts of losses of trust¹⁵⁵, these relationships were positioned in 'familiarity reliance-based trust' (Dibben, 2000:266) of **NED advises**. Where the boundary crossings were thought to be temporary these incidents were tolerated, as shown by HNED.

I needed to get involved in the details of the [share option] schemes ... much more than I should have done, simply because there was not the skill and expertise within the company itself. (HNED:1163-1168) **(HNED/10n)**

6.7.3.3ii *Permanent move to NED acts*

Where the boundary crossing to **NED acts** was perceived to be permanent, then this made a NED feel very uncomfortable.

it must be remote enough to so you can lay the law down if you see something you don't like so it mustn't be too chummy. ... in [Company E] I probably am too chummy but because of the background I've got with them (ENED:298-300) **(ENED/3n)**

It is interesting to note that in this sole example of a NED perceiving a simultaneous triple NED role of **NED tells, advises and acts**, the respondent ENED had resigned as a director (ENED/node 7n) one month prior to his

¹⁵³ See Chapter Five *section 5.4.4 Creative NED Role-making negotiating role/flexibility* page 138.

¹⁵⁴ See Table 6.2 rows 22 and 23 on page 191

¹⁵⁵ See *section 6.7.2.3 Loss of trust to NED tells* on page 196

interview.¹⁵⁶ His dyad partner made no mention of his resignation and ENED himself accepted that he was still acting as a shadow director.¹⁵⁷

To be honest I still go to Board meetings and I still act very much as a non-executive.
(ENED:235) **(ENED/8-10n)**

6.7.3.4 *Dyad Dissolution: 'Relationship rupture' or 'step-wise' retreat*

Evidence of dyad dissolution was found only in the NED data. In Case Dyad C the NED had resigned between his first and second interviews¹⁵⁸ and in Case Dyad E, the MD did not mention ENED's recent resignation. These data, and examples from NEDs' experience elsewhere, confirmed the existence of the three possible processes drawn from the literature discussed earlier.¹⁵⁹

6.7.3.4i *'Relationship rupture'*

The evidence of the negative and emotionally upsetting processes of 'relationship rupture' as a result of 'trust violation' coupled with 'violation disagreement' (Lewicki & Bunker, 1996:126) came from CNED.

I stayed with that arrangement right up until February this year when I decided I'd had enough ... and time to throw all your books away (CNED:534-538) **(CNED/7n)**

CNED had not trusted the financial management of Dyad Case Company C since his friend, the first NED and a professionally qualified accountant, had resigned from the board (CNED/node 6n).¹⁶⁰

6.7.3.4ii *Relationship 'step-wise' retreat*

The retreat in a 'step-wise fashion' (Dibben, 2000:60) to lower levels of trust was captured in the comments from GNED.

If I continued to make suggestions that were not taken up, which point I'd think might come fairly soon then I would resign because I'm only there to make a difference (GNED:436-437) **(GNED/11n)**

¹⁵⁶ This was around the time the ACCA research team contacted EMD for his and ENED's participation in the interviews. ENED reported his ACCA membership at the start of his interview.

¹⁵⁷ (1) In the Companies Acts "shadow director", in relation to a company, means a person in accordance with whose directions or instructions the directors of the company are accustomed to act. (2) A person is not to be regarded as a shadow director by reason only that the directors act on advice given by him in a professional capacity. As defined in Companies Act 2006, Chapter 9 clause 251

¹⁵⁸ CMD was interviewed only once; therefore the only view of the dyad dissolution was from CNED

¹⁵⁹ See section 6.5.4 *Dissolving the dyad* on page 175

¹⁶⁰ Companies House data confirmed that the company was placed in administrative receivership six weeks after CNED resigned.

GNED made a statement at the start of her second interview about NEDs having responsibility without control, 'a tricky legal role' (GNED:302). Although GNED was exhibiting **NED advises** 'knowledge-based' trust in GMD, this was eroding slowly to the lower level of **NED tells**. Dibben (2000) argued that this regressive behaviour was essential for the relationship to end. Lewicki and Bunker (1996) believed such a decline in trust could still be repaired, unlike the 'relationship rupture' experienced by CNED or predicted by others. These were the only direct examples of dyad dissolution from NEDs. Despite not following the mentor separation process as argued by Kram (1983) there was still evidence of the 'structural' and 'psychological separation' prompts she predicted being present and temporally ordered for a relationship to end. The difference was that these were not mutually negotiated. The limited indirect examples were drawn from other NEDs' previous experience and based on their knowledge of their personal NED role boundaries.

[Former clients] were asking me to do things, which I wasn't comfortable with. ... we were getting into rather heated debates about whether it was right to deliberately bounce cheques on some people. ...so we had a meeting, ... and I decided that I would resign at the meeting. (JNED:648-670)

Before he had time to resign at this meeting, JNED reported that he was sacked.

6.7.3.5 *Dyad Dissolution: Separation Prompts*

The alternative friendship-based process of mentor-protégé *Separation* was also in evidence. The only NED to have directly experienced this process within the Case Dyads was ENED. However, in the first interviews NEDs were asked what would prompt their resignation from any NED appointment and the second interviews asked NEDs how long they planned remain as the Case Dyad NED. This data provided examples of 'structural' and 'psychological' prompts, argued by Kram (1983) as being part of a mentor-protégé *Separation* process. She predicted that 'structural' prompts triggered the partners' emotional readiness for the 'psychological' prompt. The responses confirmed the presence of the two groups of prompts and there was evidence of the temporal ordering, albeit limited. In practice the 'structural' separation prompts for NEDs also divided into two groups.

6.7.3.5i *NED situation prompts*

In one group were the prompts related to NEDs' personal circumstances.

The dominant response related to reaching a specific age and was tempered with 'psychological' prompts of protecting their own self worth.

I would resign if I felt that there was illegal or immoral conduct. I would resign if I felt that I had outlived my – I wasn't contributing any value. I would resign if I found that I wasn't able to devote the right sort of time. (FNED:947-949) **(FNED/9n)**

[my top-hat pension] is not draw-downable till 65 which is three more years. But the way of working I do still want to work till I'm 70 plus and even if it's with, you know, charities or whatever (INED:156-158) **(INED/13n)**

6.7.3.5ii *External situation prompts*

In the second group were the 'structural' separation prompts for NEDs that related to external circumstances. Here responses related either to a change in company circumstances or increased NED role regulation and were tempered with 'psychological' prompts of personal satisfaction and again self-worth protection.

Five years or a reasonably significant event ... if the company gets bought that's an event. And another would be if it were to go public. I would anticipate not bailing out immediately but given my knowledge of what I like and enjoy doing I'd probably not want to stay on the board (FNED:1215-1218) **(FNED/10n)**

At the fringes [the increased regulation is] frustrating but on the other hand a lot of it is good management and is good governance. So far, the fringes have not been - become so frustrating that I say (blows raspberry) "I ain't going to do it any more." (HNED:857-860) **(HNED/11n)**

6.7.3.5iii *Temporal change*

Where age or fixed term appointments were cited as 'structural' prompts, over time the interpretation of these prompts became less rigid. The data were limited¹⁶¹; however, BNED made the following comments. The former was made in his first interview and the latter two years later.

I brought something to it when I joined, now whether you still bring something to it in ten years time is a debatable point. Perhaps NEDs ought to have a three-year spell or five, so there is no embarrassment at the end of that. (BNED:160-162) **(BNED/13n)**

I'm probably at three years aren't I? [Researcher: Yes. It's just under four actually] Is it? I suppose I would sense if there was any feeling that that shouldn't continue and would do something about it, but I haven't sensed that at the moment so I haven't (BNED:1486-1491) **(BNED/10n)**

Although the original 'structural' prompts were approaching, in his second interview BNED was not exhibiting the emotional readiness to accept 'psychological' separation.¹⁶²

¹⁶¹ See Table 6.2 row 28 on page 191

¹⁶² BNED had two NED chairman roles at the time of his first interview. At the second interview he had only the Case Dyad B role

6.7.3.6 *Dyad Dissolution: Redefining Dyad Relationships*

ENED had moved beyond *Separation* stage argued by Kram (1983) as the role he now had in Company E had moved beyond **NED advises** to **NED acts**.

...we get on pretty well otherwise we wouldn't go out for meals together. There might even be occasions when they consult me about non-[Company E] matters ... when we go out for a meal [Owners' daughter, the Sales & Marketing Director] often comes along with us too. ... We get on, if we didn't they would have got fed up with me and I would have got fed up with them and it would have ceased it long ago.[chuckles]
(ENED:272-273) (ENED/3n)

ENED described how he was 'probably too chummy' (ENED/node 3n) with the owners leading to his perception of role instability.¹⁶³ ENED had extensive experience as a PLC NED, at one time holding over 100 NED appointments following his perception of the 'true' (ENED:107) role.

I was a true non executive, I attended Board meetings and unless the chair asked me specifically to look at an area or something like that I didn't because I was already fully employed in another company. It was purely attending Board meetings (ENED:107-109)

This relationship was an example of the movement over time to the *Redefinition* (Kram,1983) stage based on dyad partner friendship. Kram (1983) argued that the support would still continue in a former mentor-protégé relationship but that it would be informal and at a distance. However, her research was confined to one large company's in-house management mentoring scheme. In the context of a small SME board, described as a 'tight-knit, buoyant team' (Lindon-Travers, 1990:101), NEDs may find this distance more difficult to achieve. For example, two years after the ACCA interviews Case Dyad E was approached to participate in the thesis interviews. Although ENED was still acting as an advisor, the Company declined to participate further as he was no longer formally a NED.

6.7.3.7 *NED Pattern Summary*

Figure 6.6 illustrated the key patterns of trust development across the Case Dyad NED respondents. Initially the NED perceived their role as **NED tells** until they knew the MD well enough to understand when to trust their dyad partner. If and when this trust developed then the role of **NED advises** emerged. Over time an additional pattern of role oscillation emerged as the NED moved between the roles

¹⁶³ See section 6.7.3.3ii on page 208

of **NED tells**, in areas where the MD's skills and expertise was not trusted, and **NED advises** in areas where the NED perceived the MD was competent to run the business. These dual roles in the NED pattern of trust development confirmed the Lewicki *et al* (1998) theory that stable relationships were those where both a 'healthy dose of trust and distrust' existed at the same time as this created a 'tension of confidence' (Lewicki *et al*, 1998:450). This theory was not confirmed in the MD pattern of trust development in Figure 6.5. Also unlike the MD pattern, where the NED only perceived a single role this related to the 'control' role of **NED tells**.

The movement across to the highest level of trust **NED acts** was rare in the NED data. It was perceived by Case Dyad NEDs as abnormal role behaviour, unlike the MD data. Where this level of trust was experienced by NEDs they perceived it as temporary to cover MD or executive director skills gaps. One NED was so concerned at the mismatch between his perceptions of the NED role and the level of trust he had with the TMT he had formally resigned his directorship, although he was still acting as their business advisor and shadow director.

6.8 Synthesis and Discussion

Using the NED role trust typology, modelled on the work of Lewicki and Bunker (1996), Dibben (2000) and Kram (1983), the analysis has demonstrated that over time the partners trusted each other differently depending upon the context and their individual perceptions of the NED role. It also showed that respondents were able to exhibit differing levels of partner trust and still work together professionally. *Section 6.5 NED Typology* is now revisited in the light of this analysis.

6.8.1 NED tells

NED tells was prevalent when the trust in a partner's competence was at its lowest. There were three possible scenarios, two of which implied a movement in trust levels.

6.8.1.1 *Ladders of Trust*

The first was that the partners had not worked together prior to the NED's appointment. The trust levels grew over time as the information asymmetry declined, that is, they understood each other and their relative expertise better,

and understood the environmental context of the company. The ladders of trust metaphor (Lewicki & Bunker, 1996:120) was apposite, as over time the partners could develop 'knowledge-based' trust of **NED advises**.

6.8.1.2 *Snakes of Distrust*

The 'chutes' (Lewicki & Bunker, 1996:120) or snakes of distrust were the second scenario. These appeared when a known partner's behaviour was perceived as unpleasant surprise. Temporary losses in trust, or small 'snakes', could be addressed and rectified through open dialogue between the partners and higher levels of trust restored. Permanent or sustained losses in trust arising from a lack of open discussion about partner concerns were more likely to lead to the 'step-wise fashion' (Dibben, 2000) decline in trust towards dyad dissolution, the large 'snake' that removed the NED from the metaphorical and actual board, either by their resignation or removal. The division of **NED tells** by Dibben (2000) into 'faith-based' and 'dependence-based' trust was not supported in practice even if partners had not worked together previously. The 'try before you buy' periods prior to appointing NEDs ranged from a few hours (CMD), a few weeks (FMD), three months (BMD) and thirteen years (DMD). Removals and resignations from the board were rare in the experience of the respondents. This could reflect findings in the small business literature on the reluctance of SME clients to seek alternative, more trusted suppliers preferring a risk-averse 'stay with those you know' attitude (Gooderham *et al*, 2004:17; Marriott & Marriott, 2000:482) linked to previous direct experience, reputation and 'brand information asymmetry' (Bennett & Robson, 1999a; Bennett & Smith, 2004).

6.8.1.3 *Shepherd:Shepherdee*

Lewicki and Bunker (1996:137) maintained that no one level of trust was better than another, just more appropriate.¹⁶⁴ The third scenario reflected this proposition and related to cases where the MD acknowledged that the NED personal skills and expertise complemented their own business weaknesses and hence this lack of trust was appropriate and mutually accepted. The NED becoming the *de facto* executive director and the MD abdicating control for a specific operational role was the likely scenario. For example, the MD may exhibit a higher level of trust in the NED for financial control, that is, **NED acts**. Conversely, the NED would a distrust

¹⁶⁴ See section 6.5.3.3 *Typology Indicators* for **NED acts** on page 175

of the MD, **NED tells**, for the *financial scrutiny* NED role element. It was unlikely that the level of trust would change unless the NED was also developing the MD's skill level as a **NED advises** mentor. The 'snakes and ladders' metaphor and the 'step' analogy did not represent this third scenario. Here the 'Shepherd: Shepherdee' (Graham & O'Neill, 1997) relationship positioned at the extreme end of the small business advice continuum was more appropriate.

6.8.2 **NED advises**

This was the prevalent typology as predicted by Lewicki and Bunker (1996:125). There was evidence that NED-MD relationships remained at this level of trust as either the partners lacked 'the time or energy to invest beyond knowledge-based trust', or they had 'no desire for a closer relationship' (Lewicki & Bunker, 1996:125).

6.8.2.1 *Agency Theory Confirmed*

The lack of desire for closer relationships was linked to agency theory-influenced NED perceptions of 'typical' NED behaviour as described in Chapter Five.¹⁶⁵ Dyad tension emerged when NEDs invested time and energy beyond 'knowledge-based' trust, and the task had not been delegated by the MD.

6.8.2.2 *Gardening metaphor revisited*

The gardening metaphor suggested by Lewicki and Bunker (1996) was supported by one NED when describing using the time when there were no crises to go 'digging' (FNED: 1280) to get a deeper understanding of the MD and the company. The metaphor could be further extended as there was evidence that if, 'as a demonstration of trusting behaviour, the investment in the "irrecoverable resources" of time and effort in the relationship' (Shariff *et al*, 2005:417) did not continue then 'weeds' of partner distrust would thrive due to information asymmetry. On occasions there may be situations where the NEDs or MDs move into **NED tells** typology 'control' style behaviour if they perceive their partner does not have the necessary expertise and they do not openly debate their concerns.

6.8.2.3 *Dual categories of 'Knowledge-Based' Trust*

There was evidence to support the existence of 'familiarity reliance-based trust' and 'comprehensible situational cue (CSQ) reliance-based trust' (Dibben,

¹⁶⁵ See section 5.4.4 **Creative NED Role-making** literature extended page 138

2000:266) within the **NED advises** typology, as illustrated by the MD data. The prompts progressing the relationship from the lowest level of trust to **NED advises** based in ‘familiarity reliance-based trust’ concentrated on the NED understanding the MD’s needs over time whereas the prompts based in ‘(CSQ) reliance-based trust’ centred on the MD’s early assessment of the NED’s strengths. Initially the model predicted that ‘(CSQ) reliance-based trust’ might be used by NED-MD dyads as a direct route into a business mentor-protégé style relationship, that is, bypassing **NED tells**. This was not confirmed in practice as the partners had still invested the time and effort in understanding each other prior to the appointment being offered and accepted. However the time MDs needed to assess the NED’s strengths and progress to ‘knowledge-based’ trust could be as little as a few hours. This was discussed earlier as the ‘try before you buy’ option.¹⁶⁶

6.8.1.4 *Sherpa:Expeditionary*

Apart from ENED, the NEDs exhibiting dual role oscillation also exhibited learning from their case relationship. This suggests that these dyads were sited at the ‘Sherpa:Expeditionary’ end of the SME advice continuum where ‘Expeditionary’ MD partners have the potential to become ‘Sherpas’ (Graham & O’Neill, 1997).

6.8.3 **NED acts**

As Lewicki and Bunker (1996) predicted there were limited examples of this level of ‘identification-based’ trust.

6.8.3.1 *Musical Metaphor revisited*

MDs consciously abdicated responsibility for executive functions either on a permanent basis in the cases of *de facto* executive NEDs, or temporarily to represent the MD in ‘non-routine exchanges with other individuals’ (Dibben, 2000:267) when negotiating interest rates, loans, lease arrangements and payment of tax arrears, actions that could be perceived as ‘high risk’ (Dibben, 2000:267) by outsiders. NEDs accepted the responsibility by exhibiting ‘identification-based’ trust, again either in a permanent or temporary capacity, dependent upon the relationship and company context. The musical metaphor of ‘harmonizing’ (Lewicki and Bunker, 1996:123) applied in these mutually negotiated contexts but not in the following situations.

¹⁶⁶ See section 6.8.1.2 *Snakes of Distrust* on page 214

6.8.3.2 *Partner Disharmony*

Tension arose where this level of trust was not thought to be appropriate for the context or the company. One or other partner recognised that, as the NED ‘turns native’ (Lindon-Travers, 1990) through the loss of ‘cognitive conflict’ (Forbes & Milliken, 1999:499) there was a ‘detrimental effect on the [corporate governance] monitoring process’ (van Ees *et al*, 2008:90). The reasons given were the antithesis of the Lewicki and Bunker model, that is, linked the NED’s ‘desire for a closer relationship’ and too much ‘time and energy to invest beyond knowledge-based trust’ (Lewicki & Bunker, 1996:125 emphasis added). This finding may reflect the slight bias towards retired individuals (ANED; BNED; CNED; DNED; ENED; HNED) in the role of NED in this data set, all of whom were former PLC executives except DNED. This is raised again in *section 6.8.5.1 Structural separation prompts*.

6.8.4 Respondents’ perceptual paradigms

These were useful aids to understanding the partners’ level of trust in each other at the time of the most recent interviews. It would be interesting to question dyad partners about their differences and similarities throughout their relationship to map how and why their perceptual paradigms changed over time.

6.8.5 Dissolving the Dyad

There was evidence in the data to support the three alternative routes to dyad dissolution. MDs could only predict the likely process and favoured the Kram (1983) avenue of the partners coming to a mutual agreement that it was time to end the relationship albeit with the prompt coming from the NED. NEDs had or were experiencing the more emotionally charged ‘relationship rupture’ (Lewicki & Bunker, 1996) and ‘step wise fashion’ (Dibben, 2000) decline in trust prompting resignation. Despite only being articulated by Kram (1983), the data highlighted that the ‘structural’ and ‘psychological separation’ prompts were important in identifying why, how and when dyad relationships would end.

6.8.5.1 *Structural separation prompts*

The dominance of retired PLC senior executives appointed to the Case Dyad NED roles led to predictions of a decline in NED role trust over time. This could affect three of the UK NED core role elements identified in Chapter Three literature-based framework and confirmed in practice in Chapter Five. These were the loss

of the NEDs' *wider vision*, the ability to offer *alternative solutions based on NED experience*¹⁶⁷ and the relevance of their *personal knowledge and skills*. As time away from full-time employment role increased so the Case Dyad NEDs' knowledge and experience became dated. This was recognised by both partners. Over time there was also a tendency for retired executives to reduce the number of their NED appointments, adding to the loss of their *wider vision*. The perception of increased regulation was also predicted as a 'structural' prompt by NEDs. This applied to legislation in general, such as Health and Safety, and to the specific liabilities of directors. The fieldwork was conducted prior to the Companies Act, 2006 but there was an awareness of the Company Law Review, the Higgs Report (2003) and UK LSE corporate governance regulatory codes. Full-time portfolio NEDs recognised the 'structural' separation prompt when their *personal knowledge and skills* no longer matched the MD's needs as the company responded to internal and environmental change. This could also act as a 'psychological' separation prompt.

6.8.5.2 *Psychological separation prompts*

In addition to the portfolio NEDs' perception of company changes, the psychological separation prompts were threefold. They related to the breakdown in personal relationships, particularly no longer trusting their partner; becoming too close to the executive functions and the repeated rejection of advice or proffering of inappropriate advice. These contributed to the perceptions or predictions that the NED was no longer adding value. These were influential in establishing the new role element of *add value to NEDs' self worth*. The impact of 'structural' prompts such as increased role regulation and time away from full-time employment could also trigger 'psychological separation' as other interests were making greater calls on the NED's time.

6.8.6 **NED Typology Revisited Summary**

The model typology of NED role trust was a good starting point to map and track the changes of Case Dyad partner trust development. The combination of components from corporate governance, entrepreneurial firm, small firms' advisor and mentoring relationship contexts all contributed to making transparent the complex, dynamic and temporal nature of the MD-NED dyadic relationship. This relationship was found to be crucial to the role of the SME NED in the ten Case

¹⁶⁷ Although confirmed as prevalent in practice this role element relied on Case Dyad NED data

Dyads and may have relevance to other small business advisory contexts and roles. The data developed the model further by uncovering the importance of understanding the 'structural' and 'psychological separation' prompts in the dyad dissolution process for all NEDs, not just those acting as *mentors*.

6.8.7 Different Patterns of NED Role Trust

When the data were mapped against the NED role trust typology three distinct patterns emerged. The first pattern was that there was no pattern, that is, each individual Case Dyad trust typology was unique. The patterns emerged only when Figures 6.5 and 6.6 were created as composites of NED role trust for MDs and NEDs.¹⁶⁸ These differences between the dyad partners' perceptions were made explicit when Figures 6.5 and 6.6 were combined to create Figure 6.7 overleaf. It demonstrates that the Case Dyad MDs perceived the progressive development of NED role trust over time from **NED tells** towards **NED acts** albeit predominantly located within the **NED advises** role and with occasional, temporary losses of trust into either **NED tells** or **NED acts**. The Case Dyad NEDs perceived NED role trust oscillation between **NED tells** and **NED advises**. It was rare for a NED to exhibit **NED acts** level of trust.

However this new model did not suggest why and how the Case Dyad partners developed their different perceptions of NED role trust. For example, the theory that stable relationships were those where both a 'healthy dose of trust and distrust' existed at the same time creating a 'tension of confidence' (Lewicki *et al*, 1998:450) was confirmed. This had been contextualised in the UK corporate governance setting and argued as contributing to an effective PLC NED role of control and collaboration style 'couplet' balance (see McNulty *et al*, 2002; Roberts *et al*, 2005). However, in SME practice this simultaneous trust and distrust was only perceived by Case Dyad NEDs. Despite the differing patterns of trust development two aspects of the literature were confirmed. Firstly, the Case Dyad data corroborated the observations of Huse (1998) that patterns of trust between SME directors change over time and that 'actual board behaviour is perceived differently by various groups of board members' (Huse, 2005:S76). Secondly, Lewicki and Bunker (1996) argued that the majority of working relationships were sited in the 'knowledge-based' level of trust.

¹⁶⁸ As shown in Figures 6.3 and 6.4 respectively on page 190

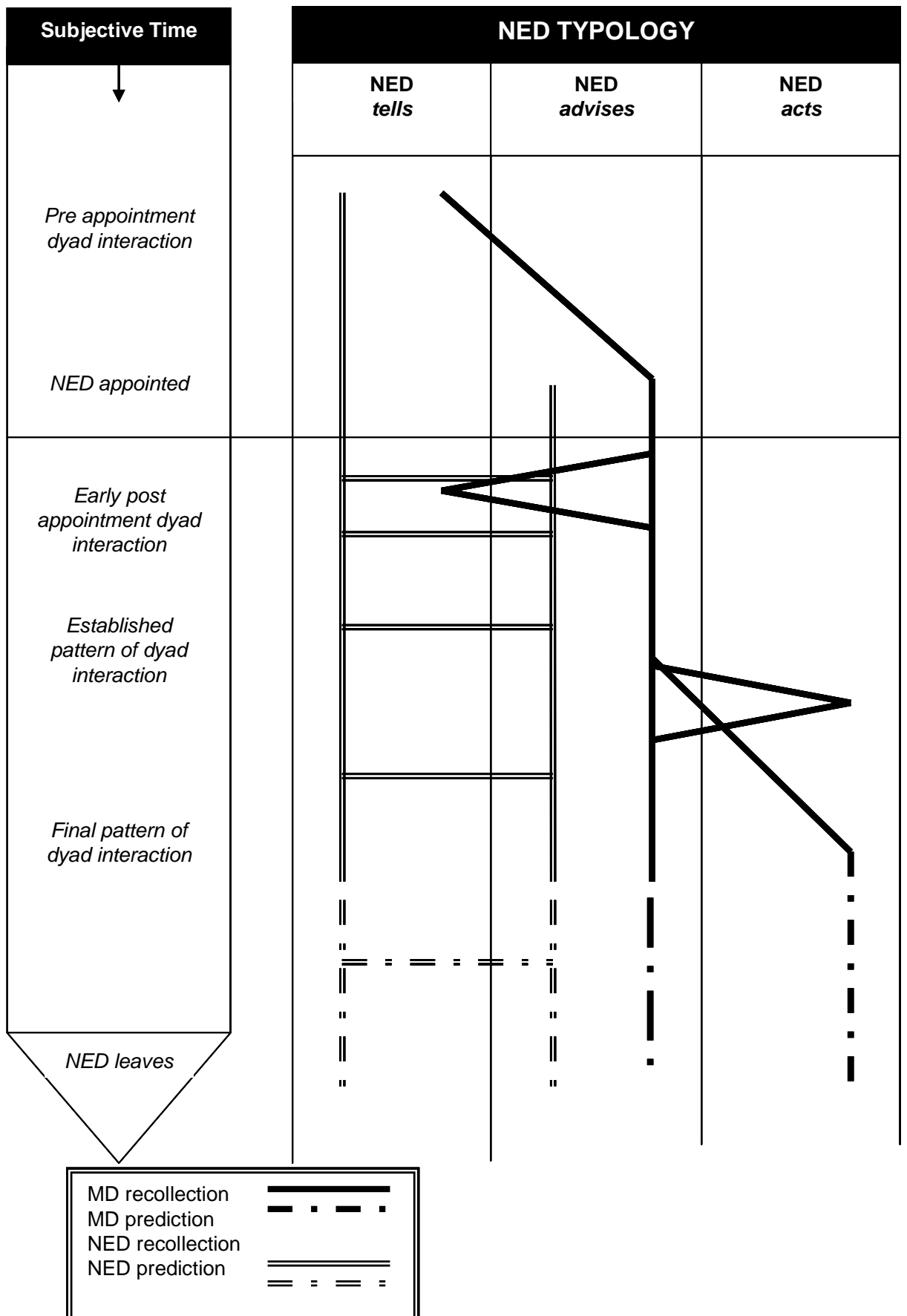


Figure 6.7: Composite Patterns of MD and NED Trust Development

Either the partners lacked ‘the time or energy to invest beyond knowledge-based trust’, or they had ‘no desire for a closer relationship’ (Lewicki & Bunker, 1996:125). In Figure 6.7 perceptions of this level of trust, **NED advises**, dominated MD trust patterns and was half of the NEDs’ dual trust pattern.

Apart from a mutual perception of the **NED advises** level of trust, Figure 6.7 demonstrates that the Case Dyad partners had different perceptions of UK SME NED role trust and its development over time. This finding vindicated the decision to assign equal value to the collection, analysis and reporting of the Case Dyad partners’ perceptions of their ‘lived experience’ (Roberts *et al*, 2005) of the UK SME NED role. These were gaps in the literature identified in Chapter Two.¹⁶⁹ This lack of a shared perception of the development of trust in MD-NED relationship echoed findings in Chapter Five where there was a dyad data mismatch.¹⁷⁰ Differences in partner perceptions of NED help had been discovered in the analysis of ACCA survey dyads by Perren *et al* (2000) and Boxer *et al* (2005). However, as they were unable to seek further clarification from the respondents, they could only suggest why such differences might exist. The analysis in this chapter supported these previous findings that MDs and NEDs did not always share the same view. The composite patterns of NED role trust suggested that MDs perceived or were seeking a collaboration style or **NED advises** NED role. Their NED partners perceived the need to balance this collaboration **NED advises** role with an additional control style **NED tells** role.

These findings could further support the theory proposed that SME MDs were protecting their image of themselves as ‘questing heroes’ (Perren *et al*, 2000). The MDs did not perceive they needed to be told how to run their business. They were looking for NED collaboration style soft skills of ‘advising and counselling’ (Deakins *et al*, 1999:29), the benefits of which they may or may not choose to accept. Boxer *et al* (2005) found that where the MDs disagreed that the NEDs had helped the company, these actions were significantly more likely to have an internal focus. Likewise, the NED pattern of dual levels of trust could support the theory proposed that SME NEDs were protecting a ‘diligent director’ (Boxer *et al*, 2005) self image. NEDs were providing collaboration style soft skills of ‘advising and counselling’

¹⁶⁹ See Chapter Two section 2.5.4 Respondents’ own voices and equality of respondent, page 45

¹⁷⁰ See Chapter Five section 5.4.7.2 Difference in dyad partner responses page 144 and section 5.6.7 Dyad partner differences page 163

(Deakins *et al*, 1999:29) using their own experiences to guide the MDs. However NEDs perceived that occasionally the MDs did need to be told how to run their business. Consequently the NEDs perceived that they were also providing a control style risk management skills. The increased prevalence in practice of **Risk Management – the processes** role elements found in Chapter Five *literature extended*, in particular the dyad perception mismatch for *duty of care/risk assessment & management/ litigation support*¹⁷¹ supported this position. This balancing of the two styles and levels of trust could have been influenced by an awareness of contemporary governance scandals linked to poor PLC NED performance and the NEDs adopting an ‘ego protection’ (Rogoff *et al*, 2004:367) strategy with researchers (Boxer *et al*, 2005).

Boxer *et al* (2005) used Attribution Theory bias to explain disagreements in the ACCA survey dyad responses to the question “How has the NED/have you helped the company?” Similar to Zacharakis *et al* (1999) they categorised this help into internally or externally focussed causes. They demonstrated that in the provision of help, the MDs exhibited a *self-serving bias*¹⁷² and NEDs an *actor-observer bias*¹⁷³ when considering how the survey dyad MD actions matched the survey dyad partners’ ‘normative prescriptions’ (Shaver, 1983)¹⁷⁴ or knowledge ‘recipes’ (Schutz & Luckmann, 1974) for MD behaviour. Pye and Pettigrew (2005) also encouraged researchers ‘to distinguish between inner and outer contexts’ in board process investigations as this was likely to ‘have significant bearing on the role and conduct’ of directors (Pye & Pettigrew, 2005:S31). If the ACCA survey dyad responses regarding NED help and the patterns of trust development in Figure 6.7 could be interpreted as proxies for MD and NED perceptions of the NED role, returning to Attribution Theory bias may unlock the reasons for these differences. It could provide a richer insight into the MD-NED dyad partner trust development process in UK SMEs.

¹⁷¹ See Chapter Five *section 5.4.6.1* page 142

¹⁷² The MD displays a willingness to take credit for their success while denying responsibility for their failure. Causes for this bias have variously been propounded as ‘the desire to present oneself in the best light’ and ‘ego protection’ (Rogoff *et al*, 2004:367)

¹⁷³ The NED’s own situation is attributed to situational factors while the MD’s actions are attributed to their attitudes and actions

¹⁷⁴ Shaver (1983) used the term ‘normative prescriptions’ to focus on an observer’s use of prescribed role requirements in making dispositional attributions of an actor’s behaviour.

6.9 Chapter Conclusions

This chapter addressed the second thesis research aim:

To develop a model of dyadic working relationship trust development for MDs and NEDs in UK SMEs

It proposed a NED role trust typology of **NED tells**, **NED advises** and **NED acts**. This typology was influenced by the literature on trust development in working relationships from corporate governance and small business contexts. When this new model was compared with Case Dyad NED role practice, two different patterns of NED role trust emerged for MDs and NEDs. The MDs perceived a role biased towards **NED advises** whereas the NEDs perceived a role balanced between **NED tells** and **NED advises**. The NED role trust typology was interpreted as the abduction modelling that revealed the imagined causal laws or *events* for the dyad partners' *experiences*, that is, the observed phenomenon of differing perceptions of the NED role. The process of retrodution would reveal whether these differing patterns of NED role trust were the key to understanding the normally inaccessible structures of the dyad partners' Real domains of reality.

In the next chapter, Chapter Seven *Explaining Different Perceptions of the UK SME NED Role*, Attribution Theory bias is used as the second 'conceptual frame' (Miles & Huberman, 1994:87) to reveal the inaccessible structures of the dyad partners' realities, namely the NED role process. This is the *general psychological structure* component of *interactive synthesis* (Miles & Huberman, 1994:87).¹⁷⁵ These form the third and final step in the thesis analysis process as shown in Figure 4.3 on page 93, represented by *interpretation retrodution* in the critical realism methodology as shown in Figure 4.9 on page 123. The retrodution process uses the same relationship incidents of dyad partner unexpected behaviour used in this chapter and interprets these in terms of the partners' perceptions of NED role success and failure. It explains how the conjunction between the dyad partners' different levels of NED role trust or *events* and the different NED role perceptions or *experiences*, accesses the dyad partners' *generative mechanisms* in their Real domains of reality.

¹⁷⁵ See Chapter Four *section 4.7.3.2* on page 107

Chapter Seven: Explaining different perceptions of the UK SME NED role

7.1 Chapter Introduction

Chapter Six addressed the second thesis research question by developing the NED role trust typology based on trust development in working relationships. This used **NED tells**, **NED advises** and **NED acts** to explore the ten Case Dyad relationships and highlighted the dynamic nature of the SME NED role from both dyad partner perspectives. Apart from a mutual perception of the **NED advises** level of trust, the MDs and NEDs exhibited different patterns of trust development. MDs perceived a NED collaboration style role based on the **NED advises** level of trust. NEDs perceived a NED role that balanced a **NED advises** level of trust with a **NED tells** level of distrust. The NEDs' perceptions supported the theory that an effective PLC NED role balanced the control and collaboration role styles (McNulty *et al*, 2002; Roberts *et al*, 2005). Chapter Six revealed the imaged causal laws or *events* in the dyad partners' Actual domains of reality. This chapter aims to reveal the *generative mechanisms* of the dyad partners' normally inaccessible Real domains of reality. It will do this by addressing the 'Why?' and 'How?' questions posed in the third thesis research aim:

To develop an understanding of the complex patterns of relationships and processes of the non-executive director role in UK privately-owned small and medium-sized enterprises, in particular,

- Why do the MDs and NEDs of privately-owned UK SMEs have different perceptions of the role of a NED?
- Where such differences of perception exist, how do these affect the partners' dyadic working relationship?

The phenomenon of the dyad partner differences first observed in the ACCA dyad survey data (Boxer *et al*, 2005) re-emerged in the analysis of the richer Case Dyad interview data in Chapter Six. Boxer *et al* (2005) proposed Attribution Theory bias to explain the survey dyad disagreements regarding perceptions of internally and externally focussed NED help. However, they could only base their arguments on

limited data from prescribed responses to one survey question and only used the one causal dimension of agency. Researchers were also encouraged ‘to distinguish between inner and outer contexts’ in board process investigations as this was likely to ‘have significant bearing on the role and conduct’ of directors (Pye & Pettigrew, 2005:S31). By conjoining Attribution Theory bias and aspects of the lifeworld theory of Schutz and Luckmann (1974) to the Chapter Six typology this thesis proposed to move beyond these theoretical debates by explaining the empirical dyad partner differences in the context of the UK SME NED role.¹⁷⁶ This was the ‘conceptual frame’ (Miles & Huberman, 1994) and retroduction analysis process used to interpret the composite patterns of dyad partners’ different perceptions of the UK SME NED role in Figure 6.7.¹⁷⁷ An overview of how Attribution Theory bias has been used in relevant empirical studies in the literature is included in this chapter.

To address the ‘Why?’ and ‘How?’ questions this chapter returns to the Case Dyad relationship incident nodes¹⁷⁸ and the composite MD and NED trust patterns¹⁷⁹ that emerged in Chapter Six. Attribution Theory bias is used to interpret the Case Dyad partner differences. It concludes by answering the ‘Why?’ and ‘How?’ questions to develop a richer understanding of SME advisor role and dyad partner trust development processes. It proposes a structure analogous to a ‘double helix’ of dyad partner trust at the heart of the NED Role Process, which it argues are the normally inaccessible *generative mechanisms* of the MDs’ and NEDs’ Real domains of reality.

7.2 Why Different Partner Perceptions?

The key component of Attribution Theory is summarised as an individual attributing their own behaviour to environmental factors and attributing others’ behaviour to their dispositions, that is, their personalities (Johnson, 2000; Bullock & Trombley, 1999; Marshall, 1998). The social attribution process is generally accepted as ‘the rules that most people use when they attempt to infer the causes of behaviour they observe’ (Marshall, 1998:29). These ‘draw on people’s social

¹⁷⁶ See Chapter Four *section 4.8.7* on page 105

¹⁷⁷ The overview of Attribution Theory bias is located in Chapter Four *Methodology, section 4.8 Data Analysis: Dyad Partner Disagreement and Attribution Theory* on page 107

¹⁷⁸ See Chapter Six Figure 6.2, Table 6.2 and Appendices 9 to 17

¹⁷⁹ See Chapter Six Figures 6.5, 6.6 and 6.7 on pages 193, 203 & 220

characteristics to form a basis of the attribution', for example, a 'talented' man or a 'lucky' woman (Johnson, 2000:19). Two figures in Chapter Four summarise the main components of Attribution Theory; Figure 4.5 *The Causal Dimensions of Attribution Theory* on page 109 and Figure 4.6 *Attributional Biases in Action* on page 112. The causal dimensions in Figure 4.5 are: *internal* or *external*, *variable* or *stable*, *control* or *no control*. The volitional *control* or *no control* pairing is based on Weiner's (1985) research set in the attribution of achievement contexts, that is, success and failure. The Attribution Theory bias literature informed Figure 4.6. It summarises the *self-serving bias* and the *actor-observer bias* components and the perspective tension creating the *Fundamental Attribution Error (FAE)*.

7.2.1 Attribution Theory bias in Business Organisation research

Research into managers' attributional processes when making sense of their own organisation's success and failure confirmed that managers attributed their own organisations' positive outcomes to *internal* strengths and negative outcomes to *external* environmental threats (Wagner & Gooding, 1997). Positive outcomes in other managers' organisations were attributed to *external* environmental opportunities and negative outcomes to *internal* weaknesses. Observed top management team (TMT) behaviour was taken as a proxy for the organisational culture. This study was the first to articulate the impact of the different 'visual attention' (Wagner & Gooding, 1997) of Attribution Theory bias. Although their study was conducted in the different context of a large organisation, this thesis discovered similar effects resulting from individuals' different 'visual attention' (Wagner & Gooding, 1997).

7.2.2 Attribution Theory bias in Corporate Governance research

Attribution Theory has been used within the corporate governance field for over 25 years in, for example, the study of executive director attribution of corporate performance in company Annual Reports (Bettman & Weitz, 1983; Tsang, 2002) and how inside and outside directors attributed firm performance to either *internal* or *external* causes (Schaffer, 2002). Although these studies were all set in the listed company context, all three corroborated this thesis' finding that MDs or CEOs exhibited the *self-serving bias* when attributing their company's success and failure. The third study corroborated the finding that outside, or non-executive, directors' attribution patterns follow the *actor-observer bias* when attributing MD success and failure.

7.2.3 Attribution Theory bias in Small Business research

Other studies provided useful insights of how Attribution Theory bias had been applied to the study of small business and entrepreneurship. These were the studies comparing how entrepreneurs and venture capitalists accounted for the failure of a business (Zacharakis *et al*, 1999), attributions made by entrepreneurs of their reasons for starting their business (Shaver *et al*, 2001), a study of factors that cause and impede small business success as attributed by owners and experts (Rogoff *et al*, 2004) and an investigation of post investment relationship tension in Scottish VC-E dyads (Turcan, 2008:285).

Shaver *et al* (2001) provided useful insights into the definitions of causal dimensions in an entrepreneurial context (Shaver *et al*, 2001:9), although due to the proprietary nature of their data they were unable to publish their findings. Turcan (2008) flagged the 'challenge' of 'attribution errors' when using critical incident techniques to study dyad relationship tension (Turcan, 2008:285). The sampling strategy adopted to minimise attribution error impact included selecting firms in the same location with less than 100 employees, investigating these at the same time and ensuring 'that the critical event(s) were transparently observable' (Turcan, 2008:285). How the latter was achieved was not explained.

The context of the following studies also differed from this thesis; however, there were interesting parallels as both studies corroborated MD *self-serving bias* and VC investor/ expert/NED *actor observer bias* (Zacharakis *et al*, 1999; Rogoff *et al*, 2004). Zacharakis *et al* (1999) used structured interviews of entrepreneurs from failed or failing companies and their VC investor to assess the reasons for the particular business failure and for business failures in general. They expected the entrepreneurs to exhibit the self-serving bias and the VC investors the actor-observer bias; however some results were surprising. The entrepreneurs attributed their own failure predominantly to *internal* factors, that is, personal mistakes and contradicting the *self-serving bias*. The VC investors attributed the specific firm failure to *external* factors contradicting the *actor-observer bias*. These discrepancies were explained as the entrepreneurs needing to show that their failure, although due to *internal* factors, was in their *control* and that by showing a willingness to learn from their mistakes future VC investment could be secured. The VC investors on their part may have selected companies for the researchers where the failure was due to *external* factors, protecting their ego and self-image

of a wise investor (Zacharakis *et al*, 1999). The study was conducted in the US VC-E context using structured data collection instruments. However, it corroborated this thesis' findings that SME dyad actors were capable of exhibiting the *actor-observer bias* on their own actions for the benefit of presenting their *personal* NED recipes to the researchers. It also corroborated that actors were able to create 'ipsative or ideographic' (Jones & Nisbett, 1972) recipes to reflect the unique role context as the findings for business failures in general followed the 'normative and nomothetic' (Jones & Nisbett, 1972) expected attribution bias patterns. Attribution Theory bias has been used extensively within social psychology for over 50 years to explain achievement, although its application within the small business literature was limited to the last decade (Rogoff *et al*, 2004). This thesis' MD and NED attribution patterns of MD success and failure matched the Rogoff *et al* study findings for the attribution bias of entrepreneurs and experts respectively. This 2004 study also identified the significance of the *fundamental attribution error* or *FAE* although it did not link this to dyad relationship tension. Instead it suggested that policymakers should account for Attribution Theory bias when assessing owners' explanations of business outcome causes (Rogoff *et al*, 2004) and entrepreneurs should be advised how they attribute their success and failure.

7.2.4 Attribution Theory bias as an explanation of *Why*?

The use of Attribution Theory bias elsewhere to explain different Actors' and Observers' interpretations of shared events was encouraging. However, this thesis differed from these studies as its focus was on the dyad partners' attribution of the expert/NED role success and failure and not that of the entrepreneur/MD.

7.3 How Do Different Perceptions Affect Dyad Relationships?

In Chapter Six the different dyad partner patterns of trust development were made transparent and combined in Figure 6.7 on page 220. These were advocated as proxies for MD and NED perceptions of the NED role in UK SMEs. Attribution Theory bias was proposed as holding the key to these composite pattern differences. It could provide an additional explanation for the dyad partners' different perceptions of partner trust development based on their knowledge 'recipe' (Schutz & Luckmann, 1974) perceptions of NED role success and failure. Table 7 overleaf is a meso-level cross case analysis summary of this Chapter.

| Chapter Seven Text Reference | Relationship Incidents or Transcript text line identifiers | | | | | | | | | | | | | | | | | | | |
|--------------------------------------|--|------|-------|------|-------|------|-----|------|------|--------|-----|-------|------|-------|--------|--------|-------|------|-------|--------|
| | AMD | ANED | BMD | BNED | CMD | CNED | DMD | DNED | EMD | ENED | FMD | FNED | GMD | GNED | HMD | HNED | IMD | INED | JMD | JNED |
| 7.3.1 MD perception | | | 4m | | 1m | | 2m | | 1m | | 1m | | 1m | | 1/2m | | 1m | | 1m | |
| 7.3.1 MD 1st impression | 1-3m | | | | 6m | | 6m | | 2m | | 8m | | | | | | | 7m | | 1m |
| 7.3.1.1i Hero support | | | | | | | | | | | | | | | | | | | | |
| 7.3.1.1ii Hero support | 3m | | 6m | | | | 1m | | | | | 7m | | | | | | 3m | | (1015) |
| 7.3.1.2i Hero threat | 5m | | 5m | | | | | | | | | | 10m | | 6m | | | | | |
| 7.3.1.2ii Hero threat | 9m | | | | | | | | | | | | 8m | | 4m | | | | | |
| 7.3.1.2iii Hero threat: FAE | | | | | | | | | | | | | 10m | | 1548 | | | | | |
| 7.3.1.3 restore Hero | 1/2m | | 5m | | 186 | | | | | | 410 | | | | 4m | | 531 | | 451 | |
| 7.3.2 NED perception | AMD | ANED | BMD | BNED | CMD | CNED | DMD | DNED | EMD | ENED | FMD | FNED | GMD | GNED | HMD | HNED | IMD | INED | JMD | JNED |
| 7.3.2.1i 1st impression: tells | | 2n | | 4n | | 1n/2 | | 2n | | 2n | | | | | | 1/5n | | | | 2n |
| 7.3.2.1ii 1st impression: advises | | | | | | | | | | | | 1n | | 3n | | | | 1n | | |
| 7.3.2.2i Single role | | | | | | | | 7n | | | | | | | | | | | | |
| 7.3.2.2ii Single role | | | | | | 4n | | | | | | | | | | | | | | |
| 7.3.2.2iii protect Diligent Director | | | | | | 3/4n | | 4n | | | | | | | | | | | | |
| 7.3.2.3i Diligent Director support | | 4n | | 8n | | | | | | 2n | | 7n | | 5n | | | | | 9/10n | 8n |
| 7.3.2.3ii Diligent Director threat | | 5n | | 7-9n | | | | | | 6n | | 3n | | 13n | | 7n | | | 11n | 6n |
| 7.3.2.4 role reversal: NED learns | | 8n | | 5/6n | | | | | | | | 1278 | | 675 | | 1541 | | | 5n | 1000 |
| 7.3.2.5 A bridge too far: NED acts | | | | | | | | | 3/8n | | | | | | | 8n | | | 7n | |
| 7.3.2.6 prescribed NED recipes | 981 | 80 | 309 | 203 | 115 | 1251 | | | 356 | 21/107 | 553 | 391 | 307 | 258 | 1185 | 1047 | | 214 | 1022 | 200 |
| 7.3.3 Repairable Losses of Trust | AMD | ANED | BMD | BNED | CMD | CNED | DMD | DNED | EMD | ENED | FMD | FNED | GMD | GNED | HMD | HNED | IMD | INED | JMD | JNED |
| 7.3.3.1 MD NED advises to tells | 5m | | 5m | | | | | | | | | | 10m | | 6m | | | | | |
| 7.3.3.2 MD NED advises to acts | 7-9m | | | | | | | | | | | | 8m | | 4m | | | | | |
| 7.3.3.3 NED NED advises to tells | | 6n | | 9n | | | | | | 6n | | 3n | | 13n | | 7n | | | 11n | 6n |
| 7.3.3.4 NED NED advises to acts | | | | | | | | | | 3/8n | | | | | | 8n | | | 7n | |
| 7.3.3.5i FAE: NED advises to acts | | | | | | | | | | | | | | | 4m | 8n | | | | |
| 7.3.3.5ii FAE:NED advises to tells | 5m | 6n | 7/8m | 7/8n | | | | | | | | | 10m | 8/10n | 7/8m | 10/13n | 10m | 10n | | |
| 7.3.4 Trust Repair & Maintenance | 207 | 1267 | 879 | 986 | 181 | 171 | 2m | 148 | 336 | 301 | 5m | 5n | 1072 | 124 | 9m | 10n | 640 | 861 | 72 | 491 |
| 7.3.5.1 NED loss of trust in MD | | 1185 | | | | 7n | | | | | | (9n) | | 13n | | | | | | (648) |
| 7.3.5.2 MD loss of trust in NED | (981) | | (464) | | (292) | | | | | | | (488) | | | (1103) | | (616) | | (157) | |
| 7.3.6.1 Internal NED conflicts | 7m | 13n | 12m | 13n | | 7n | 9m | 8n | | 3/8n | | (9n) | | 11n | | 13n | | | 14n | |
| 7.3.6.2 External NED conflicts | | 13n | | | | 7n | | | | | 556 | (9n) | | 13n | | 13n | | | | 7m |

Table 7: Meso Level Cross Case Analysis Summary for Chapter Seven

Attribution Theory bias could offer a richer insight into the processes of SME advisor role and dyad partner trust development. Therefore the relationship incident nodes¹⁷⁸ for all Case Dyad partners were revisited and interpreted using Actor and Observer bias. As these are the same relationship incident nodes, on occasions a previously cited quote is repeated, demonstrating the links between the development of trust in working relationships and Attribution Theory bias, that is, the 'conceptual frames' underpinning Chapters Six and Seven.¹⁷⁹

The rows in Table 7 contain the section reference as an audit trail to the discussions in this section. As in Table 6.2¹⁸⁰, Table 7 contains dyad partner relationship incident nodes identifying examples of specific phenomena. The node suffix (m) refers to the MD perceptions and suffix (n) the NED perceptions. However, unlike Table 6.2, Table 7 includes additional transcript evidence to identify examples of Attribution Theory bias exhibited by the respondents but unrelated to the relationship incident nodes. These numbers refer to the transcript location by text line. Those in parentheses are examples that do not link directly to the respondent's Case Dyad partner. For example, CMD's description of his first NED is coded to *section 7.3.5.2 MD loss of trust in NED*.

he wasn't really interested. He really wanted to just come, get to the Board meeting, make a few points on the way through, have a lunch, bring his expenses up ...and then you would hear from him at the next board meeting, you wouldn't hear from him in between at all. He would probably do that in four or five other companies as well at the same time. So it was purely an income. (CMD:292-296)

The shading indicates where incidents or evidence have been recounted in the main text.¹⁸¹ The data in unshaded cells illustrate the prevalence of each phenomenon beyond the quotes cited in the text.

7.3.1 MD Perception

The MD composite patterns in Figures 6.5 and 6.7 illustrated that MDs perceived a single NED role predominantly sited in the **NED advises** level of trust. The MD's first impressions of the NED were important in creating this NED role perception. In the Case Dyads where the MDs had an opportunity to meet the NED prior to

¹⁷⁸ These are displayed in Figure 6.2 and Table 6.1 for Case Dyad A and in Figures A9 to A17 and Tables A9 to A17 for Case Dyads B to J respectively.

¹⁷⁹ Quotes repeated from Chapter Five illustrate the links between the NED functional role *understanding enhanced* and the relationship processes discussed in Chapters Six and Seven

¹⁸⁰ See Chapter Six page 191

¹⁸¹ As in Table 6.2, all the cells denoting Case Dyad A relationship incidents are shaded.

their appointment,¹⁸², that is, a ‘try before you buy’ option or ‘courtship’ (Shapiro *et al*, 1992; Lewicki & Bunker, 1996; Roberts & Stiles, 1999)¹⁸³, these first impressions contributed to the decision to make the appointment. For example, in Case Dyad J JNED had been the Company’s bank manager.

he showed me personally a lot of respect when I was going through a really, really tough period with [Company J] (JMD:187-188) **(JMD/node 1m)**

There were two Case Dyads where the MDs had no opportunity to meet the NED prior to the appointment being offered by the owners, Case Dyads A and B. These MDs formed their first impressions during the *early post-appointment dyad interaction* period as shown in Figures 6.5 and 6.7. These MDs initially experienced the dual role of **NED tells** and **NED advises**.¹⁸⁴ For example in Case Dyad B, BNED was very different from the previous two NED appointments.

He also has a style of infinite more probing and getting into the detail behind the figures or behind the words than our previous colleagues had done. He would get right into the nitty gritty (BMD:215-217) **(BMD/node 4m)**

The third row in Table 7 relates the MDs’ first impressions to the relevant relationship incident nodes.

7.3.1.1 *NED Behaviour Supports ‘Questing Hero’ Image*

As illustrated in the ‘Hero support’ rows in Table 7, the majority of MDs’ transcripts provided evidence that their NED partner’s behaviour supported their ‘questing hero’ (Perren *et al*, 2000) self image.

7.3.1.1i *External focus*

MDs were comfortable seeking and accepting the help of the NED for events the MD attributed to Environmental Threats in Figure 4.6, that is, *external/no control*.¹⁸⁵ Asking for help to avoid possible failure in these circumstances supported their *self serving bias* image of the MD as a ‘questing hero’. Circumstances perceived to have *stable* causes, that is, ‘presumed to remain essentially unchanged over a longer time period’ (Shaver *et al*, 2001:9) were attributed to Task Difficulty in Figure 4.2. In these situations the NED behavioural causes are attributed as *external* to the skills of the MD or company and the MD

¹⁸² Case Dyads C to J

¹⁸³ See Chapter Six section 6.8.1.2 *Snakes of Distrust* on page 214

¹⁸⁴ See Chapter Six section 6.7.2.4 *Multiple levels of NED trust* on page 198

¹⁸⁵ See Chapter Six section 6.7.2.2i *comfort zones: de facto executive* on page 194

has consciously delegated *control* on a long term or *stable* basis as the skills needed for the task match the NED's Personal Strengths.

For example, in Case Dyad E the owners, the executive chairman and EMD, originally appointed ENED as a financial consultant 'to clean out the stable' (EMD:291) when they had discovered their financial director was incompetent, *external/no control* causes. Over a decade later the company was growing, attributed by EMD to acquisition actions of the owners, *internal/control* causes. When he retired as a consultant, *external/no control* causes, ENED was appointed as a NED to maintain control over his expertise.

we didn't want to lose contact, his experience was valuable to us, so on that basis, we said "right, lets look at a new role. You're very useful" and the bank was discussing expansion plans. We were buying other companies at the time and he had expertise of due diligence procedures and it seemed the obvious thing to put him on the Board as non executive director. He then talks to the bank directly in that sort of role. (EMD:146-152) **(EMD/2m)**

MDs were also comfortable if this NED behaviour was attributed to *variable* causes, provided the *external/control* dimensions remained unchanged, that is, Unusual Help From Others in Figure 4.2. The skills needed for the task were again matched to the NED's Personal Strengths. For example, in Case Dyad I the executives wanted new offices but were wary of the financial commitment implications of moving premises, *external/no control* causes. IMD asked INED to negotiate with the property agents on behalf of Company I, an action attributed to *internal/control/variable* causes. INED negotiated the favourable lease conditions which helped the executives make the decision to move.

Moving has been quite a difficult [decision]. Probably the most difficult one, because it was purely from a financial point of view I think and commitment point of view, but actually because of the negotiations that [NED] had with the agent and the way that he's got the pricing structured and so on it has helped a lot. (IMD:554-558) **(IMD7m)**

IMD returned to using INED as a business advisor once the lease was finalised. This supported the Dikken (2000) theory that, provided the relationship had achieved the level of knowledge-based trust, single unusual acts could be tolerated as the relationship was closer 'than arms length' (Dikken, 2000).

7.3.1.1ii *Internal focus*

Unexpectedly there were examples where help was accepted by the MDs which they perceived as having an *internal* focus. One situation was when the NED was

identified as a mentor. For example, FMD exhibited ‘a strong positive fantasy’ (Kram, 1983:614) about FNED as a mentor (FMD/node 7m).¹⁸⁶ By learning from NEDs on how to deal with potential Environmental Threats, MDs could develop their Personal Strengths, that is, reduce their *internal/no control*, over time becoming *stable* and developing their Ability. Although accepting help to address a Personal Weakness, this was attributed as countering future Environmental Threats and therefore supported their ‘questing hero’ image.

A further situation related to *internal/control/variable* or the MD’s Immediate Effort being helped by the NED. For example, BMD admitted that BNED had a minor operational role, monitoring a subsidiary on the TMT’s behalf. However this was justified solely on the grounds that BNED lived locally.

He keeps a watching brief on that because it is near to where he lives so once a fortnight he pops in there and is in touch with them which has been helpful because it means, to be quite honest, that we don’t have to go there so often because he does it as it is local to him ... and that has been very helpful, to enable me to get back to some other things really. (BMD:280-282) **(BMD/6m)**

Rather than having to travel a considerable distance on a regular basis to perform a similar role, BMD could spend valuable time focussing on the main business. By delegating control to BNED, BMD was guarding against possible Environmental Threats from either the subsidiary being left unmonitored or the time he would lose by making regular visits. Therefore this action protected his ‘questing hero’ image.

7.3.1.1iii *Missing MD data*

In the ‘Hero support’ rows of Table 7 only GMD and HMD provided no evidence of NED behaviour to support their ‘questing hero’ self image. There could be two explanations. Either they did not hold such a self image or they perceived only threats to their image from their NEDs’ behaviour. The next section explores these possibilities.

7.3.1.2 *NED Behaviour Threatens ‘Questing Hero’ Image*

The ‘Hero threat’ rows in Table 7 show this behaviour was perceived as less prevalent than NEDs’ supportive actions. MDs were uncomfortable where the help of a NED was perceived to address ‘failures’ in their Typical or Immediate Effort, *internal/control* causes, that is, a criticism of how the MDs ran their companies.

¹⁸⁶ See Chapter Six section 6.7.2.2ii *Comfort zones: mentor* on page 195

This applied where the MDs perceived the NEDs' behaviour moving from **NED advises** to **NED tells**, that is, too little trust given to the MD and from **NED advises** to **NED acts**, that is, too much trust assumed by the NED.

7.3.1.2i **NED advises** to **NED tells**

Chapter Six discussed temporary losses of trust from the MD perspective, that is, *internal/control/variable*.¹⁸⁷ These related to the amount of Immediate Effort being invested by the NED Actor, that is, MDs' perceptions of either too much control being exerted by their NEDs or not enough understanding of the MDs' expertise. For example, in Case Dyad B the dyad partners had not worked together prior to BNED's appointment. BMD had experience of other NED appointments but was initially surprised by BNED's different style and he exhibited the *actor observer bias* when describing BNED's behaviour during this period. The situation took eighteen months to resolve (BMD/nodes 4m & 5m).

GMD gave an example of how she had been able to restore her trust in GNED to **NED advises** (GMD/node 9m) and this was flagged in Table 6.2.¹⁸⁸ However she also sensed a long term or on-going loss of trust, that is, *internal/control/stable*, actor Typical Effort, which she perceived as a potential Environmental Threat. GNED was the only NED interviewed who was in full-time employment elsewhere. From the outset, GMD had expressed a concern at the lack of time available to her two NEDs to devote to their NED roles. In her second interview this concern was becoming *stable* for GNED and GMD perceived it as a NED Personal Weakness.

she can be quite preoccupied and too busy herself at times... and that has an effect on whether in my view whether she's really listening or whether she's kind of sounding off on some idea of her own ... which can in my view lessen her effectiveness and her helpfulness at times. ... she has got a pretty full on job (GMD:610-614) (GMD/10m)

If this behaviour was not addressed by GMD it presented an opportunity for the *fundamental attribution error* or *FAE* to appear, leading to perspective tension as shown in Figure 4.6 and ultimately the perception of NED role failure.

7.3.1.2ii **NED advises** to **NED acts**

MDs were uncomfortable receiving help for events they attributed to Personal Strengths as this NED behaviour again threatened the MD's 'questing hero' self

¹⁸⁷ See Chapter Six section 6.7.2.3 Loss of Trust to **NED tells** on page 196

¹⁸⁸ See Chapter Six Table 6.2 row 8 6.7.2.3i temporary loss of trust on page 191

image.¹⁸⁹ In these situations the MDs exhibited the *actor observer bias* as the NED's behaviour varied from the MD's recipe, either for this NED's usual practice and/or for a generic NED/SME advisor. This discomfort could be *variable* and resolved or *stable*. For example, HMD believed that at one time HNED and the senior NED had become too involved in company operations, that is, *internal/control/variable* or Immediate Effort. He attributed this to HNED being retired and having too much time available, a NED Personal Weakness. However, he had regained control and resolved the situation by open discussion.

There was a period when [senior non-exec] and [NED] were almost acting as part time consultants ... and we've openly discussed the need for them to back - to become a bit more independent. (HMD:1205-1211) **(HMD/4m)**

Where the MD attributed unwelcome NED behaviour as *internal/no control/stable*, over time this too would present an opportunity for the *FAE* to appear, as in Case Dyad G in the previous section. AMD was exhibiting similar *FAE* potential. Just as GMD recognised *no control* cause of GNED's full-time job, so AMD recognised the *no control* cause of ANED's age on his Ability (AMD/node 8m). AMD perceived that this was affecting his one time mentor's effectiveness as ANED was contributing 'nothing new' (AMD/node 7m) threatening AMD's NED recipe, but not his own MD self image. Other behaviour was perceived as becoming ANED's Typical Effort, that is, a Personal Weakness attributed as *internal/control/stable*.

he's not just a NED who's come in to do a job; he's almost become part of the family at the company (AMD:1046-1049) **(AMD/9m)**

The ability to resolve this unwelcome stability did not lie with AMD as ANED's appointment was made by the owner.

Personally, I think [NED]'s done about all that he can do for the organisation. And I don't think [Owner] has come to that conclusion yet. (AMD:1100-1103) **(AMD/9m)**

One other MD was exhibiting *FAE* potential. HMD's *stable* NED attribution did threaten his self image. It related to his missing data in the Hero support rows in Tables 7 and is discussed in the next section.

7.3.1.2iii MD missing data explained

In section 7.3.1.1iii it was noted that GMD and HMD either had no 'questing hero' self image or that their NEDs' behaviour were not supporting this image. Rather

¹⁸⁹ See Chapter Six section 6.7.2.2iii discomfort zones on page 196

than these two respondents having no 'questing hero' self image, this section explains that the NEDs' actions were threats to the 'questing hero' images, creating the potential for the *FAE* to appear. The example for GMD (GMD/node 10m) was explained in *section 7.3.1.2i NED advises to NED tells* above.

HMD distrusted HNED's ability as Remuneration Committee chairman to award suitable share options to reflect HMD's original founder investment and status (HMD/nodes 7m & 8m). He attributed HNED's unexpected behaviour to Personal Weakness and two likely causes, that is, a lack of understanding of start up company remuneration, *internal/no control/stable* causes due to the NED's lack of personal experience, and *internal/control/stable* causes due to HNED's 'jealousy'.¹⁹⁰

I think it's because [NED] is either of jealous or not cognisant of the normal process. In other words [NED]'s never been in the "I'm going to start a business with a certain amount of energy capital and financial capital" and therefore I think he's out of step (HMD:1548-1550)

As with AMD above, the ability to resolve this situation did not reside with HMD although HMD perceived he still had some *internal/control*.

So, I've just quietly said to them "Okay, fine". I'll wait for another occasion. Those things are usually best resolved when there's an event that requires my commitment (HMD:1570-1572) (HMD/8m)

HNED was the nominee of the largest VC investor and HMD was waiting for an opportunity when his commitment was being sought by these investors for him to resolve the situation to his satisfaction.

7.3.1.3 MD as 'Questing Hero' summary

The MDs discomfort when the NED role focussed on the *internal* operation of the company appeared to support the hypothesis that MDs exhibited a *self serving bias* supportive of a 'questing hero' self image when attributing their own success and failure. They were happy to seek help with, or delegate control to the NED for, externally focussed activities. Only in very specific circumstances did they doubt their capacity to run the internally focussed operational side of the business without help. Although acknowledging a current Personal Weakness in their knowledge and skills, the NED help was perceived as developing their MD

¹⁹⁰ See also relationship incident HMD/6m.

Personal Strengths to counter future Environmental Threats. Being able to ask for and accept this help was perceived as another MD Personal Strength and protected their 'questing hero' image. Zacharakis *et al* (1999) found similar responses in entrepreneurs' stories of learning from failed VC backed ventures, wishing to show that they were still in *control* despite the failures being attributed to *internal* causes.

This self image contributed to the MDs' perception of a single NED role sited in the **NED advises** 'knowledge-based' level of trust with single excursions into a dual role to address non-threatening weaknesses. Where the excursions did threaten this image, the MDs exhibited the *actor observer bias* when attributing the NED role failures. Steps were taken by the MD to regain *control*, for example, HMD recounted how he was addressing the situation where two NEDs had become too involved.

... we've openly discussed the need for them to back - to become a bit more independent. If you're not careful you go too native and you lose then the very independent mind that you need (HMD:1210-1215)¹⁹¹ (HMD/4m)

As HMD's 'normative and nomothetic' (Jones & Nisbett, 1972) statement suggests, when this unwelcome NED behaviour is not addressed, this could lead the MD to attribute this action as *stable*. Over time this could prompt the development of *FAE* leading to a perception of permanent NED role failure.

The 'Restore Hero' row in Table 7 illustrates that GMD was the only MD who was threatened by their NED behaviour and provided no evidence of action to counter the emerging *FAE*. This was of some concern as this thesis argues that the repeated confirmation of *FAE* will be accompanied by a irreparable loss of NED trust by the MD and the NED's removal from the Board. Even where this level of authority did not did reside with the Case Dyad MD, efforts were still made to restore partner trust provided incidents were perceived as *variable*, that is, 'single unusual acts' (Dibben, 2000).

7.3.2 NED Perception

The NED composite patterns in Figures 6.6 and 6.7 illustrated that NEDs perceived a dual role of **NED tells** and **NED advises**.

¹⁹¹ HMD had extensive experience as a start up company VC investor NED

7.3.2.1 NED First Impressions: Initial Role

The NED initial role was based on their first impressions of their MD partner and was informed by their previous experience. The first impression influenced whether or not the NED believed the MD behaviour could be perceived as a potential threat to their self image as a 'diligent director' (Boxer *et al*, 2005).

7.3.2.1i NED First Impressions: **NED tells**

Where the NEDs' dominant first impression was of MD Personal Weakness, they initially adopted a **NED tells** role. This perceived need to control MD behaviour applied whether or not the MDs were known to the NEDs prior to taking up their appointment. For example, CNED was persuaded to join the board of Company C by his friend, the first NED. CNED had not met CMD in any other context. He used his previous PLC experience of dealing with SMEs to define CMD's Personal Weakness as Typical Effort, that is, *internal/control/stable* and typical of small business people.

He's a wheeler dealer. ... I recognised what he was as soon as I sat down at the first board meeting, because I'd seen them before. He's not alone in the small companies. ...Keep him steady and that's what [first NED] and I agreed, got to keep this fellow on the rails and it worked. (CNED:1199-1211) (CNED/2n)

CNED and his friend perceived CMD's behaviour as an Environmental Threat to their 'diligent director' images and agreed between them how they would control CMD's errant behaviour.

HNED also perceived HMD's behaviour as a Personal Weakness and a potential 'diligent director' image threat. He had formed his first impression of HMD many years earlier when HNED's employer had bought HMD's first company and HNED had been employed to take over from HMD.

he had a two year contract as part of the deal and I mean he couldn't get out of there fast enough. To be an employee who had to conform to certain procedures and things like that, you know, was like near death to him. (HNED:1479-1481) (HNED/1n)

HNED attributed this as *stable*, that is, Typical Effort. However, over the years HNED recognised the other side of this behaviour as HMD's entrepreneurial drive, which although a positive benefit and MD Personal Strength, needed to be controlled.

If he has an idea that he wants to explore then it doesn't matter and sometimes this is one of the frustrations of the business ... will be occasions where he will have an idea and he will stop people doing something to do something totally different ... he will go in and complain about why they haven't done, because that was the original task they had was the highest priority they had, "But you came along last night and told us to do this!" (HNED:1481-1486) (HNED/5n)

When HNED accepted the role of NED he was well aware of the likely need for the **NED tells** level of trust in HMD to balance this drive. JNED also understood JMD's entrepreneurial drive Personal Strength and lack of control Personal Weakness. As his former bank manager JNED had refused JMD a loan, recommending stricter financial controls (JNED/node 2n).

As the 'First impression: **tells**' row in Table 7 illustrates, the NEDs exhibiting this first impression of MD Personal Weakness were ANED, BNED, CNED, DNED, ENED, HNED and JNED. In this group only DNED had run his own small business, an accountancy practice, prior to becoming a NED. ANED, CNED, ENED and HNED believed that, as they had been MDs of small subsidiary companies within larger PLC groups, they had valid experience to inform their SME MD recipes. This corroborates the discussion of the NED dual role pattern differences and NED career histories in Chapter Six.¹⁹²

7.3.2.1ii *NED First Impressions: **NED advises***

Here the NEDs' dominant first impression was of MD Personal Strength and so they initially adopted a **NED advises** role. NEDs in this category were impressed or surprised by the *internal/control/stable* Typical Effort of the MD or company. They did not perceive the MD behaviour as a potential Environmental Threat to their own image. For example, FNED was approached by head hunters as a potential Company F CEO. He responded to their approach, although he was not interested in a start up CEO post.

They said "well that's fine but come and meet with some of the people, [FMD] ... And I have to say I was impressed by [FMD]. He was focussed on what he was doing ... I met the team the [Company F] team and I thought "Umm yes this is... they're at a very exciting phase". Is success guaranteed? Of course it's not! But in many ways the team were good (FNED:332-347) (FNED/1n)

¹⁹² See Chapter Six section 6.7.3 *NED patterns of trust development* on page 202

As highlighted in Chapter Six, of the three NEDs in this group, GNED and INED had started their own business and FNED had been a key player in a successful start up company.

7.3.2.2 *NED Role No Oscillation: Shepherd Style Single NED Role*

Where only the single role was perceived at the **NED tells** level of trust, NEDs exhibited the *actor observer bias* when attributing the MD failures in the manner of a 'Shepherd' style 'expert' (Graham & O'Neill, 1997). The 'Single role' row in Table 7 indicates that this was an uncommon perception. Two NEDs whose first impressions of the MD Personal Weakness had caused them initially to adopt the **NED tells** role remained at this level of trust. These were CNED and DNED and they attributed the causes of the MD Personal Weakness differently.

7.3.2.2i *MD not in control*

Where the MD behaviour was believed to be non volitional (Weiner, 1979), that is, attributed to Ability *internal/no control/stable* causes, the NED was willing to maintain their help. The NED perceived that the MD was unable to control this Personal Weakness and so the *FAE* did not arise. The NED was still protecting their image as a 'diligent director'. However this was achieved by the NED investing time and complementing the MD's missing expertise, remaining as the Shepherd style 'expert' and enhancing their own *self serving bias* Personal Strengths. DNED followed this path.

he has [had] a go at [a cash flow]. ... I am going to sort it out this afternoon.
(DNED:322-324) (DNED/7n)

7.3.2.2ii *MD in control*

Where the unwelcome MD behaviour was believed to be volitional (Weiner, 1979), that is, attributed to Typical Effort *internal/control/stable* causes, help was likely to be withdrawn. This was because the behaviour was perceived as in the control of the MD and unlikely to change. For example, in his first interview CNED made the following comments about CMD's behaviour.

There's not much I don't raise with [MD]. If I can see things that are wrong and I don't agree with I tell him. Now, whether he reacts or whether he does anything about it is a different matter. But at least he's told - or he's advised as to the better way
(CNED:255-257) (CNED/4n)

at the next Board meeting if [MD] doesn't do what I have asked him to do I shall have to take a hammer. (CNED:454) (CNED/4n)

These responses hint at CNED's frustration at CMD's unwillingness to do as he is 'told', 'advised', 'asked' and take 'the better way'. If over time this behaviour is confirmed as *stable* the resultant *FAE* could lead to a perception of NED role failure, a complete loss of partner trust and 'relationship rupture' (Lewicki & Bunker, 1996). On three occasions in his second interview two years later CNED referred to CMD as 'stubborn' and a 'wheeler dealer'.¹⁹³

Well, I don't believe you wheel and deal in business ... [CMD]'s a wheeler dealer.
(CNED:1110-1199)

The outcome in this Case Dyad (CNED/node 7n in Appendix 10) is discussed later.¹⁹⁴

7.3.2.2iii *NED 'diligent director' image protected*

Both CNED and DNED were protecting their self-image as 'diligent directors', mindful of their director liabilities and the 'tricky legal role', as described by another respondent (GNED:302). However their approaches were different due to their attribution processes. In Chapter Six the NED typology stressed the need for the partners to continue to invest 'irrecoverable resources' of time and effort in the relationship 'as a demonstration of trusting behaviour' (Shariff *et al*, 2005:417) and so develop higher levels of trust (Lewicki & Bunker, 1996; Dibben, 2000). By understanding the 'varied facets' of the MD the NED could 'come to understand and appreciate those domains where it is appropriate... to trust' (Lewicki *et al*, 1998:442) their partner. In terms of Attribution Theory bias CNED was an example of the effects of 'simplifying assumptions' (Jones & Nisbett, 1972) or Figure 4.2 Observer Bias and the importance of first impressions. Jones and Nisbett (1972) argued that if initial attributions were confirmed Observers would invest little effort in gaining a (more) accurate picture of the Actor.

CNED differed from the other NED respondents in the level of face-to-face and informal contact he had with his MD. In a pattern set in the first year of his appointment when CNED was working overseas, he had daily telephone contact with CMD.¹⁹⁵ This remote contact continued when he returned to the UK and he

¹⁹³ defined as 'a skilled but possibly dishonest operator' (Encarta Dictionary: English (UK), 1997)

¹⁹⁴ See section 7.3.5.1 *Irreparable Loss of Trust: NED trust in MD* on page 254

¹⁹⁵ See CMD/node 2m and CNED/node 2n in Appendix 10

only met CMD in the board meetings once a month, not even adjourning for an informal lunch together. CNED did not live locally but was able to attend board meetings without incurring an overnight stay. As he perceived no shared interests with CMD or the executive finance director there was no social contact. CNED's first impressions influenced his perception that there was no need for a greater investment of his time to understand CMD better, a belief most likely confirmed by his friend, the first NED. CNED doubted CMD financial management skills and he insisted that details of every contact made between Company C and their clients were faxed to him, a system he initiated. CNED protected his *self serving bias* 'diligent director' image by keeping *control over internal* areas that concerned him.

DNED only doubted DMD's financial acumen, trusting the executive directors to run the operational side of the business, albeit with his advisory input. His first impression of DMD was as a client of DNED's accountancy practice who needed financial management expertise as Company D had no qualified financial person. Although describing DMD as not very dynamic, DNED perceived that DMD was willing to follow advice¹⁹⁶ and attributed Company D acquisition successes to his own action, exhibiting the *self serving bias*. DNED was appointed as a NED when he retired as the auditor after thirteen years. He lived locally to Company D, visited the premises most weeks and moved in similar social circles as DMD. Through this investment in 'multifaceted interaction' (Lewicki *et al*, 1998) DNED had developed a better understanding of DMD's Ability although he still distrusted DMD's financial skills. DNED was willing to help DMD as he had when acting as the auditor - provided DNED was appointed to the board. By becoming a director he maintained *internal/control* and protected his liability and self image.

7.3.2.3 *NED Role Oscillation: Trust and Distrust Dual NED Role*

The rows 'Diligent Director support' and 'Diligent Director threat' in Table 7 illustrate that NED role oscillation between the dual roles of **NED tells** and **NED advises** was more common than the single 'Shepherd' role. This behaviour was exhibited by ANED, BNED, ENED, FNED, HNED, INED and JNED. The incidents triggering this role oscillation were linked to a NED's *personal* or *universal* 'diligent director' NED recipe and their *universal* MD recipe. They exhibited the *self serving bias* on the former and the *actor observer bias* on the latter.

¹⁹⁶ See, for example, relationship incident node 4n in Appendix 11

7.3.2.3i MD Behaviour Supports NED 'Diligent Director' Image

When the MD conformed to the NEDs' recipe for MD behaviour then the behaviour was attributed positively to Figure 4.2 Actor Aptitude *internal/control* or *no control/stable* causes. In this research context this was best illustrated as where the NEDs perceive movement from **NED tells** to **NED advises**, that is, when the MDs have followed the advice offered. As this confirmed the NED's Observer Bias 'simplifying assumptions' (Jones & Nisbett, 1972) the NEDs exhibited no *actor observer bias* and experienced the **NED advises** level of partner trust.¹⁹⁷

The 'Diligent Director support' row in Table 7 shows where the MD behaviour supported the NEDs' self image. For example, INED recounts how the executive directors were wary of moving to much larger premises which they perceived to be a significant financial risk.¹⁹⁸

the premises relocation that they are going for over twice the space they've got now, ... they are a bit anxious about that ... I just said "Well, look, your vision statement that within five years you want to be one of the leading [sector] companies in [UK Region] then those premises ... comply with that. Vision statement on a five year lease, that's more consistent." So, I showed him very much more, well, I find that if you throw the thing further forward it becomes more acceptable, okay? ... taking [MD] along that way, he's now I think comfortable with the decision to move. (INED:583-600)
(INED/10n)

The previous incident (INED/node 9n) related to INED perceiving he had to take *control*, **NED tells**, and negotiate a better deal for the premises. As IMD took the advice and accepted the new premises move, INED moved back to **NED advises**.

7.3.2.3ii MD Behaviour Threatens NED 'Diligent Director' Image

If the MD failed to take the NED advice or did not conform to the NED recipe for MDs in other ways, the behaviour was attributed to *internal/control/stable* or *variable* causes and MD Personal Weaknesses. As this challenged the NED's Observer Bias 'simplifying assumptions' (Jones & Nisbett, 1972), the NEDs invested varying amounts of 'irrecoverable resources' of time and effort (Shariff *et al*, 2005:417) to investigate the unexpected behaviour. If the reason was perceived

¹⁹⁷ Examples can be found for Case Dyad A in Chapter Six Figure 6.1 and Table 6.1, and in Appendices 9 and 12 to 17 for Case Dyads B and E to J respectively

¹⁹⁸ This incident was recounted from the MD's perspective in *section 7.3.1.1i External focus* on page 231

to be unacceptable then the NED exhibited the *actor observer bias* and experienced a return to the **NED tells** level of partner distrust.¹⁹⁹

Unsurprisingly, because of their dual role perspective, the next row in Table 7 shows that the MD behaviour threatened these NEDs' 'diligent director' image. For example, BNED had always been unhappy with the presentation of the accounts (BNED/nodes 7n to 9n in Appendix 9). He had challenged the accounts over the years (BNED/node 7n) and there had been improvements (node 8n); however he still checked the management accounts every month (node 9n).

that's what we do now, we get the accounts and I read them before I come down. Do my own private sums to see that I'm not being misled I suppose, not deliberately, but (pause) ... (BNED:1269-1273) **(BNED/9n)**

This type of dual role oscillation continued throughout the NED relationship for NEDs in this group. Even if the MD's Typical effort was perceived as positive, *external/no control/variable* Bad Luck or Environmental Threats such as changes to the company marketplace were likely to produce unexpected behaviour. For example ANED was happy with AMD and the TMT's responses to changes he suggested (ANED/nodes 4n & 6n); however he made the following observation.

the company is interesting in that it is, it is changing all of the time. It's interesting in the way that we can, we can produce a fairly large strategy document business plan and two years later we're up an alley which was not even, that was hardly mentioned (ANED:767-780) **(ANED/8n)**

This reflection was triggered by AMD flouting ANED's capital equipment purchase rules three years earlier and taking the company in a new direction (ANED/node 5n). It represented a revision to NEDs' 'simplifying assumptions' (Jones & Nisbett, 1972) as described in the next section.

7.3.2.4 MD Behaviour Prompts Role Reversal: NED Learns

There was evidence that NEDs' misjudgements about their role could arise from the *false consensus effect* (Fiske & Taylor, 1991), for example, the 'simplifying assumption' (Jones & Nisbett, 1972:85) that all businesses and all business people shared the same ethos. The resultant misunderstandings were attributed by NEDs to Luck, *external/no control/variable* causes, exhibiting the *self serving*

¹⁹⁹ Again examples can be found for Case Dyad A in Chapter Six Figure 6.1 and Table 6.1, and in Appendices 9 and 12 to 17 for Case Dyads B and E to J respectively.

bias in respect to their NED recipe as these are classed as Environmental Threats in Figure 4.6.

For example, as a shareholder in other companies and never having worked in a privately owned business, BNED assumed that all shareholders judged company success in financial terms and shared his motivation to realise the maximum return on their investment. Early in his appointment he raised the issue of preparing the company for sale. The Founder was shocked by this suggestion.

I was bold enough to suggest at an early stage what we are trying to do is to set up a decent track record in the next couple of years to sell it. [Founder] nearly fell in a faint. "Sell it, no, no, no!" I said "I am awfully sorry, what are we doing?" "No, no, no", said [Founder], "we are not trying to sell it all!" (BNED:370-373) **(BNED/5n)**

This is an example of where the NED recognised they were exhibiting Observer Bias, attributed as *external/control/stable* and that they needed to revise their 'simplifying assumptions' (Jones & Nisbett, 1972: 85) to negate a *false consensus effect* (Fiske & Taylor, 1991). Where the NED perceived that the cause of the MD unexpected behaviour was *stable* they had two options. They could learn from the MD²⁰⁰ behaviour, accepting that the role styles of Sherpa and Expeditionary had been reversed (Graham & O'Neill, 1997). In these situations the NEDs' *universal* assumptions are revised to form a *personal* recipe either for the specific MD role or the expectations of the NED role in the particular company context, as in the unforeseen strategic changes in Company A (ANED/node 8n).

As an observer of their own role behaviour, where a *false consensus effect* had been challenged by the MD then there was evidence of the NED adopting a 'normative and nomothetic' (Jones and Nisbett 1972:85) stance. This emphasised their actions as a NED role actor within the general cultural context. For example, returning to Case Dyad B relationship incident node 6n, BNED revised his 'simplifying assumption' that all shareholders shared the same objectives.

So, you have to find out what the shareholders objectives are (BNED:374) **(BNED/5n)**

So, [the Founder/majority shareholder] didn't want to do that, so therefore it wasn't really a conflict I just adjusted my own view of what we should be doing. He looked as though I'd shot him. He said "Good Lord, sell it? Argh! I don't want that at all! That's not what you're here for!" (BNED:1441-1444) **(BNED/6n)**

²⁰⁰ On occasions the MD recipe was applied to members of the Top Management Team, for whom the MD had responsibility.

Table 7 indicates that dual role NEDs were more likely to adopt an ‘ipsative or ideographic’ (Jones & Nisbet, 1972) stance and exhibit learning from their dyad relationship.²⁰¹

The alternative option was resignation. This is considered when the mismatch between the NED *personal* or *universal* recipes for either the MD or NED roles and observed practice was too great. In effect this was the *F**A**E* between their *personal* NED recipe and others’ expectations of NED role action. This is attributed as *external/no control/stable*, Figure 4.2 Task Difficulty, an Environmental Threat to their image as a ‘diligent director’.²⁰²

7.3.2.5 *A Bridge Too Far: Moving to NED acts*

Evidence for NEDs exhibiting this level of trust was rare as shown by the corresponding row in Table 7. Where the NEDs perceived they had moved into the **NED acts** level of partner trust the decision to accept this level of trust rested on how the MD or TMT behaviour was attributed.

7.3.2.5i *MD not in control*

If the causes were perceived as non-volitional, that is, *no control* then temporary help requiring this higher level of trust would be given. This justified a *personal* NED recipe for this specific context to address a gap in company resources. The NED returns to **NED advises** as soon as possible as they are keen to preserve their ‘diligent director’ image. Boxer *et al* (2005) suggested that the NED may also presume researchers were judging their behaviour against a *universal* NED recipe inspired by Agency Theory. NEDs would justify their own NED behaviour by negatively attributing MD behaviour to *internal/no control/stable* causes, MD Ability. For example, HNED gave an example of temporary help.

I needed to get involved in the details of the [share option] schemes ... much more than I should have done, simply because there was not the skill and expertise within the company itself. (HNED:1163-1168) (HNED/8n)

An alternative scenario attributes MD behaviour to Luck, that is, *external/no control/variable* causes. For example, INED reported refusing this level of trust

²⁰¹ See Table 7 row 18 *role reversal NED learns* on page 229

²⁰² Discussed later in *section 7.3.5.1 Irreparable Losses of Trust: NED trust in MD* on page 254

when offered 'sweat equity' shares when IMD had a cash flow problem or (Bad) Luck (INED/node 7n in Appendix 16).

7.3.2.5ii *NED in control*

However where this level of trust contradicts the NED's perception of the UK NED role core element of *independence of mind/independent view*, it is their own behaviour that concerns them. The NED attributes the causes of this level of trust as self-volitional, that is, *internal/control/stable* Typical Effort causes and therefore exhibits a self *actor observer bias*. By perceiving their behaviour as Personal Weakness in Figure 4.6, they experience *FAE*, leading to feelings of failure. The only example of a NED exhibiting this behaviour was in Case Dyad E. ENED had joined the company over thirteen years earlier when the bank was threatening foreclosure. He had worked three days a week as the part-time financial director on a consultancy basis and put in financial management control systems, turning the company around. Two years prior to his interview he had reduced his commitment to one day and refused a continuing executive responsibility. He was invited to join the board as a NED. ENED and the owning family, that is, the executive chairman, EMD and the Sales Director, socialised several times a year and ENED had advised the family on non-business matters.

in [Company E] I probably am too chummy but because of the background I've got with them, and for a long time if I said something they had to do it ... I'll say "you've to do that" they will tend to take my advice on my say so (ENED:300-302) (ENED/3n)

As described in Chapter Six,²⁰³ ENED had resigned a month prior to his interview stating that he was now only a general business advisor. In terms of Kram (1983) and the roles of mentors he was 'redefining' his role to one of friendship.²⁰⁴

7.3.2.6 *NED as 'Diligent Director' summary*

The 'diligent director' self image of the NED was confirmed and it had two sources. The NED exhibited the *actor observer bias* when attributing MD behaviour when the dyad partners first met. This attribution was made by the NED against either a *personal* MD recipe based on their experience or a *universal* privately owned SME MD recipe based on 'simplifying assumptions' (Jones & Nisbett, 1972) and/or the *false consensus effect* (Fiske & Taylor, 1991). The first impressions of their MD

²⁰³ See Chapter Six section 6.7.3.3ii *Permanent move to NED acts* page 208

²⁰⁴ Also explored later in section 7.3.6.1 *Resignation Prompts: Internal causes of NED interest conflicts* on page 257

were influenced by a NED's career history, that is, whether or not they had owner-managed a small business.

The second source emerged if the NED exhibited the *self serving bias* when they were attributing their own behaviour as a NED against a presumed *universal* NED recipe of the researcher. Chapter Five²⁰⁵ reported that the NED respondents were keen to differentiate their *personal* dyad NED behaviour from the 'prescribed' (Spencer, 1983) 'taken-for-granted' (Schutz & Luckmann, 1974) *universal* role of NEDs. These responses are included in Table 7²⁰⁶ and repeated here, that is, 'normal' (ANED:80; ENED:21; ENED:169), 'true' (ENED:107) and 'typical' (GNED:258). FNED believed when a new CEO was appointed his role would become more 'traditional' (FNED/node 3n). Only HNED believed he and his three colleagues provided 'a classic NED role' (HNED:1047) as the executives were experienced.²⁰⁷

They are not your naïve entrepreneurs and I suspect you'll find this in other SMEs different SMEs. (HNED:1236-1237)

ANED, ENED and GNED perceived that the environment in which their NED role was operating was different from the 'prescribed', 'taken-for-granted' NED recipe. They assumed their *personal* NED role action would be attributed by others to *internal/control/stable* causes and perceived as biased towards a 'collaboration' style, without others understanding the uniqueness of the Case Dyad context, that is, *external/no control* causes.

When the NED reflected on how they matched their own NED recipes they exhibited this different 'visual attention' (Wagner & Gooding, 1997). They exhibited the *actor observer bias* and made generalisations which reflected the adaptations they had made to their *universal* recipe to create a context-specific or *personal* NED role. The following example is a repeated quote from ENED.

it must be remote enough to so you can lay the law down if you see something you don't like so it mustn't be too chummy. in [Company E] I probably am too chummy but because of the background I've got with them, and for a long time if I said something

²⁰⁵ See Chapter Five section 5.4.4 Literature extended **Creative NED Role-making** page 138

²⁰⁶ Italicised MD responses have been included in Table 7 7.3.2.6 *NED role recipes*. See Chapter Five section 5.4.3 **Creative NED Role-making** on page 132

²⁰⁷ HNED perceived a similar recipe for typical SME MD behaviour to that of CNED. Unlike CMD, HMD did not conform to this negative universal recipe.

they had to do it ... I'll say "you've to do that" they will tend to take my advice on my say so (ENED:298-302) (ENED/3n)

This combined the 'ipsative or ideographic' (Jones & Nisbett 1972:85) stance of an Actor judging the action against their own previous behaviour with the 'normative and nomothetic' (Jones & Nisbett 1972:85) stance of an Observer judging the action against the behaviour of other Actors in similar situations. This situation had the potential to produce the *FAE* leading to feelings of failure and possible resignation. This thesis argues that threats to NEDs' 'diligent director' images and the *FAE* can lead to perceptions of failure by the NEDs. This failure and *FAE* can emerge in two ways, as a result of MD action and as a result of NED action. If the NED reviews repeated MD action of ignoring NED advice and perceives these actions as unfounded, then the NED will resign because they no longer trust the MD. If the NED perceives their own actions compromise their prescribed NED recipe then they too will resign as they no longer trust themselves.

This thesis also argues that when the NED *actor-observer bias* is disproved because the NED accepts that the environment differs from the NED 'simplifying assumptions' (Jones & Nisbett, 1972:85), then the NED will learn from this experience and expand their NED and MD recipes. This confirmed the 'Sherpa:Expeditionary' mentor role reversal predicted by Graham and O'Neill (1997). Repeated amendments to these recipes by the NED were interpreted by this thesis as a prompt for perceptions of imminent dyad dissolution.

7.3.3 Repairable Losses of Trust: Perceptions of Partner Role Deviation

Four scenarios leading to the temporary or variable loss of trust by either or both partners have already been discussed and are summarised here. These all had the potential to lead to the *FAE*.

7.3.3.1 MD perception NED advises to NED tells:

The MD is uncomfortable when they perceive that the NED's behaviour has deviated from the recipe of advisor to watchdog, that is, moves from **NED advises** to **NED tells**. The MD exhibit the *actor observer bias* as the NED's behaviour threatens the MD's small business 'questing hero' image.

there was a bit of a period ... where we were trying to decide who hell the boss was round here (BMD:215) (**BMD/5m**)

7.3.3.2 *MD perception NED advises to NED acts:*

The MD is also uncomfortable when they perceive that the NED's behaviour has deviated in the opposite direction from the recipe of advisor to executive director, that is, moves from **NED advises** to **NED acts**. Again the MD is exhibiting the *actor observer bias* as this NED behaviour also threatens the MD's competent 'questing hero' image.

There was a period when [senior non-exec] and [NED] were almost acting as part time consultants (HMD:1205-1206) **(HMD/4m)**

Both these situations are temporary and are resolved through open discussion between the partners. Although these examples are attributed to *variable* action, MD discomfort could be *variable* or *stable*. Table 7 indicates that the Case Dyad MD discomfort was not widespread.

7.3.3.3 *NED perception NED advises to NED tells:*

The NED is uncomfortable when they perceive that their trust in the MD has been misplaced or if their advice to address MD errant behaviour is challenged. They exhibit the *self serving bias*. As their 'diligent director' image is threatened by the MD's behaviour the NED returns to the **NED tells** level of trust. This repeated example is from Case Dyad B.

we get the accounts and I read them before I come down. Do my own private sums to see that I'm not being misled (BNED:1269-1272) **(BNED/9n)**

The situation had improved by separate, private discussions between the shareholders and the Financial Director, although BNED was still cautious.

7.3.3.4 *NED perception NED advises to NED acts:*

The NED is uncomfortable when they reflect on their own behaviour and perceive that, by moving from **NED advises** to **NED acts**, they have deviated from their recipe of independent advisor to either executive director or friend. They exhibit the *actor observer bias* on the failure of the MD role and the *self serving bias* on possible interpretations of their own failure as a NED. Boxer *et al* (2005) suggested that this reflection was triggered by the NEDs' presumption that the researcher was critiquing their actions against an Agency Theory inspired *universal* NED recipe. Either scenario threatened their 'diligent director' self-image.

I needed to get involved in the details of the [share option] schemes ... much more than I should have done, simply because there was not the skill and expertise within the company itself. (HNED:1163-1168) (HNED/8n)

This situation was resolved once the scheme was implemented and HNED withdrew, that is, HNED attributed his behaviour as *variable*.

The examples in these four scenarios show that dyad partner discomfort could be *variable* or *stable*. The corresponding rows in Table 7 indicate that all Case Dyad NEDs exhibiting role oscillation experienced role discomfort. Where the discomfort was perceived to have a *stable* causal dimension the *FAE* will emerge and dyad dissolution was likely.

7.3.3.5 *Emergence of the Fundamental Attribution Error (FAE)*

In several sections the emergence of the *FAE* has been flagged as precursor to the perception of dyad dissolution.

7.3.3.5i ***NED advises to NED acts***

Where dyad partners attribute the same event differently there is the potential for the *FAE* to develop. This is because of the partners' different 'visual attention' (Wagner & Gooding, 1997) of a shared experience. As shown in Table 7, the emergence of the *FAE* from ***NED advises to NED acts*** was rare. Case Dyad H provides two examples of how the shared perception of movement between ***NED advises to NED acts*** is perceived differently. The resolution of this relationship incident is described by HMD in section 7.3.3.2 and HNED in section 7.3.3.4. To assist the discussion these are repeated.

There was a period when [senior non-exec] and [NED] were almost acting as part time consultants (HMD:1205-1206) (HMD/4m)

I needed to get involved in the details of the [share option] schemes ... much more than I should have done, simply because there was not the skill and expertise within the company itself. (HNED:1163-1168) (HNED/8n)

These matched relationship incidents illustrate that one partner, HMD, was focussed on the behaviour of the other, HNED, without taking account of the situational factors influencing HNED's unexpected role behaviour. The situational factor in the example was the lack of executive director skills and therefore would be classed as *Internal help* (Zacharakis *et al*, 1999; Boxer *et al*, 2005) or 'inner' context 'factors' (Pye & Pettigrew, 2005). Lewicki and Bunker (1996) and Dikken

(2000) argued that provided the partners were experiencing 'knowledge-based' levels of trust, these losses could be repaired at any time as the dyad relationship was closer than 'arms length' (Dibben, 2000). However the *FAE* emergence threatened the opportunities for trust repair.

7.3.3.5ii **NED advises to NED tells**

Examples of similar *FAE* tension, but relating to **NED advises to NED tells** movement were more prevalent as shown in the corresponding row in Table 7. They related to: capital equipment purchases (Case Dyad A nodes 5m & 5n); the accounts presentation (Case Dyad B nodes 6/7m & 7/8n); the founder's remuneration (Case Dyad H nodes 7/8m & 10/13) and a sales appointment (Case Dyad I nodes 10m & 11n). The example from Case Dyad G is given below.

she can be quite preoccupied and too busy herself at times... and that has an effect on whether in my view whether she's really listening or whether she's kind of sounding off on some idea of her own ... which can in my view lessen her effectiveness and her helpfulness at times. ... she has got a pretty full on job (GMD:610-614) (**GMD/10m**)

One of the things that happens there is that I have advised that we need very much to look at other avenues. The organisation looks at the avenues and then pulls back at the last minute and doesn't take them up, but I think it's because they're afraid to do so. (GNED:398-401) (**GNED/8n**)

Both partners were focussed on the behaviour of the other and were exhibiting the *actor-observer bias*. GMD felt the lack of time invested by GNED in understanding the Company's problems was leading to ineffective advice from GNED, Immediate Effort *internal/control/variable*, although she did acknowledge the situational factor of GNED having a 'full on job'. GNED believed her advice was being ignored because the TMT were afraid to act, Typical Effort *internal/control/stable*. She felt the lack of action was threatening the Company viability.

I feel we should have moved into new business areas quite strongly... and I think had we done so we wouldn't now be struggling a bit as we are. (GNED:401-403) (**GNED/10n**)

7.3.4 **Repair and Maintenance Processes: Partners' Reciprocal Trust**

Temporary losses of trust are repaired if the partners are able to deal with their disagreement amicably. As the row 'Trust Repair & Maintenance' in Table 7 indicates there was extensive evidence that respondents perceived that they did not always agree with their partner but could deal with disagreements professionally to maintain their relationships. These relationships were normally sited in **NED advises** 'knowledge-based' levels of trust and supported the Lewicki

and Bunker (1996) and Dibben (2000) arguments that at this level, losses of trust could be repaired. Surprisingly, CNED and DNED also believed they could maintain a professional relationship and have 'healthy' (CNED:171) disagreements even though they had remained in the 'calculus-based' level of trust, **NED tells**.

Where the partners attribute each other's usual behaviour as Actor Aptitude, *internal/control* or *no control/stable* then disagreements or *variable* behaviour could be tolerated. For example, when asked about the differences between herself and GNED, GMD made the following comment.

what I personally know about [NED] and what she personally knows about me, we can leave on one side really. That doesn't affect our kind of working relationship (GMD:1072-1073)

Dealing with a temporary loss of trust, or partner role failure, was in part attributed to the respondent's own *self serving bias* and Typical Effort *internal/control/stable* causes as well as their partner's Typical Effort. For example, in Case Dyad H HMD and HNED made the following observations about their process of trust repair and maintenance.

[NED] and I are professionally able to put a box around a dispute and not let it, in any way, taint all the other things we're doing. So, it's not polluted our relationship at all (HMD:1556-1558) **(HMD/9m)**

there are times when I disagree with things. ... he is a very strong minded individual like I am so we'll sit down ... and very often we will fail to agree initially and then we'll sort of resolve it ultimately. But that is a typical professional relationship as far as my working life is concerned, so it's a good professional working relationship (HNED:337-344) **(HNED/10n)**

The disagreement that had the potential to 'pollute' their relationship related to whether the MD's remuneration in share options reflected his status as the company's founder. However, these dyad partners had worked together intermittently over a number of years and in different contexts, most recently as fellow NEDs on the group board of HNED's former employer. They understood, trusted and respected each other's Personal Strengths and Weaknesses because of this 'multi-faceted' and 'multiplex' (Lewicki *et al*, 1999) interaction. It was HMD's perception of his entrepreneurial optimism as a Personal Weakness and HNED's Personal Strengths as a proven manager of other people's businesses that had prompted HMD to appoint HNED (HMD/node 2m in Appendix 15). HMD perceived some *internal/control* over the remuneration disagreement when his co-operation

was sought by investors in the future (HMD/node 8m).²⁰⁸ He was willing to 'put a box around it' for the present. On his part HNED perceived that his *internal/control* was maintained through the willingness of both partners to sit down together and resolve disagreements. HNED's perception of the remuneration dispute was discussed in Chapter Six.²⁰⁹

7.3.5 Irreparable Losses of Trust: Perceptions of Partner Role Failure

The *FAE* is exhibited when temporary or *variable* losses of trust become *stable* and the causes are attributed by one or both partners to Actor Aptitude. These perceptions of permanent partner role failure will lead to 'relationship rupture' (Lewicki & Bunker, 1996).

7.3.5.1 NED trust in MD

Where NEDs perceive they have no influence over the MD behaviour this is negatively attributed to MD Typical Effort *internal/control/stable* causes and a long term MD Personal Weakness. The NEDs will be unable to continue in the NED role as the mismatch between their recipes for either the MD and/or NED role and observed practice is too great. The only option is resignation as *stable* causes are defined as those 'presumed to remain essentially unchanged over a longer time period' (Shaver *et al*, 2001:9). The outcome of unacceptable MD behaviour is attributed to *external/no control/stable* causes, a NED Task Difficulty and an Environmental Threat to their image as a 'diligent director'. Table 7 indicates that this situation was rare within the ten Case Dyads. For example, this was FNED's response when asked to speculate why and when he might resign as a NED.

I would resign if I felt that there was illegal or immoral conduct. (FNED:947)
(FNED/node 9n)

In section 7.3.2.2.ii *Shepherd Style Single NED Role: MD in control*, the distrust CNED had at the time of his first interview in CMD's ability to take advice and follow 'the right way' was also discussed. As discussed in Chapter Six²¹⁰ CNED had retired as a NED by the time of his second interview, attributing his decision to *internal/control/stable* causes.

I stayed with that arrangement right up until February this year when I decided I'd had enough ... and time to throw all your books away (CNED:534-538) (CNED/7n)

²⁰⁸ See section 7.3.1.2iii *MD missing data explained* on page 235

²⁰⁹ See Chapter Six section 6.7.3.2iii *NED role strain* on page 207

²¹⁰ See Chapter Six section 6.7.3.4i *Relationship rupture* on page 209

However, there was evidence that an important, alternative attribution for the 'relationship rupture' from Company C was *external/no control/stable* causes, NED Task Difficulty and a major Environmental Threat to his 'diligent director' image. In this second interview CNED described his first impressions of CMD as someone not to be trusted, 'a wheeler dealer' (CNED:1199). He went to observe that CMD was 'stubborn'; both traits were attributed as *internal/control/stable* causes of CMD Typical Effort. Consequently, CNED had adopted the single Shepherd style role, never leaving the **NED tells** level of trust. CNED and his friend, the first NED, had agreed how to manage CMD to protect their 'diligent director' self-images. CNED believed his friend 'got fed up' (CNED:1268) and left the board because his professional financial advice was being ignored.²¹¹ When this 'real professional finance man' (CNED:1267) left, a representative of the new informal investors joined Company C as the executive financial director. CNED did not believe a discussion of any board decisions made after the executive financial director joined would contribute to the research.

I mean for the purpose of this discussion I would ignore him. (*field note: dismissive tone – anger? Linked to reason for leaving the board?*) (CNED:1080-1081)

Six months prior to the second interview relationships had clearly broken down between CNED and the two executive directors as CNED had resigned without warning. The following extract is from the research field notes.

They had a Board meeting in February (this year) at which CMD said to CNED "why are you closing your file? The meeting's not over." CNED said "it is for me I'm leaving" and he has never been back since and CMD has not been in touch. (extract from contemporary field notes after CNED second interview)

7.3.5.2 MD trust in NED

At the time of their interviews none of the MDs had experienced irreparable losses of trust in their interview dyad NED partner. However their previous experiences of other NEDs or business advisors enabled MDs to speculate what would prompt them to remove a NED where asked the question. Table 7 shows these responses in parentheses indicating that these do not link directly to the Case Dyad NEDs. As in the examples of perceived MD role failure, where NED role failure was solely attributed to *internal/control/stable* causes, NED Typical Effort and Personal Weakness, the MD predicted that they would remove the NED from the role. Or if

²¹¹ This is CNED/node 6n in Appendix 10

the NED was an investor nominee the MD would recommend that the NED not be put forward for re-election.

For example, HMD had appointed a NED prior to HNED to help him operate in the specific sector market when he first started Company H. HMD had no relevant experience and this first NED appointee had recently sold a similar company. It soon became obvious to HMD that although this person had useful contacts he was a 'passenger' and not adding value to the board. Once other NEDs joined the board this individual's lack of contribution became more apparent.

you can have a non-exec who's not contributing and therefore they are a passenger, they're occupying space at the table which is adding no value so you're wasting money and you're wasting time, a bit, but if they're just a passenger you can tolerate it ... particularly if they're a nominee of an important shareholder and you don't want to rock the relationship... but he'd gone beyond being a passenger he was actually causing problems and he'd lost the respect of the members of the board (HMD:1103-1112)

Once again, lessons learned are recounted as an Observer of the 'normative and nomothetic' generic cultural context followed by an 'ipsative or ideographic' justification for HMD's unique situation as an Actor (Jones & Nisbett 1972:85). As a direct result of needing to remove this first NED from the board HMD had initiated fixed term NED appointments.²¹² This allowed HMD, as Executive Chairman, to decide whether or not he still trusted the contribution of each NED as they reached the end of their three year term and whether to recommend their reappointment. He made the following Ability attribution, *internal/no control/stable*, regarding HNED.

there would be a harder question in a year or two as to whether he's gone stale. (HMD:1493) **(HMD/10m)**

This implied HMD regarded the ending of HNED's appointment as NED role closure rather than NED role failure. The MD was still exhibiting the *actor observer bias* leading to the potential for the *FAE* to appear and 'relationship rupture' (Lewicki & Bunker, 1996) if the NED did not share the MD perception of role closure. This example highlights the temporal component to the loss of trust. Over time the loss of trust may be attributed to causes not in the control of the NED, that

²¹² This was unusual NED HRM practice as discussed in Chapter Five *section 5.5.7* Table 5.16 on page 159

is, *external/no control/stable*. Whereas the previous situation was perceived negatively, *external/no control/stable* causes were perceived more constructively.

...as the company grows, you know, you sort of out live sometimes potentially the usefulness of a non-exec and, you know, you might just decide to part company.
(FMD:556-557)

The perception of positive causes for NED role closure and negative causes for NED role failure mirrored the Observer's attribution process when deciding whether or not to offer help to an Actor as posited by Weiner (1979). The company's need for help could change. If the NED was unable to satisfy this need due to non-volitional causes such as Task Difficulty, rather than volitional NED Typical Effort, the *FAE* would not appear provided both partners recognised that 'the relationship is no longer needed in its previous form' (Kram, 1983:620). The relationship could then end amicably following the *Separation and Redefinition* (Kram, 1983) dyad dissolution process of structural and psychological resignation prompts. These were discussed in Chapter Six²¹³ and are explored using Attribution Theory bias in the following section of this chapter.

7.3.6 Resignation Prompts

Two of the NEDs had resigned at the time of their interviews. ENED attributed NED role failure to *internal* causes and CNED attributed the failure to *external* causes. Other respondents predicted why and when the NED would leave the role of NED at the specific company. The only pattern discerned across all responses was that the *internal* causes of NED role conflict are created by the *personal* traits and/or interests of the NED. When these interests are affected by either the generic business environment, the specific market in which the company operates or changes to the company vision and goals, this creates *external* causes of NED role conflict. This supports the model of Kram (1983) that separation prompts are normally a temporally ordered mix of psychological and structural prompts.

7.3.6.1 *Internal causes of NED interest conflicts*

MD role failure was attributed to *internal/control/stable* causes, MD Typical Effort and Personal Weakness and the NED attributed their own failure in the NED role similarly. This was because they were exhibiting the *actor observer bias* on themselves, the opposite of the *self serving bias* as discussed in *section 7.3.2.5 A Bridge Too Far: Moving to NED acts*. In addition, those NEDs who had retired

²¹³ See Chapter Six *section 6.7.2.5 Dyad dissolution* on page 200

from full-time working life attributed their age and a lack of expertise to a decline in their Ability over time, *internal/no control/stable* causes. The manifestation of this reflective process was NED role discomfort leading to a prediction of resignation and was coded to the *understanding enhanced* NED role element of *NED self worth* in Chapter Five. Examples of both situations are given in below.

I would resign if I felt that I had outlived my – I wasn't contributing any value. I would resign if I found that I wasn't able to devote the right sort of time. (FNED:948-949) **(FNED/9n)**

I brought something to it when I joined, now whether you still bring something to it in ten years time is a debatable point. (BNED:160) **(BNED/13n)**

In Chapter Six this discomfort, or self-distrust, was proposed as a psychological separation prompt, the necessary precursor to the structural separation prompt when mentor-protégé dyads mutually agree that the relationship is no longer necessary (Kram, 1983). For example, ENED had resigned from the board of Company E a month prior to his interview and had negotiated a 'redefinition' (Kram, 1983) role to remain as a general business advisor to Case Dyad Company E. These psychological and structural prompts fit closely to the *internal* and *external* causal dimensions in Attribution Theory and the 'inner' and 'outer' context factors (Pye & Pettigrew, 2005).

Where the MD perceives that the NED distrusts their own behaviour so much that they would resign, psychological separation prompts are identified. The causal attributions presumed a decline in the NED's perception of their own Ability, *internal/no control/stable* causes, or Mood, *internal/no control/variable* causes. For example, BMD offered the following as potential resignation prompts for BNED.

...it will be a combination of when [NED] feels he can no longer make a constructive contribution and/or he hasn't got the energy to travel down here and be involved; (BMD:1058-1060) **(BMD/12m)**

The 'Internal NED conflicts' row in Table 7 corroborates the discussion in Chapter Six²¹⁴ that these structural and psychological *separation prompts* are particularly salient in dyads where the NED has already retired from their full-time working life. In Case Dyads A, B, C, D, E and H one or both partners alluded to the NED's retired status. In Company B, BNED was the third such NED appointment.

²¹⁴ See Chapter Six *section 6.8.5 Dissolving the Dyad* on page 217

7.3.6.2 External causes of NED interest conflicts

These are defined as events attributed to *external/no control* causes which threaten the NED perceptions of their own *internal/control*. For example, CNED had experienced a 'relationship rupture' (Lewicki & Bunker, 1996) and resigned by walking out of a board meeting six months prior to his second interview. An important attribution for this dramatic 'relationship rupture' was CNED's perception of Task Difficulty, *external/no control/stable* causes. The *external/no control* dimension related to the executive directors' financial actions, which CNED distrusted and perceived as a major Environmental Threat to his 'diligent director' image. GNED was experiencing similar, albeit commercially driven role fears for her 'diligent director' image. She perceived that Company G was changing its vision from a client focus to a staff focus. Although this could be viewed as 'inner' context factors (Pye & Pettigrew, 2005), that is, internal company politics, GNED attributed this action as *external* and an Environmental Threat to the financial security of the business.

one of the unwritten rules of the board meeting is that the voices of the staff are heard very strongly before any decision is made, which I think has a moral value, but I'm not sure whether it has good commercial practice behind it. (GNED:446-453) **(GNED/13n)**

This was exacerbating her concerns about Company G's long term survival and their lack of movement into 'other avenues' (GNED/nodes 8n & 10n in Appendix 14) and described in *section 7.3.3.5ii NED advises to NED tells*.

NEDs also predicted Task Difficulty causes other than the actions of the MD. For example, having recently restructured Company H to meet the governance requirements for an IPO, HNED was aware of the increasing amount of regulation affecting the role of the NED in general, attributed to *external/no control/stable* causes. HNED was constantly reviewing how to prioritise his time and effort, action linked to *internal/control* causes associated with balancing his NED role with his other interests. He predicted NED role closure when the current acceptable balance was threatened.

my wife and I travel extensively and so if there was conflict and I am in the luxury situation of being able to say "Well, I don't need to do this, do I? So I'll stop doing that and then I can travel more," ... At the fringes [the increased regulation is] frustrating but on the other hand a lot of it is good management and is good governance. So far, the fringes have not been - become so frustrating that I say [blows raspberry] "I ain't going to do it any more." (HNED:845-860) **(HNED/13n)**

In dyads with a portfolio NED, the MD's predictions for NED resignation identified structural separation prompts. The causal attributions presumed a change in the NED's circumstances creating an *external/no control/stable* or insurmountable Task Difficulty. For example JMD gave JNED's second company's growth as the only reason JNED would resign prior to JMD's own retirement.

[JNED] owns another company which he's the director of and if that gets too big and he can no longer give me any time (JMD:1001-1002) (JMD/7m)

As shown in the final row of Table 7, it was rare for MDs to identify external causes for NEDs to resign or retire from the dyad. This could be another effect of the prevalence of the retired PLC executives within this data set as discussed in Chapter Six.

7.4 Synthesis and Discussion

This section links the NED role trust typology in Chapter Six and Attribution Theory bias discussed in the previous section of this chapter. By connecting these concepts it explains how the NEDs and MDs resolve tension in their working relationships. The tension arises when one dyad partner is surprised by the other's behaviour, that is, it does not match the Observer's recipe for the Actor. Examples of this tension are presented as the Case Dyad relationship incident nodes.²¹⁵ This surprise can have two sources. Firstly, the partners have different career backgrounds and a unique stock of personal experience; because of this they have different expectations of the UK SME NED role. Secondly, as MD Observers and NED Actors of the NED role, the partners focus on different internal and external causal factors when assessing an event and therefore they interpret the same NED action from different perspectives.²¹⁶ One or both partners are surprised when the behaviour conflicts with their individual NED role expectations and the action is perceived as inappropriate or unacceptable. This creates tension due to a temporary loss of NED role trust and has the potential to threaten the relationship if not resolved. The consequences of not recognising these different Observer and Actor perspectives are further explained using an example of a recent UK PLC NED role study. The section returns to the 'why?' and 'how?'

²¹⁵ These are explained in Chapter Six Table 6.1 and Figure 6.2 on pages 179/180 for Case Dyad A and Appendices 9 to 17 Tables and Figures A9 to A17 for Case Dyads B to J respectively

²¹⁶ See Chapter Four Figures 4.7 and 4.8 on page 118

questions posed in the chapter introduction to address the third and final thesis research aim.

As discussed in Chapter Six, NEDs perceive their 'diligent director' role as having dual components of **NED tells** and **NED advises**. They perceive an integral part of their NED role as being Observers of MDs as MD Actors, as shown in Chapter Four.²¹⁷ This is especially pertinent when the dyad partners first meet and the NED forms a first impression of the MD. However this thesis is a study of the UK SME NED role and how it is perceived differently by Case Dyad MDs and NEDs. Therefore, its primary focus is on MDs as Observers of NEDs as NED Actors.²¹⁸

7.4.1 The empirical consequences of dyad partners' different 'visual attention'

The previous section of this chapter has used Attribution Theory bias to explore and explain the differences in MDs' and NEDs' perceptions of the NED role in UK SMEs. As discussed in Chapter Four²¹⁹, Actors focus on environmental or situational factors when outcomes differ from expectations whereas Observers assume a constant situation and look for answers in the Actors' behaviour. These different perceptions of a shared experience were recognised by one respondent, BMD.

if you have two people in this room ... and you ask them about the same thing, you'll get two different answers depending on their position and perspective... not that they're lying they're just putting it as they see it from their position (BMD:832-839)

As Figure 4.6²²⁰ indicates, when the dyad partners exhibit the different Actor and Observer bias for a shared experience, the *fundamental attribution error* or *FAE* tension can emerge. This tension and its resolution are central to the partners' relationship development and are posited by the thesis as the NED role process. If the *FAE* tension arises from an absolute loss of trust, or if it is left unresolved from the cumulative effect of a series of less dramatic losses of trust, this is the precursor to dyad dissolution.²²¹

There are two types of dyad dissolution in the NED role process, NED role closure and NED role failure.

²¹⁷ See Chapter Four Figure 4.7 on page 118

²¹⁸ See Chapter Four Figure 4.8 on page 118

²¹⁹ See Chapter Four *section 4.8.9 The theoretical consequences dyad partners' different 'visual attention'* on page 117

²²⁰ See Chapter Four page 112

²²¹ See *section 7.3.5 Irreparable Losses of Trust: Perceptions of Partner Role Failure* on page 254

7.4.1.1 *NED role closure*

Role closure occurs when at least one partner experiences the loss of NED role trust and this is openly debated and mutually negotiated. The context may vary. The tension can emerge when the surprise behaviour is attributed by the NED Actor to *external* causes. For example, increasing levels of governance regulation may be making unacceptable demands on their time, attributed to *external/no control/stable* causes.²²² Or it may emerge when the MD Observer perceives that the *internal* company development needs require a different combination of NED Actor knowledge and skills. This can occur if the perception of poor quality NED advice is attributed to the expired shelf life of the NED's expertise, that is, a lack of Actor Ability, *internal/no control/stable* causes.²²³ This can lead to the perception of a role reversal between the dyad partners, that is, the NED is now learning more from the MD than the MD is from the NED.²²⁴

Both of the above NED role closure situations are attributed to causes where the NED has *no control*, that is, they are non-volitional as the NED is not exercising freewill. The dyad partners are able to recognise that neither party is responsible for the changed circumstances; therefore the separation will be reciprocal and should be amicable. The partnership may continue if it follows the mentor-protégé 'separation' and 'redefinition' phases (Kram, 1983), defined as where the partners become friends, contact is informal and the support mutual. This willingness to invest time in the relationship beyond the lifetime of the NED role echoed the findings of Weiner (1979) who predicted that Observers offer help to Actors perceived to be in difficulty due to causes beyond their control, for example, being ill rather than drunk. As neither partner as an Observer of the other attributes the causes of the NED role closure to freewill a mutual friendship is possible.

7.4.1.2 *NED role failure*

If the dyad dissolution is not agreed mutually, either because one partner is unaware of the other's concerns or because the partners reach an impasse and are no longer able work together, then this will lead to perceptions of NED role

²²² See Chapter Six section 6.7.3.5ii *External situation prompts* page 211 and section 7.3.6.2 *External causes of NED interest conflicts* page 259

²²³ See section 7.3.5.2 *MD trust in NED* page 255

²²⁴ See section 7.3.2.4 *MD Behaviour Prompts Role Reversal: NED Learns* on page 244

failure, attributed to *internal/control/stable* causes. The nature of the dissolution means it is unlikely that the relationship will continue and develop into a friendship.

NED role failure occurs when the loss of NED role trust is attributed to freewill and either the resulting tension is not openly debated and resolved, or the solution is not mutually acceptable. Again there were parallels in the data with predictions of help being withheld from Actors perceived to be failing due to causes of their own making, that is, being drunk and not ill (Weiner, 1979). Where the MD is the Observer of the NED Actor an example of unacceptable volitional causes could be the perception of the NED's unwillingness to invest time in preparing for board meetings. Where the NED is the Observer of the MD Actor, the volitional causes could be the MD's refusal to change their practice in accordance with the NED's advice. Both situations would lead the Observer to perceive NED role failure. The tipping point could be the culmination of a series of minor but repeated temporary losses of NED role trust,²²⁵ or a single loss of NED role trust perceived as absolute.²²⁶ If either of these losses of trust is perceived as permanent, that is, attributed as *stable*, then the relationship is in difficulty.

The NED role failure can be attributed to either *internal* or *external* causes by either partner. For example, if the MD Observer perceives the NED repeatedly turning up to board meetings not having read the papers and therefore giving poor advice, they will attribute this behaviour to the NED's Typical Effort, that is, *internal/control/stable* causes. As they perceive a NED role failure they will ignore the advice. From the NED's Actor perspective, the MD's repeated refusal to follow advice is perceived as a permanent Environmental Threat to their NED 'diligent director' image. The NED as the NED role Actor will attribute this behaviour to *external/no control/stable* causes. However the NED as the Observer of the MD Actor will attribute the cause of this threat as *internal/control/stable*, that is, the MD's Typical Effort.²²⁷

Alternatively, during periods of reflexivity the NED Actor may self-attribute their NED role behaviour as a threat to their 'diligent director' image. For example, they may observe they have become too close to the executive directors to retain the

²²⁵ See section 7.3.3.5ii **NED advises to NED tells** on page 252

²²⁶ See section 7.3.5.1 **NED trust in MD** on page 254

²²⁷ See for example the discussion of Case Dyad G partners' attributions on page 252

NED role *independence of mind*²²⁸ attributed to *internal/control/stable* causes.²²⁹ Although this private operation of the *actor-observer bias* may lead the NED to perceive a personal NED role failure, they are likely to openly negotiate a reciprocal NED role closure to present a public image as a 'diligent director' to maintain their Actor's *self serving bias*.²³⁰

7.4.2 The consequences of different 'visual attention' of the NED role

7.4.2.1 Different patterns of trust development

The repeated Figure 6.7²³¹ displays the composite patterns of NED role trust development for MDs and NEDs. The MD composite pattern for the NED role is predominantly grounded in **NED advises** level of trust. The NED composite role pattern oscillates between the **NED tells** and **NED advises** levels of trust.

Earlier in this chapter the composite MD pattern of NED role trust was explained using Attribution Theory bias.²³² The NED role process is tracked from the perspective of the MD as an Observer of the NED Actor, although, as the recipient of NED advice, the MD also takes the role of an MD Actor. The account starts with the MD Observer's first impressions of their NED Actor partner, the NED's subsequent appointment and how the NED's behaviour either supports or threatens the MD Actor's 'questing hero' image. NED action perceived as supporting the MD's self image or enhancing it by giving advice on (more) effective practice, contributes to the MD composite pattern of the UK NED role dominating the **NED advises** level of trust. Effective NED advice expands the MD Actor's *personal* role. When the threats to their 'questing hero' image are unfounded this also expands the MD's *universal* and/or *personal* NED recipe.

The composite NED pattern was also explained earlier using Attribution Theory bias.²³³ The NED role process is tracked from the perspective of the NED as the NED Actor who, as part of this role, is the Observer of the MD Actor. The account starts with NED Observer's first impressions of their MD Actor partner, the NED's subsequent appointment and how the MD Actor responds to the NED Actor's

²²⁸ This was defined as a major element in PLC NED roles in Chapter Three on page 81 and a prevalent element of UK SME NED role practice in Chapter Five on page 136

²²⁹ See for example ENED's self-attribution in *section 7.3.2.5ii NED in control* on page 247

²³⁰ See for example EMD's description of ENED's evolving role on page 232

²³¹ See Chapter Six page 220

²³² See *section 7.3.1 MD perception* on page 230

²³³ See *section 7.3.2 NED perception* on page 237

advice and NED role behaviour. When observing the MD Actor's surprise behaviour the NED perceives these as environmental threats to their NED Actor role; these threats influence their NED role actions to protect their 'diligent director' image. These actions and reactions influence the NED's oscillation between the **NED tells** and **NED advises** levels of trust shown in the composite NED pattern of NED role trust. The NED role process also includes the NED's ability to adapt and expand their *personal* NED recipe when their perceptions of threats to their 'diligent director' image are unfounded. The dyad partners' trust repair and dissolution components of NED role process were also explained earlier.²³⁴ The role of the partners' Attribution Theory bias in the process of NED role trust repair and maintenance are discussed in *sections 7.3.3 and 7.3.4*. Example situations are given where the partners are, or predict they will be, able to work together despite a temporary loss of trust. Examples of actual or predicted permanent losses of trust are discussed in *section 7.3.5* using partners' Attribution Theory bias. These permanent losses of trust arise from unresolved *fundamental attribution error* or *FAE* tension and can lead to dyad dissolution.

7.4.2.2 *Different frameworks of dyad trust development*

From their study of Italian entrepreneur-bank dyad relationships Howorth and Moro (2006) proposed the development of a 'trust spiral' (Howorth & Moro, 2006:512). This analogy with a three dimensional structure implies an evolution to the higher levels of relationship trust, with subjective time increasing along the central axis of the spiral.²³⁵ This thesis argues that describing trust development in a dyad relationship as a single 'trust spiral' is an over simplification. A better analogy is a dyad trust development double helix as the data from this research reveals that there are two separate and distinct MD and NED trust spirals. These are bound together by the dyad partners' actions and interactions²³⁶ to form a framework for the NED role process. Although a spiral and a double helix are extremely useful concepts these are difficult to illustrate in two dimensions. Figure 7.1 overleaf is a standard 2D representation of a double helix, illustrating the bonds between two separate spirals.

²³⁴ See *section 7.3.3 Repairable Losses of Trust: Perceptions of Partner Role Deviation* on page 249, *section 7.3.4 Repair and Maintenance Processes: Partners' Reciprocal Trust* on page 252 and *section 7.3.5 Irreparable Losses of Trust: Perceptions of Partner Role Failure* on page 254

²³⁵ In terms of the NED role trust template, a 'trust spiral' (Howorth & Moro, 2006) would twist down the page, that is, following the direction of subjective time in the left hand column in Figure 6.7.

²³⁶ As described in *sections 7.3.1 to 7.3.5* on pages 230 - 257



Figure 7.1: Two dimensional double helix²³⁷

There is a double trust spiral at the heart of the NED role process; by analogy, there is a double helix structure at the heart of DNA theory. The UK SME MD and NED dyad partners each create an individual NED role ‘trust spiral’ as shown in Figure 7.2.

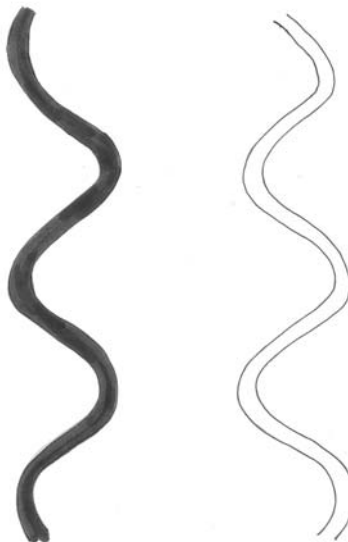


Figure 7.2: Individual trust spirals for the MD (left) and NED (right)

²³⁷ This representation has been copied and customised to follow the thesis convention of representing the MD by a solid fill line and the NED by a hollow fill line. Figures 7.2 to 7.5 are also customised to follow this convention.

These spirals intertwine and are held together by the bonds of partner interaction which dominate the NED role process to develop a dyad trust double helix as shown in Figure 7.3. To the left of the diagram are the dyad partners' actions and to the right of the diagram are the dyad partners' perceptions of these actions.

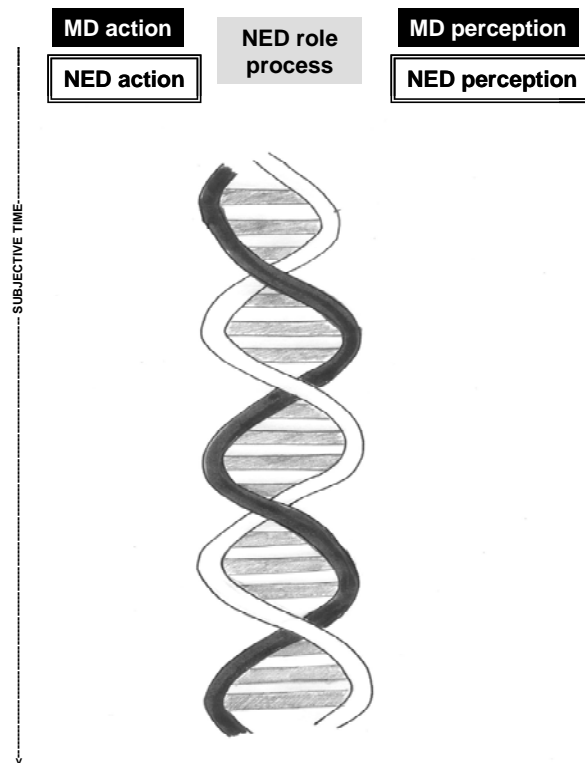


Figure 7.3: The NED role process double helix of MD and NED trust spirals

The movement in the NED role process that creates the spiral motion is the oscillation between the partners' actions-perceptions-(re)actions-perceptions throughout the NED appointment. As explained earlier, the NED role process has been explored from the principal perspective that the MD is the Observer of the NED Actor. However, this too is an oversimplification as there is fluidity between the roles of Actor and Observer involving both partners. It is this that creates the movement and intertwining of the separate trust spirals to form the double helix of the NED role process. The MD and NED trust spirals in Figure 7.3 have been teased apart to create Figures 7.4 and 7.5. Figure 7.4 illustrates the dyadic helical movement of the MD as Observer of the NED Actor for the first NED role relationship incident perceived by the MD. Figure 7.5 illustrates the helical movement of the NED as Observer of the MD Actor for the first relationship incident triggered by their perception of the MD's behaviour. The broken arrow at

the base of each figure denotes the continuous NED role process as the dyad partners progress to their next relationship incident(s).

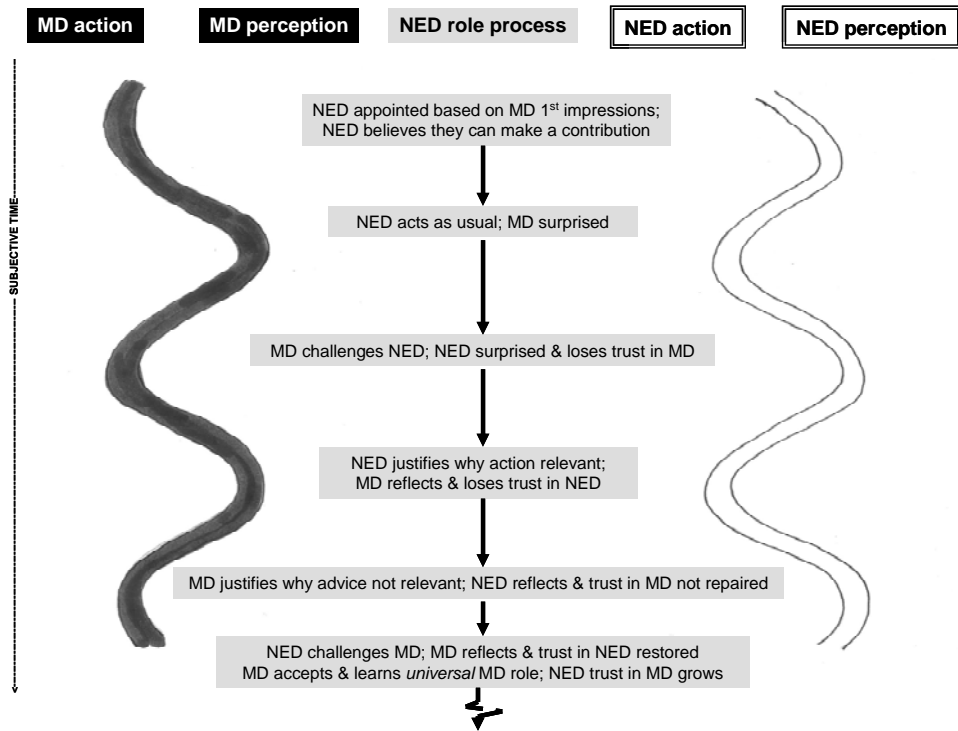


Figure 7.4: MD and NED actions and perceptions: MD as NED role Observer

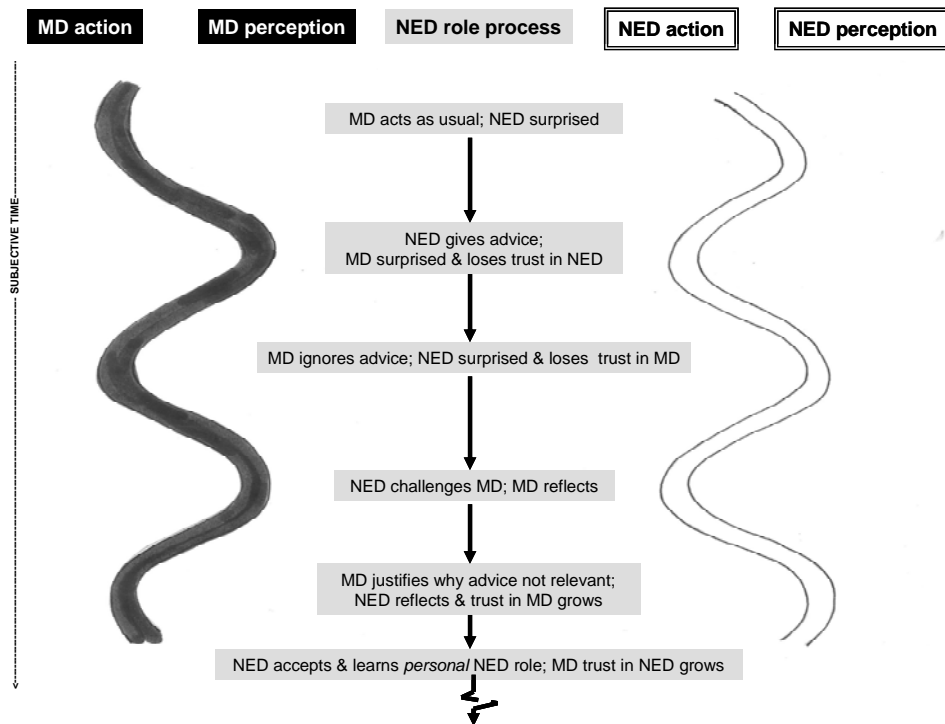


Figure 7.5: MD and NED actions and perceptions: NED as MD role Observer

For example, the NED Actor may perform a task which he or she takes for granted and which supports their *self serving bias* 'diligent director' image. The MD reacts to this unanticipated NED Actor behaviour which, as a MD Actor, they perceive as a threat to their *self serving bias* 'questing hero' image. As a NED Observer, the MD's *actor observer bias* prompts them to make causal attributions focussed on the NED's Actor Aptitude for the MD's NED recipe. In turn, the MD's reaction may be unanticipated by the NED Actor and be perceived as a threat to their *self serving bias* 'diligent director' image. However, as an Observer of the MD Actor, their *actor observer bias* prompts the NED to make causal attributions of this unanticipated reaction, focussed on the MD's Actor Aptitude for the NED's MD recipe.

The partners create reciprocal, albeit individual, recipes for each other through the resolution of any losses of partner role trust arising from this dyadic cycle of action-perception-(re)action-perception. The back and forth spiral motion of the NED role process creates the NED role process double helix. This subtle and complex interchange between the dyad partners' Actor and Observer roles aids the pragmatic adaptation and expansion of their NED recipes as a result of working together over time.

7.4.2.3 *The NED role process of dyad trust formation and maintenance*

Figure 7.6 portrays the NED relationship process from the partners' first meeting and the NED's appointment through to the resolution of a relationship incident. The double helix has been unfurled to allow the simultaneous illustration of the MD perspective and the NED perspective in the UK SME NED role process. Subjective time moves down from the top, following the pattern in the NED trust typology in Chapter Six. On the left hand side the thin arrows and black boxes represent the discussions in *section 7.3.1*²³⁸ regarding the MD perceptions of the UK SME NED role. On the right hand side the thin arrows and white boxes represent the discussions in *section 7.3.2*²³⁹ regarding the NED perceptions of the UK SME NED role. The Case Dyad letter identifiers denote where there is supporting evidence in the data.

²³⁸ See page 230

²³⁹ See page 237

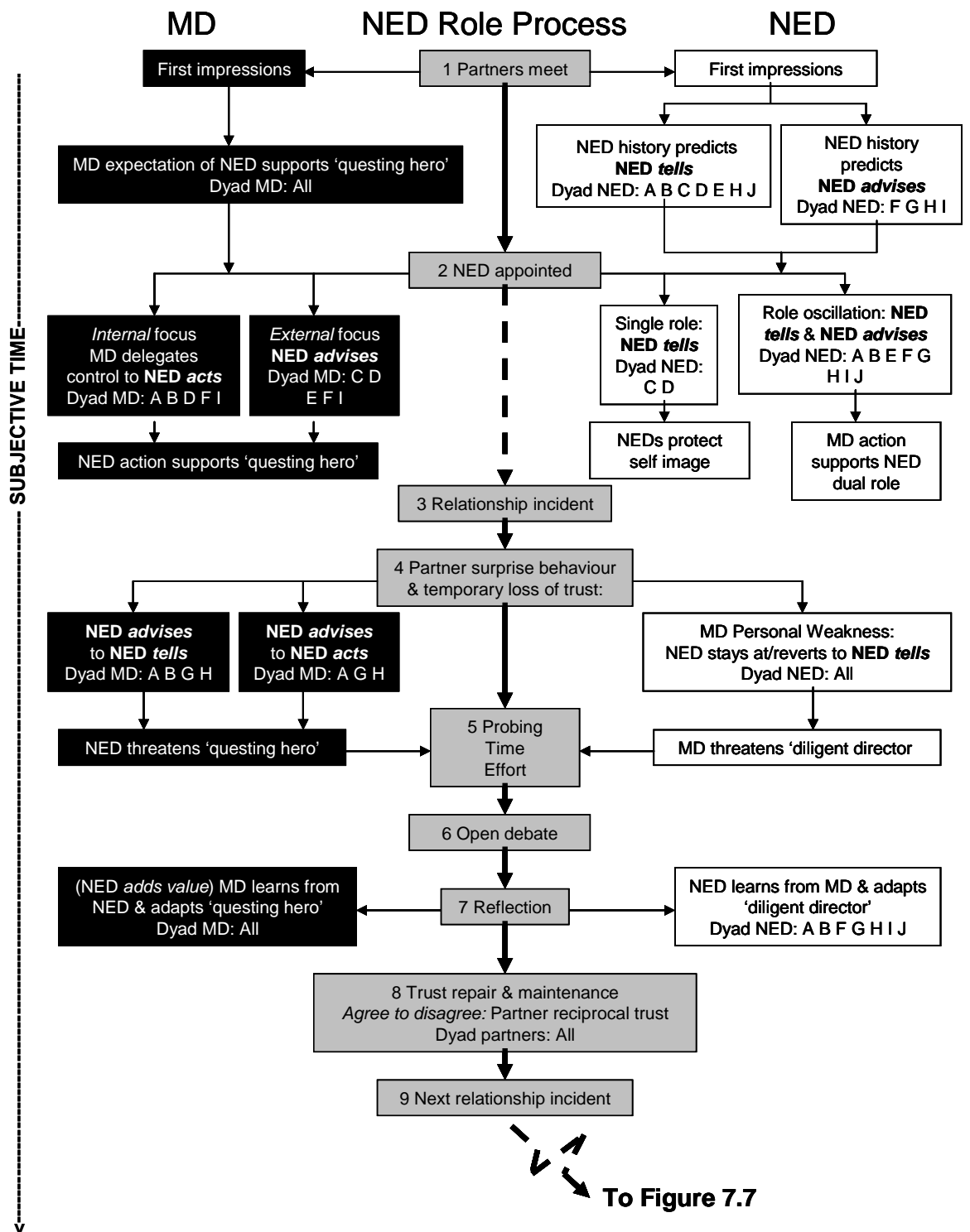


Figure 7.6: NED role process of dyad trust formation and maintenance

The grey boxes represent the components of the UK SME NED role process.²⁴⁰ These are the bonds that link the partners' trust spirals to create the dyad relationship trust double helix.²⁴¹ The thick arrows between the grey boxes

²⁴⁰ Figures 7.1 to 7.5 also follow this convention of representing the NED role process by grey fill boxes.

²⁴¹ See Figure 7.1 on page 266

represent subjective time; broken lines denote compressed time. The italicised phrases in the following descriptions of the NED role process, such as *first impressions* and *Relationship incident*, have been taken from box descriptors in Figure 7.6. The grey box sequence of the NED role process illustrates that a *Relationship incident* is the observation and perception of *Partner surprise behaviour & temporary loss of trust*. The actions of *Probing, Time, Effort* and *Open debate* prompt dyad partner *Reflection*, leading to partner learning and the pragmatic adaptation of their NED recipes. The initial recipes are influenced by the partners' previous experiences and their *first impression* attributions or 'simplifying assumptions' (Jones & Nisbett, 1972). It is the *Probing, Time, Effort, Open debate* and *Reflection* sequence in Figure 7.6 that is at the heart of restoring *partner reciprocal trust*.

Albeit rapid, the sequential performing of all of these steps allows the relationship to continue until one or both partners are surprised by another unanticipated NED role action, that is, the *next relationship incident*. However, the partners' knowledge stocks and NED recipes will have expanded and now incorporate the partners' ability to *agree to disagree* and still work together.

7.4.2.4 *The dyad trust double helix routes to dyad dissolution*

If the NED recipes cannot be adapted a *temporary loss of trust* may develop into the *FAE tension*. Figure 7.7 is contiguous to Figure 7.6 and shows the outcomes if the partners cannot *agree to disagree*. Once again the italicised phrases in the following descriptions of the NED role process, such as *FAE tension*, have been taken from box descriptors in Figure 7.7 overleaf. The NED role process is dynamic and each NED appointment has a finite term, although the latter is rarely formalised at the outset.²⁴² If the action triggering the *FAE tension* is attributed to Actor *internal/stable* causes this leads to *irreparable losses of trust*. The subsequent route to either *NED role closure* or *NED role failure* depends on how the Actor's free will is attributed. If the Actor is perceived to be exercising their free will, this will be attributed to *internal/control/stable* causes or Actor Effort. The outcome will be Observer perceptions of NED role failure. If the Actor is perceived to have no choice, this is attributed to *internal/no control/stable* causes or Actor Ability. The outcome will be Observer perceptions of NED role closure.

²⁴² See Chapter Five section 5.5.7 *Understanding Enhanced Summary* on page 157

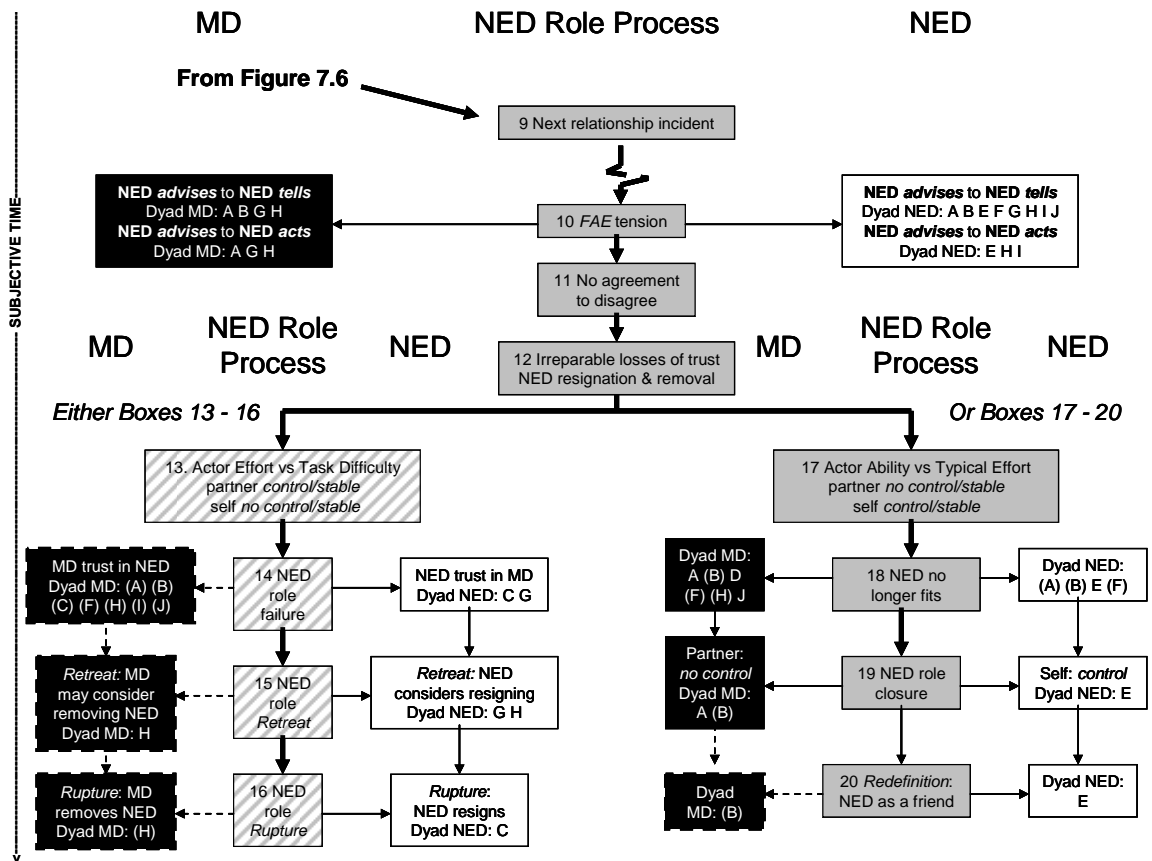


Figure 7.7: The routes to NED role dyad dissolution

The alternative routes in the *irreparable losses of trust* sequences can include reflexive consideration by the NED. Here the NED acts as an Observer of their NED role Actor behaviour and judges whether their actions are volitional and threaten their ‘diligent director’ image.

7.4.3 The NED Role Process

Although Figures 7.4 and 7.5²⁴³ capture the spiral motion created by the switching between the dyad partners’ Actor actions and Observer perceptions, the grey boxes are not an explanation of the detailed NED role process. Figures 7.6 and 7.7 illustrate the sequences within the NED role process but are unable to capture all of the relationship complexity, in particular, the switching between the partners’ Observer and Actor perspectives. The following discussion takes each of the numbered NED role process grey boxes in Figures 7.6 and 7.7 in sequence to explain the temporal dyadic development UK SME NED role trust in more detail.

²⁴³ See page 268

7.4.3.1 Box 1: Partners Meet

At the first meeting both partners act as Observers. MDs observe the NEDs as a NED role Actors and NEDs observe the MD as a MD role Actors. As stated earlier²⁴⁴, the dyad partners' *first impressions* of each other are important in defining the level of NED role trust. On the left of Figure 7.6 the black boxes of the MD column show that the MD's *first impressions* lead to an expectation that the NED behaviour will support the MD's 'questing hero' self image. If the NED threatens this image, the MD is unlikely to recommend or make the NED appointment. On the right of Figure 7.6 the white boxes of the NED column show that the NED's *first impressions* of the MD are influenced by the NED's career history²⁴⁵ and the predominant level of NED role trust. If prior to the Case Dyad NED appointment, the NED's career is dominated by PLC sector appointments then the NED is more likely to exhibit a NED role dominated by the **NED tells** level of trust. Where the NED's career has included running a small or start up business prior to becoming a NED, then the NED is more likely to exhibit a NED role dominated by the **NED advises** level of trust. Figure 7.8 displays data from Case Dyad C and shows how different patterns of NED role trust surface from the partners' first meeting attribution processes.

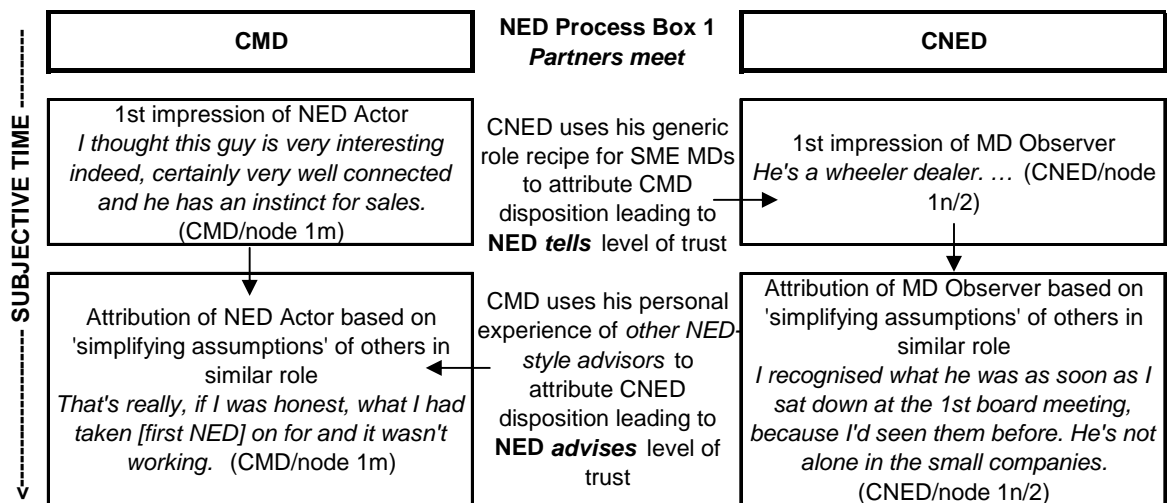


Figure 7.8: Case Dyad C partners' 1st impressions in their NED role process

7.4.3.2 Box 2: NED appointed

The MD's *first impressions* influence their focus of the NED role. Where the need for NED help is attributed to *external* causes, such as access to their contacts and

²⁴⁴ See page 230 for MD 1st impressions of NED and page 238 for NED 1st impressions of MD

²⁴⁵ As discussed in section 7.3.2.1 *NED First Impressions: Initial Role* on page 238.

networks, this help supports the MD's 'questing hero' self image and leads to the **NED advises** level of trust. Where the MD delegates control to the NED for help with *internal* TMT operational activities this leads to **NED acts** levels of trust. This can include recognising the NED as a MD role model and mentor²⁴⁶ or delegating a specific operational task.²⁴⁷ This controlled delegation is attributed by the MD as supporting and not threatening their 'questing hero' image.²⁴⁸

The NED uses their *first impressions* of the MD and their career history to decide where the MD needs help. If the NED perceives a *stable* MD Personal Weakness then they are unlikely to leave the **NED tells** level of trust. They will adopt this single NED role, although their attributions of MD free will may differ. For example in *section 7.3.2.2* on page 231 the two NEDs in this category attribute the MDs' Personal Weaknesses differently. CNED attributes CMD's untrustworthy behaviour to Typical Effort and *internal/control/stable* causes, that is, his tendency to wilfully ignore advice and adopt the wheeler-dealer behaviour of all small business owners. As is discussed later in Box 16 *NED role Rupture*, CNED reaches a point where he is unwilling to invest any further time and effort helping CMD as this threatens his 'diligent director' image. DNED attributes DMD's untrustworthy behaviour to a lack of MD Ability and *internal/no control/stable* causes. Due to DMD's lack of financial acumen, DNED is willing to invest time and effort to help DMD with 'de facto financial director' (DNED:122) tasks, as he perceives this as the chief threat to his 'diligent director' image.

7.4.3.3 Boxes 3 to 8: Trust repair & Maintenance sequence

One complete sequence from a single *relationship incident* to *trust repair & maintenance of partner reciprocal trust* is encompassed in the grey NED role process Boxes 3 to 8. The *partner surprise behaviour* triggers a *temporary loss of trust* for the MD when the NED Actor does not follow the MD as Observer NED recipe, that is, action based in the **NED advises** level of trust. MD perceptions of **NED tells** or **NED acts** behaviour threaten the MD 'questing hero' image and prompt losses of trust, as described in Chapter Six and *section 7.3.1.2* on page 214. Similarly, when the MD's behaviour threatens the NED's 'diligent director'

²⁴⁶ See Chapter Five *section 5.4.2. Literature extended: Knowledge transfer/ Director development* on page 137 and Chapter Six *section 6.7.2.2ii comfort zones: mentor* on page 195

²⁴⁷ See Chapter Five *section 5.3.4 Literature confirmed Creative NED Role-making* on page 132

²⁴⁸ See *section 7.3.1.1ii* on page 232.

image, there is a loss of trust, resulting in either the NED remaining in, or reverting to the **NED tells** level of trust. The sequence of *Probing, Time, Effort and Open debate and Reflection* between MD as Observer and NED as Actor is influenced by the causal attributions of the partners. The success of the *trust repair and maintenance* process relies on the ability and willingness of the MD and/or the NED to accept a dyad partner's different NED role perspective or 'visual attention' (Wagner & Gooding, 1997).²⁴⁹ If they do accept the other's perspective, partners learn from the *partner surprise behaviour*. They adjust and expand their knowledge stocks to accommodate the openly debated and justified unanticipated recipe behaviour. This learning can relate to either the MD's or NED's recipe or both.

Figure 7.9 is an example of the Box 3 to 7 sequence from Case Dyad B. These Case Dyad B partners met for the first time at a Company B technical advice consultation. In the middle of this meeting the chief advisor, BNED, was invited to become a NED by Company B's Founder, BMD's father. BNED was the third Case Company B NED appointment in fifteen years. The two earlier appointees were retired senior executives from the same major PLC client of Company B. The *relationship incident* in Figure 7.9 is the appointment of BNED as Company B Chairman after a six month overlap with the previous non-executive chairman, the second NED. During this overlap period BNED retired as the MD of Company B's technical advice supplier, attended a three day PLC NED training course, accepted another NED chairman role for a UK SME subsidiary of his former employer, attended two Company B board meetings and had meetings with Company B's Founder who was also the principal shareholder.

Although BNED's career in consultancy, interim and general management had spanned many sectors he had never been the owner-manager of a business. The data displayed in Figure 7.9 shows how, when BNED was elected Chairman, he imposed a more formal, PLC-inspired board meeting practice. The executives had some difficulty adjusting to this different NED role style. More dramatic was the Founder's reaction to the suggestion by BNED that the Board's goal was to prepare the company for sale. This was the *false consensus effect* (Fiske & Taylor, 1991), that is, BNED's 'simplifying assumption' (Jones & Nisbett, 1974)

²⁴⁹ See Chapter Four Figures 4.7 and 4.8 on page 118

that, like him, all shareholders would be motivated by realising the maximum return on their investment.²⁵⁰ The open debate of the company goals forced BNED to adapt his NED recipe to maintain his 'diligent director' image.

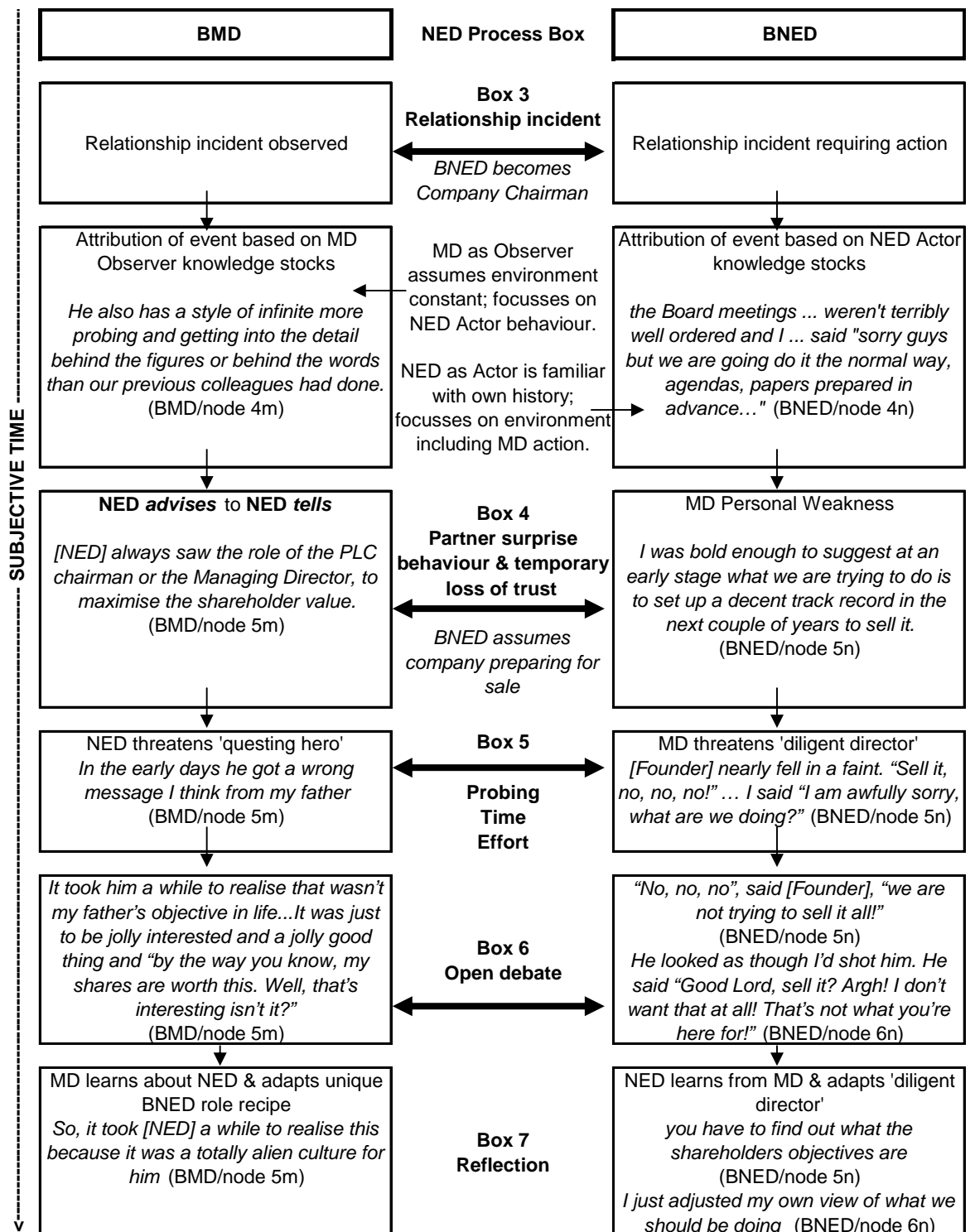


Figure 7.9: NED role process for resolving a relationship incident in Case Dyad B

²⁵⁰ See section 7.3.2.4 MD Behaviour Prompts Role Reversal: NED Learns on page 244

BMD gave an insight on how the dyad partners established and developed their Box 8 *reciprocal trust* through iterations of the above Box 3 to 7 sequence.

working together, going through a few issues, saying “Oh, Christ we better not do that again, let’s do it this way” (BMD:1344-1345)

This open style of working guarded against either partner perceiving that *NED resignation or removal* was their only option when presented with a *temporary loss of trust* and differing perceptions of the cause.

The *trust repair & maintenance* sequence in Figure 7.6 Boxes 3 to 8 restores the *temporary loss of trust* created by the *partner surprise behaviour* in Box 4 and develops *partner reciprocal trust*.²⁵¹ This is provided that both partners perceive the **NED advises** as the predominant level of NED role trust, albeit with the NED oscillation into **NED tells**. The sample Case Dyad NEDs who perceived their role always in the **NED tells** level of trust were still able to work together and *agree to disagree*.²⁵²

7.4.3.4 Box 9: Next relationship incident

As each *temporary loss of trust* is resolved the partners return to their adjusted and expanded Observer and Actor NED recipe practice until the *next relationship incident*.

7.4.3.5 Box 10: FAE tension

Figure 7.7 shows that the *FAE tension* triggers are perceptions of a loss of partner trust resulting in the NED role moving from **NED advises** to either **NED tells** or **NED acts**. Figure 4.6²⁵³ explains the source of the *FAE* as the perspective tension between the *self serving* and *actor observer biases*. If the loss of trust is perceived as temporary then the partners will resolve the situation as discussed in Figure 7.6 NED role process sequence of Boxes 3 to 8.

7.4.3.6 Box 11: No agreement to disagree

If the action causing concern is attributed as *internal/stable* behaviour, one or both partners are unable to remain in the relationship if they cannot *agree to disagree*.

²⁵¹ Described in section 7.3.4 on page 252

²⁵² Described in section 7.3.2.2 *NED role no oscillation* on page 240

²⁵³ See Chapter Four Figure 4.6 on page 112

This reflects a fundamental change in the relationship from unanticipated but resolvable partner behaviour to unacceptable and non-negotiable behaviour. This change can be triggered by a single absolute loss of trust, such as discovering illegal conduct, or the result of cumulative temporary losses of trust, such as advice being repeatedly ignored or perceived as inappropriate. One or both partners progress to the ultimate strand of the NED role trust double helix, depicted in the Figure 7.7 *NED resignation & removal* sequences, Boxes 12 to 20.

7.4.3.7 Box 12: Irreparable losses of trust

The two routes leading from Box 12 *irreparable losses of trust*²⁵⁴ in Figure 7.7 depend upon how the partners attribute the volitional causes of the unacceptable *internal/stable* behaviour. The left hand *Actor Effort vs Task Difficulty* route leads to *NED role failure*. The steps include partner perceptions of *NED role Retreat* and/or *NED role Rupture*. The right hand side *Actor Ability vs Effort* leads to *NED role closure*. The steps include the recognition that the *NED role no longer fits* with the aspirations of either the MD or the NED themselves and the possibility of a dyad relationship *Redefinition* into one based on friendship and mutual support.

At the time of their most recent interviews only two NEDs had resigned and none of the MDs were considering Case Dyad NED removal. Consequently, beyond this box in Figure 7.7, the Case Dyad identifiers in parentheses denote examples of actual or predicted *NED role removal & resignation* scenarios based on non Case Dyad NED role experiences.

7.4.3.8 Box 13: Typical Effort vs. Task Difficulty

Box 13 *Actor Effort vs Task Difficulty* represents unacceptable NED behaviour attributed by the MD to *internal/control/stable* causes, a lack of Actor Typical Effort. It also represents NED perceptions of NED Task Difficulty, attributed to *external/no control/stable* causes.

The evidence from the Case Dyads implies that neither of these situations is likely to be discussed openly with the other dyad partner. Consequently the hatching of Boxes 13 to 16 denotes a lack of open debate in this strand of the NED role

²⁵⁴ Described in section 7.3.5 *Irreparable Losses of Trust Perceptions of Partner Role Failure* on page 254

process. Neither partner is likely to openly admit that the NED behaviour threatens their MD 'questing hero' image or their NED 'diligent director' image.

7.4.3.9 Box 14: NED role failure

The dashed borders and connectors of the boxes in the MD column to the left of Boxes 14 to 16 represent MD predictions. In the sample no MDs provided evidence of Case Dyad NED *NED role failure*, *Retreat* or *Rupture*.²⁵⁵ However, Case Dyad MDs were able to give examples based on experiences with other NEDs or advisors where the *MD trust in NED* was lost due to NED Personal Weakness. Alternatively they could predict likely *NED role failure* scenarios.²⁵⁶

In the NED column the perception of NED Task Difficulty has two elements. Firstly, the MD's behaviour threatens the 'diligent director' image, for example, by repeatedly ignoring NED advice. This *NED loss of trust in MD* is attributed to MD free will and Typical Effort, *internal/control/stable* causes. This triggers the second element, the *self serving bias* of the NED which attributes *NED role failure* to *external/no control/stable* causes, that is, an Environmental Threat to their 'diligent director' image.²⁵⁷

Figure 7.7 shows the *NED role failure* process having two further steps.

7.4.3.10 Box 15: NED role Retreat

Box 15 *NED role Retreat* represents the hiatus prior to the partners deciding whether to remove a NED or to resign as a NED. The repeated losses of NED role trust and perceptions of *NED role failure* are prompting the MD and the NED to consider such actions. Figure 7.10 is an example of the attributions in one Case Dyad *NED role Retreat*. GNED perceives that the repeated refusal of Company G to diversify is threatening its financial viability and consequently her 'diligent director' image.²⁵⁸ GNED attributes the executive directors repeatedly ignoring her advice to their free will, an *internal/control/stable* cause, albeit expressed as fear. This prompts her to consider retreating down the 'chute' (Lewicki & Bunker, 1996) or snake of distrust beyond the **NED tells** level of trust and resigning as a Case

²⁵⁵ Indicated by the identifiers in parentheses

²⁵⁶ See section 7.3.5.2 *MD trust in NED* on page 255

²⁵⁷ See section 7.3.5.1 *NED trust in MD* on page 254

²⁵⁸ At the start of her 2nd interview she remarked that a NED was 'a tricky legal role' (GNED:302)

Company G NED. This is indicated by the position of *relationship incident* GNED/node 11n in Appendix 14 Figure 14 A.

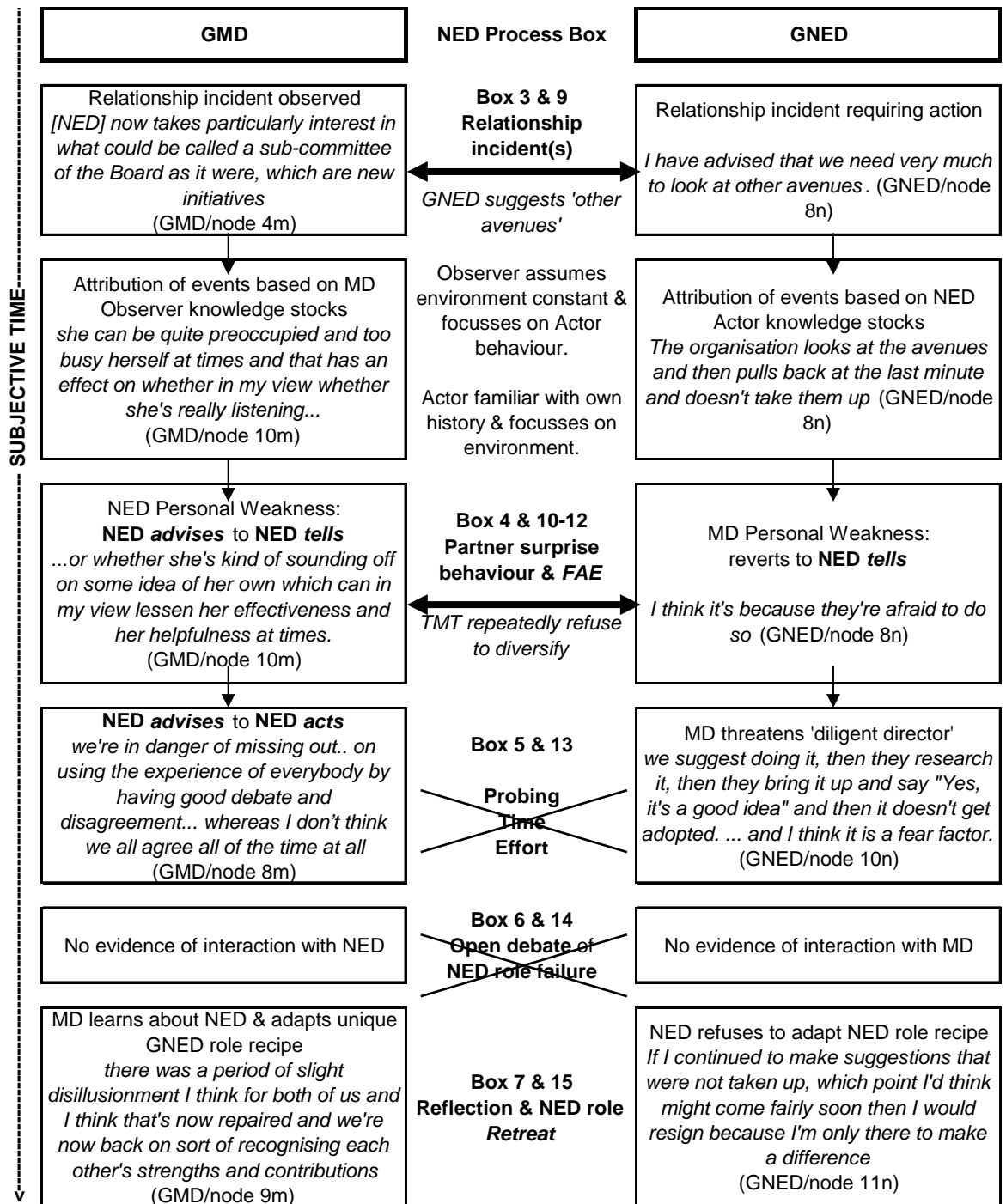


Figure 7.10: NED role process for NED role *Retreat* in Case Dyad G

As discussed in Chapter Six²⁵⁹ and earlier in this chapter²⁶⁰, GMD recognises that GNED has a 'pretty full on job' (GMD:614) but observes that this lack of time occasionally threatens her NED role effectiveness (GMD/node 10m), attributed to

²⁵⁹ See Chapter Six section 6.7.2.4iii Triple levels of NED trust on page 199

²⁶⁰ Section 7.3.1.2i **NED advises to NED tells** discussion on page 234

GNED's free will or as Actor Immediate Effort, *internal/control/variable* causes. GMD also identifies the directors' Typical Effort and lack of *Open debate* and disagreement as harmful, coded to **NED acts** level of trust in Appendix 14 (GMD/node 8m), *internal/control/stable* causes. However GMD perceives that a mutual discomfort with the Case Dyad G relationship has been resolved to both partners' satisfaction (GMD/node 9m). In Figure 7.10 lines strike through the missing *Probing, Time, Effort* and *Open debate* NED role process boxes. This is to illustrate that in this relationship, the lack of this crucial sequence is leading to **NED tells** levels of trust on both sides. At this penultimate step in the *NED role failure* process the dyad partners are still capable of repairing a major loss of trust if this sequence is (re)established.

7.4.3.11 Box 16: NED role Rupture

This final box in the *NED role failure* sequence relates to when a NED is removed or resigns. If the MD perceives that the NED is not contributing they will remove them from the board. This decision may evolve after discussions with other directors but not the NED partner. *Section 7.3.5.2 MD trust in NED*²⁶¹ includes an example attributed by HMD to *internal/control/stable* causes or NED Typical Effort. His first NED had 'gone beyond being a passenger he was actually causing problems' (HMD:1112). This experience prompted HMD to propose three year fixed term appointments for all NEDs, not just this problematic NED. The Company H board also agreed a maximum NED tenure of nine years.

The NED will resign if they believe they are not *adding value to their own self-worth*²⁶², that is, they can no longer make a contribution. A *NED role Rupture* resignation decision is made without discussion as the NED perceives a non-negotiable line has been crossed. CNED was the only example in the data of a *NED role Rupture* resignation. CNED attributed his resignation²⁶³ to NED Typical Effort *internal/control/stable* causes and his Personal Strength in deciding 'I'd had enough' (CNED:534-538/node 7n), implying *NED role closure*. This was interpreted as 'the desire to present oneself in the best light' (Rogoff *et al*, 2004:367) to the researcher, that is, his Actor *self serving bias* protecting his 'diligent director' image.

²⁶¹ See page 255

²⁶² Chapter Five section 5.5.4 *Understanding Enhanced Creative NED Role-making* page 153

²⁶³ See section 7.3.5.1 *NED trust in MD* on page 254

However, an alternative interpretation of the data pointed to *NED role Rupture*. The unacceptable behaviour of CMD and the executive Financial Director could be attributed to *external/no control/stable* causes, that is, NED Task Difficulty and a major Environmental Threat to CNED's 'diligent director' image. There was little evidence of the *Probing, Time, Effort, Open debate and Reflection* sequence between CNED and the executive directors. As shown in Figure 7.8, his *first impressions* and attributions of CMD's Typical Effort placed CNED in the **NED tells** level of trust. CNED had remained there throughout his nine year appointment. The manner of his resignation and the lack of contact between the dyad partners since²⁶⁴ imply that the relationship ended abruptly and in *NED role Rupture* rather than a negotiated closure sequence as shown in Boxes 17 to 20.

7.4.3.12 Box 17: Lack of Actor Ability vs Typical Effort

The grey NED role process Box 17 in Figure 7.7 represents *Actor Ability vs Typical Effort*. Here the NED behaviour is attributed by the MD to a lack of Actor Ability and *internal/no control/stable* causes. A reflexive consideration of their NED role actions may lead the NED to perceive their Typical Effort contravenes their 'diligent director' image. If so, this will be attributed to *internal/control/stable* causes. Both partners' perceptions are the first steps in the *irreparable losses of trust* sequence leading to *NED role closure* and possible relationship *Redefinition*, starting at Box 12 in Figure 7.7 and moving to the right through Boxes 17 to 20. Unlike the process depicted in Boxes 13 to 16, the solid grey shading of Boxes 17 to 20 indicates that the sequence leading to *NED role closure* and relationship *Redefinition* is openly debated and mutually negotiated.

7.4.3.13 Box 18: NED role no longer fits

In the *NED role closure* sequence, the behaviour prompting the perception of *NED role no longer fits* is attributed by the MD as Observer to *no control/stable* causes. The third causal attribute is either *internal* and a decline in NED role Actor Ability or *external* due to environmental changes creating NED role Task Difficulty. Conversely, on reflexive consideration the NED as Actor may attribute the conflict between their actions and their 'diligent director' image to *internal/control/stable* causes and Actor Typical Effort.

²⁶⁴ See section 7.3.5.1 *NED trust in MD* on page 254

There was a mix of data from Case Dyad partners relating to why and how the NED role no longer fitted. As previously mentioned, at the time of their most recent interviews only two NEDs had resigned and none of the MDs were considering Case Dyad NED removal. Predictions of generic situations were proffered where the need for the NED role may change.²⁶⁵ These were discussed in *section 7.6.3*²⁶⁶ and included a divergence between the company aspirations and the NED interests. Where specific NED data were provided, DMD and JMD predicted Environmental Threats or *external/no control/stable* causes for the Case Dyad NED role to end. These related to changes in company ownership on DMD's retirement and conflicting demands on JNED's time due to his other business commitments. AMD perceived a decline in ANED's Ability, attributed to *internal/no control/stable* causes, although the owner had yet to recognise this.²⁶⁷ As a result of reflexive consideration, possibly prompted by the ACCA interview request, ENED perceived that his Case Dyad NED role actions contradicted his 'diligent director' image.

7.4.3.14 Box 19: NED role closure

When the permanent loss of NED role trust is attributed by the MD to *no control* causes²⁶⁸ they will raise and openly discuss *NED role closure*, indicated by the grey NED role process Box 19. This applies to whether the causes are attributed as *internal* and Actor Ability, or *external* and Task Difficulty. Although AMD perceived ANED was no longer *adding value*²⁶⁹ to the company as a NED role Actor, as a non-equity director he lacked the authority to raise this issue openly with ANED. In addition, the NED may self-attribute *internal/control* causes to their NED role action. If a permanent move to **NED acts** is sensed, this will conflict with their **NED tells** and **NED advises** role recipe. The NED will perceive the need for a professional relationship separation and a possible friendship *Redefinition*, similar to mentor-protégé relationships (Kram, 1983). To protect their 'diligent director' image a NED is likely to raise and discuss this openly with the MD.

²⁶⁵ Indicated by the Case Dyad identifiers in parentheses

²⁶⁶ See page 257

²⁶⁷ See Chapter Six Dyad A synopsis *section 6.6.2.6iii Final interaction pattern and role* page 187

²⁶⁸ Described in *section 7.3.5.2* on page 255

²⁶⁹ See Chapter Five *section 5.3.4 Literature confirmed Creative NED Role-making* on page 132

7.4.3.15 *Box 20: NED role Redefinition to friendship*

The dashed border and connectors in the MD column to the left of Box 20 once again represent projections, as no sample MDs provided evidence of Case Dyad NED role *Redefinition*. However, the parentheses indicate that BMD explained how the dyad relationships with their two previous NEDs' had evolved into friendships. Figure 7.11 illustrates the only example of Case Dyad *Redefinition*. The explanation relies on ENED's perspective of this *NED role closure* as EMD did not mention ENED had resigned. In Chapter Six EMD was shown to exhibit the **NED acts** level of trust.²⁷⁰ Therefore, EMD features rarely in the discussions in this chapter as he made no causal attributions implying either a temporary or *irreparable loss of trust* in ENED as a NED role Actor.

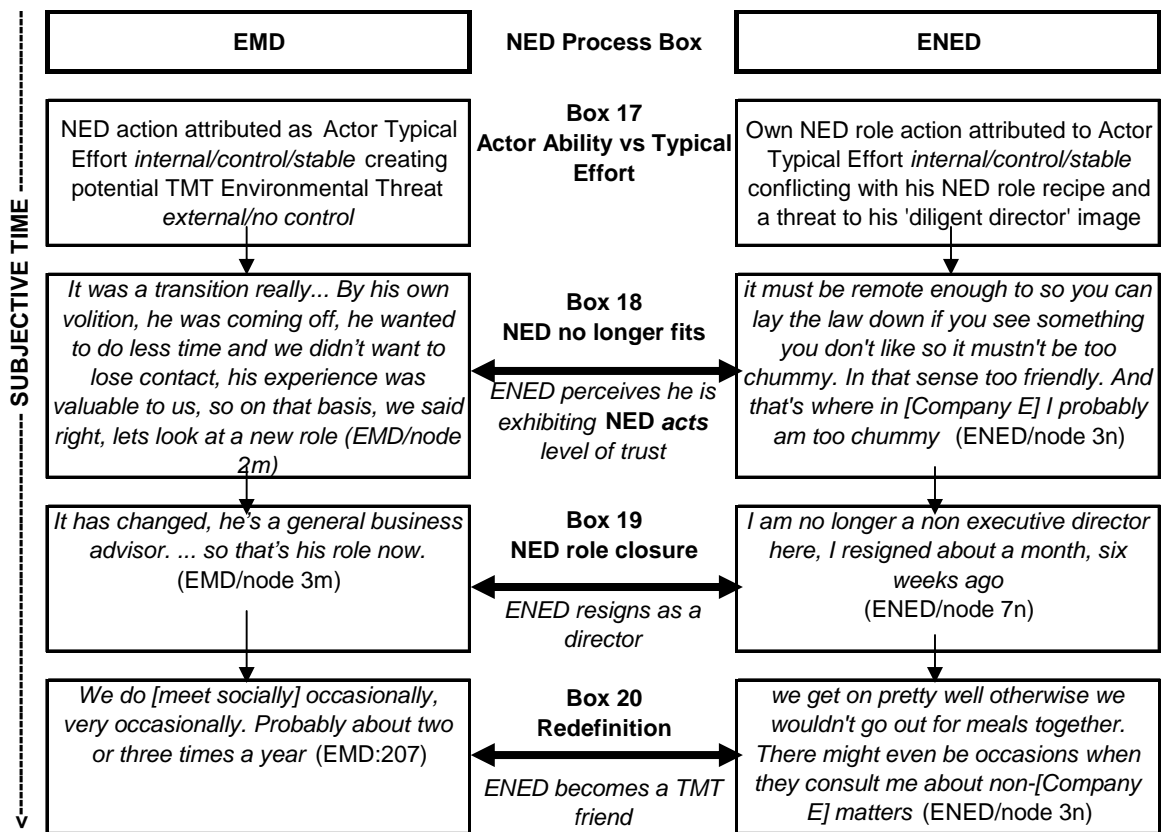


Figure 7.11: NED role process for NED role *Redefinition* in Case Dyad E

As Box 18 described, ENED perceived that his Case Dyad NED role did not fit with his 'diligent director' image. This was a result of his reflexive consideration of his NED as Actor role. However, once he had openly raised his concerns with the Board and resigned he was happy to remain as a business advisor to the

²⁷⁰ See Appendix 12

executive directors. In his interview he accepted that he was acting as a shadow director and he was still involved with company two years after his resignation.

7.4.4 NED Role Process summary

Differences in dyad partner perceptions of the UK SME NED role relate to the different perspectives of MDs and of NEDs in the NED role process. The steps in the UK SME NED role process have been explained and presented in Figures 7.6 and 7.7. The development of NED role trust from the partners' *first impressions* to either *NED role Rupture* or *Redefinition* depends upon the partners' causal attributions of unexpected or unacceptable behaviour. This was the behaviour captured by the *Case Dyad Relationship incident* nodes. The node behaviour is perceived as a threat to either the MD 'questing hero' or NED 'diligent director' image. The *Trust repair & maintenance* sequence illustrated in Boxes 3 to 8 in Figure 7.6 can resolve *Relationship incidents* and prevent the emergence of *FAE tension*. Although partners may disagree about an unexpected action vis-à-vis their personal UK SME NED recipes, provided they can maintain the **NED advises** level of NED role trust, they can still agree to work together.

Either partner's knowledge stocks are capable of adaptation and expansion when their Attribution Theory Actor and/or Observer bias are disproved through the trust repair process. Learning occurs when either partner accepts that the environment differs from their 'simplifying assumptions' (Jones & Nisbett, 1972) and recognises the actions based on 'I can always do it again' (Schutz & Luckmann, 1972) are not appropriate in this context. Just as Pye and Pettigrew (2005) advised researchers when studying board process behaviours, the dyad partners have to distinguish between the 'inner and outer contexts' (Pye & Pettigrew, 2005:S31) to understand unanticipated behaviour and the NED recipe of their fellow director. This is the contextualising of a dyad relationship incident from a 'normative and nomothetic' (Jones & Nisbett, 1972) generic cultural NED recipe to a unique 'ipsative or ideographic' (Jones & Nisbett, 1972) NED role. Infrequent examples of NED learning arising from the resolution of a temporary loss of trust will be accommodated in a dyad relationship in a reciprocal **NED advises** level of trust. If this NED learning process is attributed as *stable*, it will indicate that the NED is now a protégé to a MD mentor. This heralds the end of the NED's role due to either the business operating in a different environment and needing different NED knowledge, or the MD absorbing all the relevant knowledge the NED has to offer.

Providing the partners openly debate and agree mutually acceptable terms, either scenario heralds NED role closure. The NED role closure sequence argues that UK SME NEDs have a finite 'shelf life' as discussed in Chapter Five.²⁷¹

It is only when the partners perceive the action as unacceptable that the *FAE tension* leads to *irreparable losses of trust* and either NED resignation or NED removal. The causal attributions of this serious loss of trust influence whether the dyad relationship ends in perceptions of acrimonious *NED role failure* or amicable *NED role closure*. Figure 7.7 shows these alternatives. If the unacceptable behaviour is attributed to NED free will by the MD or self-attributed as non-volitional by the NED, *NED role Retreat* will ultimately end in *NED role Rupture*. This ultimate step can be averted if the *Trust repair & maintenance* sequence in Boxes 3 to 8 is (re)established. The partners are more likely to raise and openly debate *NED role closure* if the *irreparable loss of trust* is either prompted by perceptions of NED-company incompatibility and is attributed by the MD as beyond the NED's control, or self-attributed to their free will by the NED. Provided the partners can agree a reciprocal separation the dyad relationship may continue, now redefined as a friendship.

The double helix analogy for the NED role process denotes the partners' subtle and complex interposing of the Actor and Observer roles and the pragmatic adaptation and expansion of their individual NED recipes over time.²⁷² This is a result of working together and progressing through numerous iterations of the *Trust repair & maintenance* sequence shown in Boxes 3 to 8. However, the data for this thesis demonstrate that effective MD-NED dyad relationships are finite. Dyad partners should negotiate *NED role closure* strategies at the outset and review these regularly, although the data suggest that few UK SMEs with NED appointments have either acknowledged or addressed this aspect of the UK SME NED role process.²⁷³

7.4.5 Equality of status for different 'visual attention'

As a consequence of these differences, this research calls into question previous studies that are an amalgam of data collected from Actors and Observers who

²⁷¹ See Chapter Five *section 5.5.5.1* on page 155 and *section 5.5.7* on page 157

²⁷² See discussion in *section 7.4.2.2ff* page 265 and Figures 7.3 to 7.5 on pages 267 and 268 respectively.

²⁷³ See Chapter Five *section 5.5.5.1 Timebound NED appointments* on page 155

may have different 'visual attention' foci. MDs, NEDs and other stakeholders operate with different knowledge stocks focussed on different behavioural and environmental or situational cues. They are working in different 'inner' and 'outer' contexts (Pye & Pettigrew, 2005:S31). As FNED recognised, even members within groups may have different interests and agendas that may not be immediately transparent, for example, independent, nominee and VC investor NEDs.

I distinguish between your VCs who have representatives on the board and someone who's a non-exec, I misuse the term independent but you're not reliant on them in the same way, you can talk about things slightly differently. Because not all interests are lying perfect. (FNED:520-522)

The implications of this amalgamation of data are now discussed using a study that underpinned a review of UK PLC NED practice commissioned by the DTI.

Previous studies have combined data from various respondent groups such as MDs, independent NEDs, investor NEDs and regulators when investigating the NED role (see, for example, Pye & Camm, 2003). It was not apparent whether the raw data from the different respondent groups was amalgamated prior to analysis or whether the group responses were analysed separately but that this process was not reported explicitly. An example of such research has been influential in informing UK NED practice is the study by McNulty, Roberts and Stiles (McNulty *et al*, 2002; Roberts *et al*, 2005) for the Review of the role and effectiveness of non-executive directors (Higgs, 2003). Their research was based on 40 interviews with 'chief executives, chairmen, executive and non-executive directors' (McNulty *et al*, 2002:8) and explored 'the lived experience of non-executive directors and other directors on the board' (Roberts *et al*, 2005:S5). They found the 'polarised' NED recipes of directors and stakeholders of either NED 'control' or 'collaboration' were not perceived in the work of effective NEDs (McNulty *et al*, 2002:22), an observation repeated in the Higgs Review (Higgs, 2003:27). They argued that there were dual control and collaboration 'couplets' for effective PLC NED role behaviour, that is, 'engaged and non-executive', 'challenge and support' and 'independence and involvement' (McNulty *et al*, 2002:4).

The findings of this thesis support the McNulty *et al* (2002) view of the NED role as dynamic, with the potential for 'virtuous' and 'vicious' circles of partner perception of trust and distrust when observing each others' behaviour (McNulty *et al*, 2002:23). This was repeated in the Higgs Review in advice for NEDs to 'build

recognition by the executives of their contribution in order to promote openness and trust' (Higgs, 2003:27). This thesis also supports the McNulty *et al* (2002) findings of a dual NED role of 'control' and 'collaboration' elements; however, only from the perspective of SME NEDs and not from the perspective of SME MDs.

McNulty *et al* (2002) did not acknowledge any major differences in the executive and NEDs' perceptions except in the context of the chairman's role where they state 'different individuals see the role in very different ways' (McNulty *et al*, 2002:3). This was taken to suggest that these NED dual role 'couplets' were the 'lived experience' of all respondents. This was difficult for the reader to judge as the quotes rarely indicated the respondents' status, that is, a chairman, executive director or NED. This thesis argues that it is unlikely that PLC executive and non-executive board members perceive the NED role so uniformly, especially when research confirms evidence of the chief executive directors' *self serving bias* in Annual Reports (Bettman & Weitz, 1983; Tsang, 2002) and outside directors' *actor-observer bias* in such matters as 'CEO retention/dismissal decisions' (Schaffer, 2002:113).

Within the McNulty *et al* (2002) report there was evidence of Attribution Theory bias in action. A reference was made to the 'apparent tensions ... between executive and investor interests' leading to different perceptions of the NED role. The report found that 'executives see investors' preoccupation with the "policing" role of non-executives as potentially insulting' (McNulty *et al*, 2002:22), that is, threatening the executives' *self serving bias* 'questing hero' image. This implies that the respondent groups' raw data were analysed separately but not reported explicitly.

The work of McNulty *et al* (2002) was important in underpinning the Higgs Review policy advice to the DTI, especially that the 'polarised conceptions of the [NED] role' (Higgs, 2003:27) bore little resemblance to NED actual effectiveness. The McNulty *et al* (2002) report aimed to challenge the dominance of agency theoretic approaches and triggered a debate on board processes (see for example Roberts *et al*, 2005; Pye & Pettigrew, 2005; Huse, 2005). However, this thesis argues that by the amalgamation of their findings, McNulty *et al* (2002) may have missed an important aspect of their second aim, that is, 'to understand the various factors

that influence [the NEDs'] ability to work effectively' (McNulty *et al*, 2002:9). They appear to have given greater status to the perspective of the NEDs, triggering the second disadvantage of Perren and Ram (2005).

Accepting multiple subjective interpretations may cloak the lionisation of one group of individuals within the researcher's narrative. All narratives are subjective and equal, but some narratives may be more equal than others. (Perren & Ram, 2005:91 *emphasis added*)

However unintended, this 'lionisation' is in danger of perpetuating an agency theoretic dominance within governance policy and regulation. It implies that executives - in this case their perspectives of the NED role - are not to be trusted nor their actions valued, the very view McNulty *et al* (2002) sought to challenge.

This thesis has shown that each MD and potential NED comes with their own set of preconceptions for the UK SME NED role based on their unique experiences and their Actor and/or Observer perspective. These initial NED recipes are also influenced by their first impressions of each other. Those responsible for the recruitment of NEDs in UK SMEs need to promote the benefits of an early NED role process sequence of *Probing, Time, Effort, Open debate* and *Reflection* to establish dyad trust. This should be the first step towards alleviating partner information asymmetry and creating a shared NED recipe for the unique SME context. This approach to UK SME NED selection reinforces the calls made by PLC NED role research to reduce 'the possibility of shocks and surprises in the early months of the relationship' through periods of pre-appointment 'courtship' (Roberts & Stiles, 1999:41). This thesis draws together the calls from different sources for entrepreneur induction to include how to make best use of a mentor (Deakins *et al*, 2002) and explanations and predictions of how success and failure attributions are made (Rogoff *et al*, 2004). This latter point should also be incorporated into any programmes of UK SME NED preparation and professional development.

7.4.6 The 'Why?' Question Answered

When making causal attributions for a shared experience, the Actor exhibits a *self serving bias* and the Observer exhibits an *actor observer bias*. The perspective tension between Actors and Observers creates the potential for the *fundamental attribution error* or *FAE* tension to emerge.²⁷⁴ The different 'visual attention'

²⁷⁴ See Chapter Figure 4.6 on page 112

(Wagner & Gooding, 1997) of MD Observers of NED Actors answers the 'Why?' question of the third thesis research aim.

Why do the MDs and NEDs of privately-owned UK SMEs have different perceptions of the role of a NED?

The respondents' self images and Attribution Theory bias influence how they perceive the role of the NED. The different perceptions of the NED role by the dyad partners are illustrated in Figure 6.7.²⁷⁵ These arise from the MDs and NEDs different 'visual attention' (Wagner & Gooding, 1997) as Actors and Observers created by Attribution Theory bias. The first of the different attributional stand points is described in Chapter Four.²⁷⁶ When attributing the same event, individuals use different information to interpret the causes. Actors adopt an 'ipsative or ideographic' (Jones & Nisbett 1972:85) stance judging the situation and repeating previous successful behaviour. Due to information asymmetry regarding the Actor's history the Observer adopts a 'normative and nomothetic' (Jones & Nisbett 1972:85) stance comparing the Actor's response to the event with observations of others' actions in similar situations.

As the Actor in the UK SME NED role process, the NED's *self serving bias* is focused on the environmental causes of NED role failure – notably the MD's behaviour. As the Observer in the same process, the MD's *actor observer bias* attention is focussed on the NEDs' Ability and Effort as the causes of NED role failure. This is an example of the second of the different attributional stand points, also described in the same Chapter Four section. Actors and Observers use the same event or relationship incident information differently. An Observer focuses on the Actor's behaviour, the act, as the cause of unanticipated behaviour and an Actor focuses on the environment or situation that prompted the act (Jones & Nisbett, 1972).

Exhibiting the *self serving bias* of a 'questing hero' (Perren *et al*, 2000), the MD perceives they need advice only on how to overcome the environmental or situational threats to the company. Such threats are, for example, a lack of sector specific contacts in an emerging market. However, the MD recognises that to be

²⁷⁵ See Chapter Six page 220

²⁷⁶ See Chapter Four section 4.8.6.1 *Visual Attention* on page 1112

given pertinent advice they need to appoint a NED whom they trust enough to share information. This trust already exists or is assumed by proxy from a trusted third party recommendation. This translates into the single **NED advises** role and the MD Observer exhibiting the *actor-observer bias* when attributing causes of NED Actor behaviour. As MDs perceive the relationship as predominantly 'knowledge-based' (Lewicki & Bunker, 1996), that is, the partners have regular contact and share information, temporary losses of NED role trust into either **NED tells** or **NED acts** levels of trust are accommodated.²⁷⁷ Behaviour attributed to NED Typical Effort *internal/control/stable* causes at the **NED acts** level of trust is acceptable, provided it has been willingly delegated by the MD to support their 'questing hero' image.

Exhibiting the *self-serving bias* of the NED role Actor, the NED perceives they must protect themselves from Environmental Threats to their success. Therefore, they must influence the MD to change behaviour that threatens the company viability and suggest ways in which the MD can improve company operational performance. These are attributed as the *external/no control* threats to the NED 'diligent director' (Boxer *et al*, 2005) image. If the NED recognises that their information asymmetry 'simplifying assumptions' (Jones & Nisbett, 1972) from their first impressions of the MD need modifying, they will spend time and effort to probe the MD's unexpected actions. They will openly debate and discuss the relationship incident to understand the contextual meaning of the unanticipated behaviour, reflect and then tailor their advice accordingly. The contextual factors may relate to environmental threats and opportunities or the MD's strengths, weaknesses and aspirations. This translates into the oscillation between the dual roles of **NED tells** and **NED advises**. Predictions of a 'trust spiral' (Howorth & Moro, 2006) moving entrepreneurial dyads into the 'identification-based' (Lewicki & Bunker, 1996) or **NED acts** level of relationship trust were perceived as inappropriate 'diligent director' role behaviour by UK SME NEDs in this sample.

7.4.7 The 'How?' Question Answered

When one or both dyad partners experience the *fundamental attribution error* or *FAE* tension it is the NED role process of resolving their losses of trust that answers the 'How?' question of the third thesis research aim.

²⁷⁷ This contrasts with the 'arms length' and 'dependence-based' (Dibben, 2000) dyad relationship at the **NED tells** level of trust where a loss of trust leads to NED role rupture.

Where such differences of perception exist, how do these affect the partners' dyadic working relationship?

The resolution of potential and actual *FAE* tension has the greatest effect on the UK SME NED role and the development of trust between the dyad partners. Chapter Six concluded that NEDs' perceptions of a dual **NED tells** and **NED advises** role corroborated the theory that stable working relationships were those where both a 'healthy dose of trust and distrust' existed at the same time creating a 'tension of confidence' (Lewicki *et al*, 1998:450)²⁷⁸. The Case Dyad MDs do not share this perception of a dual NED role and neither do all NEDs. NEDs preferring to stay in the **NED tells** level of trust perceive that they need to protect their 'diligent director' image. MDs' perceptions are also of a single **NED advises** role, albeit with occasional temporary losses of trust to either **NED tells** or **NED acts**. Despite this lack of a 'healthy dose of trust and distrust' all the Case Dyads were able to work together. This is explained by the sequence in the NED role process for resolving temporary losses of trust. Figure 7.6 shows how dyad partners establish and maintain this 'tension of confidence' or a level of trust where they can agree to disagree and still work together.

The resolution of temporary losses of trust in the relationship incident nodes leads to adjustment and expansion of the partners' knowledge stocks and creates *personal* NED recipes. This is operationalised by the NED role process *trust repair and maintenance* sequence in Figure 7.6, Boxes 3 to 8. The NED recipes are contextualised either for the unique dispositional traits of the dyad partner or the environment in which the NED role is operating, or both. Where there is little or no potential for *FAE* tension to emerge, the *Probing, Time, Effort, Open debate and Reflection* sequence is dormant and the relationship may fall victim to 'cognitive blindness' (van Ees *et al*, 2008) or 'groupthink'.²⁷⁹ For example, in Figure 7.10 GMD perceived the boardroom consensus in Company G to be misleading and detrimental (GMD/node 8m).

²⁷⁸ This had been contextualised and proposed as contributing to an effective UK PLC NED role by Roberts, McNulty and Stiles (see McNulty *et al*, 2002; Roberts *et al*, 2005).

²⁷⁹ 'A process through which the desire for consensus in groups can lead to poor decisions. Rather than object ... members may remain silent and, thereby, lend their support' (Johnson, 2000:140)

If the temporary losses of trust are not resolved through iterative sequences of trust repair and maintenance, over time the causes are attributed as *stable* and the *FAE* tension emerges. This prompts the threat of dyad dissolution and either NED role failure or closure. The NED role failure threats can emerge suddenly due to, for example, ‘illegal or immoral conduct’ (FNED/node 9n) leading to immediate NED resignation or removal and NED role rupture. Or the threats can emerge due to the cumulative effect of a series of temporary losses of trust, described as a ‘stepwise fashion retreat’ (Dibben, 2000:60) towards the **NED tells** level of trust and eventual NED role rupture. The tipping point will be the presence or absence of the *Probing, Time, Effort, Open debate and Reflection* sequence in this period of NED role Retreat. If this can be (re)established the *FAE* tension may be resolved. If it is not, the relationship will proceed to NED role Rupture.

If the relationship incident prompting the *FAE* tension is attributed as volitional, as in the Case Dyad G executives’ fear of diversifying (GNED/node 11n)²⁸⁰, this is the route to NED role retreat and potential NED role failure. Where the threat is attributed as non-volitional, as in the prediction of a company outgrowing its NED (FMD:556), this is a route to NED role closure. Threats can also emerge if the NED engages in reflexive consideration of their NED role performance and exhibits the *actor-observer bias*. Personal NED role failure will be perceived if NEDs attribute any conflicts between their action and their NED role recipe to *internal/control/stable* causes. However to protect their ‘diligent director’ image, they will openly negotiate *NED role closure* as in Case Dyad E where the NED perceived he was ‘too chummy’ (ENED/node 3n).²⁸¹

7.5 Chapter Conclusions

When reporting on SME board – stakeholder dynamics, Huse (1998) commented on the lack of research studies into the ‘role, structures and processes’ of small firm boards and that ‘innovative research, exploring actual board behaviour and personal relationships inside and outside the boardroom, are rare’ (Huse, 1998:219). In his later review of the SME research agenda he observed that “the use of theories that involves a need to open the ‘black box’ [of board operations in SMEs] is scarce” (Huse, 2000:282).

²⁸⁰ See Figure 7.10 on page 280

²⁸¹ See Figure 7.11 on page 284

This Chapter was the third and final step in the thesis analysis process represented by *interpretation retrodution* in the critical realism methodology shown in Chapter Four Figures 4.3 and 4.9 on pages 93 and 123 respectively. The retrodution process interpreted the same relationship incidents of dyad partner unexpected behaviour used in Chapter Six but this time from the partners' perceptions of NED role success and failure. It has addressed the questions posed in the third and final thesis research aim:

To develop an understanding of the complex patterns of relationships and processes of the NED role in UK privately-owned SMEs, in particular,

- Why do the MDs and NEDs of privately-owned UK SMEs have different perceptions of the role of a NED?
- Where such differences of perception exist, how do these affect the partners' dyadic working relationship?

By focussing on SME MDs and NEDs, why and how 'actual board behaviour is perceived differently by various groups of board members' (Huse, 2005:S76) has been demonstrated. The different patterns of trust development in UK SME MD-NED dyad relationships explained in Chapter Six is affected by their different Actor and Observer 'visual attention' (Wagner & Gooding, 1998), that is, the Attribution Theory bias of both partners when describing NED role success and/or failure. How the partners deal with and resolve temporary losses of trust resulting from relationship incidents and avoid the emergence of the *fundamental attribution error* or *F AE* tension is important. This influences the development of dyad partner trust and the partners' perceptions of an effective SME advisory role.

This thesis has argued that when investigating boardroom-based relationship processes all perspectives of the 'lived experience' (McNulty *et al*, 2002) are equally valid. By collecting, analysing and reporting the MD and NED perspectives separately this thesis uncovered the different role pattern perceptions and so developed a richer picture and deeper understanding of the NED role process. Through the investigation of both perspectives in specific examples of UK SME dyad advisory relationship incidents, the thesis has demonstrated that, rather than developing a single dyad relationship 'trust spiral' (Howorth & Moro, 2006), the MD

and NED partners each create an individual trust spiral which intertwine creating a pattern of dyad relationship trust analogous to a double helix. The bonds forming the double helix structure are created through the NED role process iterative sequence of *Probing, Time, Effort, Open debate and Reflection*. This sequence demonstrates how, in the UK SME NEDs role context, dyad partners operationalise the theory of 'multifaceted and multiplex interaction' (Lewicki *et al*, 1998:442), posited as necessary for working relationship trust development.

The final chapter, Chapter Eight *Synthesis of the Thesis Contribution*, brings together the main components of the contribution to knowledge made by Chapters Six and Seven of this thesis. It will demonstrate that the NED Role Trust Typology in Chapter Six and the NED Role Process in Chapter Seven are the second and third steps in the thesis methodology as shown in Chapter Four Figure 4.9 on page 123. It will discuss how, by drawing on the dual concepts of working relationship trust development and Attribution Theory bias, a richer understanding of the NED role complexity in UK SMEs has emerged. Synthesising the findings from a critical realist perspective it will explain how and why the dyad partners' have differing temporal perceptions of the SME NED role. These are the *experiences*, that is, the observed phenomenon across the dyad partners' three domains of reality. By the conjunction of the conceptual theories of working relationship trust development in Chapter Six and Attribution Theory bias in this Chapter, the dyad partners' *generative mechanisms* in their Real domain of reality have been accessed. The Actual domain *events* or casual laws in the dyad partner realities are the different MD and NED temporal patterns of trust development, revealed through the abduction modelling in Chapter Six. When conjoined with the dyad partners' Attribution Theory bias through the process of retroduction interpretation, these *events* reveal the *generative mechanisms* of the NED Role Process and the dyad partner trust 'double helix' as shown in Figures 7.6 and 7.7. The temporal oscillation of the dyad partners' levels of NED role trust as revealed by the NED Role Process 'double helix' are the cause of the observed phenomenon, that is, their differing perceptions of the SME NED role.

Chapter Eight: Synthesis of the Thesis Contribution

8.1 Chapter Introduction

Chapter One highlighted that the main contributions to knowledge from this thesis are in Chapters Six and Seven. Chapters Two to Five provided important stepping stones to these contributions. The first four set the research in context, reviewed the relevant small business and corporate governance literature and identified the gaps, described the functional role of the UK NED and, explained the thesis' theoretical perspective and the decision to adopt a qualitative methodology. In Chapter Five the in-practice role of the UK SME NED was contrasted with previous empirical studies of the role in PLC and SME contexts. It was through this analysis that the phenomenon of the differing and temporal MD and NED perceptions of the NED role was first observed.

This final chapter returns to the findings of Chapters Six and Seven to synthesise the main contributions to knowledge from a critical realist perspective. These are how and why:

- the observed *experiences*, that is, the dyad partners' differing perceptions of the NED role, offer a key to understanding the constituent causal law *events* and inaccessible structure *generative mechanisms* in the SME NED role process;
- the dyad partners' Actor and/or Observer bias for NED role success and failure shape the causal laws for the different MD and NED patterns of NED role trust, making the *events* visible;
- the conjunction of the dyad partners' *experiences* and *events* allow access to the normally hidden *generative mechanisms* of the dyad partners' NED role process trust double helix, and
- the *generative mechanisms* of the NED role process 'double helix' is the cause of the dyad partners' *events* and *experiences*, that is, the differing perceptions of NEDs' roles in UK privately-owned SMEs.

The following sections address each of the above contributions in turn, including the thesis' contribution to theory. The policy implications and the research

limitations are considered and the thesis concludes with recommendations for future research.

8.2 Contribution to theory

Chapter Two identified four common themes in the literature and four significant gaps. The themes related to the importance of: the process of trust development; an awareness of the research theoretical perspective and how this might conflict with the respondents' views of reality; context, and the benefits of multiple perspectives when investigating dyad advisory relationships. The gaps in the literature were identified as: the use of qualitative research methods allowing the respondents' own voices to be heard; assigning equal value to both sides of a dyadic relationship and being sensitive to the specific context of the relationship. These three gaps all influenced the fourth gap, that is, the lack of research into the processes of dyad trust development and repair between UK SME MDs and their advisors, in particular, their NEDs. In the literature there were predictions of distrust and tension when dyad partners were working to different agendas but the resolution processes were unknown and/or unreported.

The literature review also highlighted the assumptions within corporate governance sources of polarised roles for NEDs, that is, one based either on a compliance/board performance or on a strategic thinking/board performance role. There were calls for more dyadic relationship research, identifying the importance of trust and the likely conflict with the theoretical lens of Agency Theory, the prevailing research perspective. Agency Theory focuses on risk and uncertainty, assumes organisation difficulties and interprets information asymmetry as deception. Distrust is its 'dominant ethic' (Arthurs & Busenitz, 2003). Although advocating the benefits of Agency Theory in organisation research Eisenhardt (1989b) argued against the dominance of a single paradigm and view of human nature in an academic discipline as this 'presents a partial view of the world' and is in danger of ignoring 'a good bit of the complexity' (Eisenhardt, 1989b:71).

Chapters Five and Six confirmed that Agency Theory is a dominant force within the realities of the Case Dyad NEDs. In Chapter Five, where there was a discrepancy in the dyad partner perceptions of the NED role, the SME NEDs'

behaviour was influenced by what they believed was the PLC NED role normative practice. This was the view that, acting on behalf of the principals or shareholders, the NED's role was to control the actions of the self-serving agents or the executives. This attitude was confirmed in Chapter Six, but as Eisenhardt predicted, only partially. The pattern of NED role trust for the Case Dyad NEDs indicated an oscillation between **NED tells** – distrust – and **NED advises** – trust as indicated in Figure 6.7 on page 220. The pattern of the NED role trust for the MDs was dominated by **NED advises** - trust - and the expectation of good things from people until proved false (Fiske, 2004). However, either partner was capable of distrust if they sensed that the other's actions were putting their self image at risk either as a 'diligent director' NED or a 'questing hero' MD. Consequently, although an influence in the NEDs' world view, Agency Theory cannot explain both dyad partners' differing perceptions of the SME NED role. To paraphrase Eisenhardt, in order to capture a good bit of the missing complexity of the NED role, this thesis sought explanations from a wider range of social science theories.

Figure 4. 3 on page 93 illustrated the thesis analysis processes from a critical realistic perspective based on Bhaskar (1975).²⁸¹ Figure 8.1 overleaf is a revised version of Figure 4.3 to demonstrate how, within a critical realist frame indicating the direction of causation, this thesis makes a contribution to theory. The broken line arrows denote the steps in the logic of scientific discovery (Bhaskar, 1975) and solid line arrows reveal the process of causation (Easton, *in press*). The solid lines demonstrate that the NED role process trust 'double helix' *generative mechanism* is caused by the conjunction of the Actual and Real domains of the dyad partners' realities. The causal laws for the Actual domain *events* are revealed by the NED Role Trust Typology in Chapter Six. When conjoined with the Attribution Theory bias of the MDs and NEDs in Chapter Seven this makes accessible the Real domain's hidden structure of the dyad partners' trust.

In Figure 8.1 the central box represents the dyad partners' *generative mechanisms* which have been made visible through the conjunction of the conceptual frame for the *imagined causal laws* in the Actual domains – the NED Role Trust Typology – and the conceptual frame for the *inaccessible structures* in the Real domains – the Attribution Theory bias of the MDs and NEDs. This conjunction is represented by

²⁸¹ See also the explanation of Bhaskar (1975) three domains of reality in Chapter Four *section 4.2.2 Why critical realism?* on page 87

the incoming solid line arrows to the central box from the different patterns of NED role trust in the Actual domain and the NED role process in the Real domain. The result allows access to the dyad partner trust ‘double helix’. The upper box represents the *events; sequences; invariances* in the dyad partners’ Empirical domains of reality. The outgoing solid line arrow from the central box to this upper box demonstrates that the normally hidden dyad partner trust ‘double helix’ is the cause of the observed phenomenon or *experiences*. These are the differing perceptions of the NEDs’ roles in privately owned UK SMEs.²⁸²

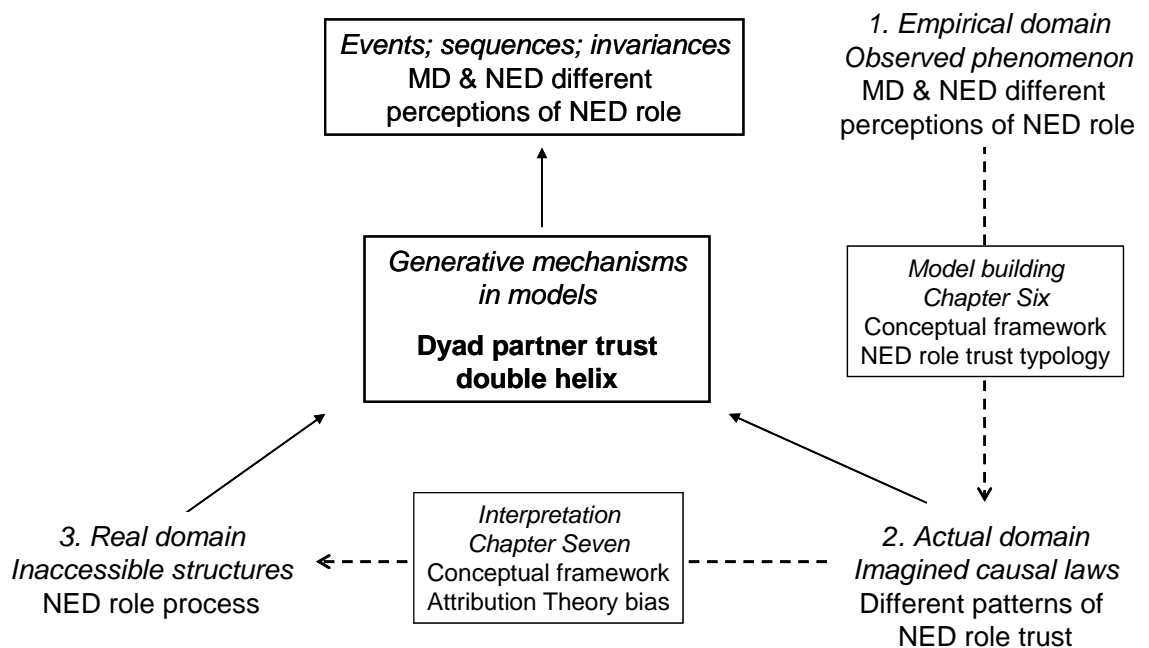


Figure 8.1: Critical realist view of causation vis-à-vis MD and NED differing perceptions of the UK SME NED role
(adapted from Bhaskar, 1975 and Easton, in press)

Encouragingly, this combining of trust and Attribution Theory to understand the processes of trust development and repair is emerging as a scene within the literature. As mentioned in Chapter Four²⁸³ there is a ‘small but growing body of work’ (Dirks *et al*, 2009:68) in its early stages in both British and American Management journals. The papers to date are purely theoretical, proposing a lens for the analysis of empirical data yet to be collected. Two of the papers proposing theoretical frameworks that combine trust and Attribution Theory are now considered alongside empirical findings from this thesis. Prior to the emergence of

²⁸² In Chapter Four Figure 4.10 *Thesis Reality* on page 124 presents a complementary representation of the thesis’ findings across the three domains of reality

²⁸³ See section 4.8.7 *Attribution Theory as a ‘conceptual frame’* on page 114,

these publications some of the limitations posited by the papers' authors had already been addressed in this thesis.

A theoretical framework for the diagnosis of *in-situ* trust within and between organisations is to be published in the *British Journal of Management* (Hatzakis, *in press*). It is based on the attribution styles of the Leeds Attributional Coding System (LACS, see Munton *et al*, 1999) with some modifications. These included dividing the *internal/external* 'Agency' dimension into *internal* (originating in speaker), *external* (originating in others) and *situational* (originating in circumstances) (Hatzakis, *in press*:4). This thesis concurs with this suggestion as it could dispel some confusion when analysing causal attributions of, for example, NED separation prompts.²⁸⁴ A division of the *personal/universal* 'Intentionality' dimension was also mooted. In the context of this research a three-way split into *personal* (credited to an individual), *role* (credited to role or group membership) and *universal* (credited to anyone) could be applied to respondents' expectations of their specific dyad partner, all SME MDs or all NEDs and the general population. In practice the causal attributions tended to focus on the *personal* dimension and a combined *universal role* dimension.²⁸⁵

The Hatzakis taxonomy predicted the emergence of groupthink associated with, for example, 'the lack of challenge of peer opinions' (Hatzakis, *in press*:9). Positive and negative causal attributions for groupthink were predicted in theory (Hatzakis, *in press*:9). In the thesis data there was evidence of groupthink where a lack of open debate with an external NED with a different point of view led to the potential for internal directors to become complacent. If recognised, this lack of debate could be attributed negatively although the causes could be perceived empathetically. For example, in Case Dyad G, GMD believed the lack of open debate between the directors was harming the company, that is, a negative cause that was *external* and *stable* over which GMD had *no control*. GMD attributed her NEDs' unwillingness to openly disagree in a board meeting positively to causes that were *internal/control/stable* and that protected her own *self-serving bias*, that is, the NEDs liked and trusted the Case Company G owners – albeit too much.²⁸⁶

²⁸⁴ See Chapter Six on page 201

²⁸⁵ The *universal role* dimension included all SME MDs or all NEDs.

²⁸⁶ See Chapter Six section 6.7.2.4iii *Triple levels of NED trust: NED tells, NED advises and NED acts* on page 199 and Chapter Seven section 7.4.3.10 *Box 15: NED role Retreat* on page 279 and section 7.4.7 *The 'How?' Question Answered* page 293

Hatzakis recognised that her framework had limitations, for example, the time needed for LACS-inspired attribution style coding (Hatzakis, *in press*:11). However, this thesis argues that the major limitation is that it provides only a static view as, on its own, it does not track the temporal nature of relationship trust.

In a recent Special Topic Forum in the *Academy of Management Review* it was argued that relationship repair was a temporal process and ‘a fundamental but surprisingly understudied problem’ (Dirks *et al*, 2009:82). The Forum introduction highlighted the need to address the issue from ‘different disciplinary perspectives using different theoretical lenses and at different levels of analysis’ (Dirks *et al*, 2009:68). The Forum’s four papers included one proposing a theoretical framework for trust loss and repair based on Weiner’s causal attribution theory (Tomlinson & Mayer, 2009). These authors argued that the dimension of causality, or Agency (Hatzakis, *in press*), had been the foundation of previous studies. However, to understand how trust was lost and regained the dimensions of volition and stability needed to be developed, especially stability as the prediction of future occurrences influences a trustor’s decision as to whether to trust again (Tomlinson & Mayer, 2009:100). The framework’s limitations were acknowledged, not least the impact of individuals’ attribution bias and *fundamental attribution error* in trusting relationships and recommendations for more research were made. This thesis has accounted for the *fundamental attribution error* in the analysis of the data by integrating the dyad partners’ different ‘visual attention’ (Wagner & Gooding, 1997)²⁸⁷ and the effects of their oscillating Actor and Observer bias. It is this oscillation that is at the heart of the dyad partners’ NED role trust ‘double helix’.

This thesis argues that it has made a contribution to theory by adopting a critical realist lens, by adopting a qualitative methodology, by assigning equal value to the collection, analysis and reporting of dyad partner data and by anticipating some of the limitations identified in the above theoretical frameworks (Hatzakis, *in press*; Dirks *et al*, 2009; Tomlinson & Mayer, 2009). This contribution is to the understanding and explanation of the temporal process of dyad partner working relationship trust development and repair in the context of UK SME advisory roles. The following sections now explain each step in the trust process using the critical realist lens and linking these steps back to the appropriate research aim.

²⁸⁷ See Chapter Seven section 7.4.1 *The empirical consequences of dyad partners’ different ‘visual attention’* on page 261

8.3 Experiences

Chapter Five addressed the first research aim:

To contrast empirical studies of the role of the UK non-executive director with the SME in-practice role to explore whether the role is the same and if it is not, how and why the role differs

This Chapter described the initial empirical view of the research phenomenon (Bhaskar, 1975) and the first level of abstraction on the analysis process ladder (Miles & Huberman, 1994). It combined deductive and inductive methods to contrast the Case Dyad respondents' data on the role of the individual NED with the literature-based framework in Chapter Three. This identified the in-practice role of the UK SME NED from the separate perspectives of the MD and the NED.

The differences between the role as practised in the Case Dyads and the literature framework revealed a greater emphasis on risk management processes than had been previously reported. This appeared to confirm an Agency Theory world view. However, of greater interest were the different role descriptions given by the MDs and NEDs in the same Case Dyad and that their NED role perceptions changed over time. This contradicted a uniform Agency Theory perspective (1) between the dyad partners and (2) within the temporal view of their role by the NEDs themselves, that is, at times they appeared to trust the MDs. In addition, the inductive open questioning of both dyad partners gave an insight in to the social processes of the NED role and how explicit relationship differences might be resolved. Taking a critical realist perspective, it was these differences that were interpreted as the observed phenomenon or *experiences* of the dyad partners' reality. By investigating the possible reasons for these differences and their temporal nature, these offered the first step to understanding the causal law *events* and inaccessible structure *generative mechanisms* in the SME NED role process. However to gain this understanding a model or models were needed to reveal imagined causal laws.

8.4 Events

Chapter Two identified that the role of trust was important across the range of literature reviewed for this thesis. However there was little understanding of how

trust developed and was maintained in the small firms' advice and governance contexts. Figure 8.1 demonstrates the critical realist perspective argument that modelling the causal laws allows the researcher to imagine *events* that trigger the dyad partners' *experiences*. Although these causal laws are visible they need a deeper level of analysis than the *experiences*. In Chapter Six the generic model of working relationship trust development, posited by Lewicki and Bunker (1996) and adapted by Dibben (2000) for entrepreneurial contexts, was further adapted to create a NED Role Trust Typology as shown in Figure 6.7. This temporal modelling of trust development is the abduction analysis process between the levels of *events* and *experiences* shown in Figures 4.3 and 4.9 and addressed the second research aim:

To develop a model of dyadic working relationship trust development for MDs and NEDs in UK SMEs

The individual respondents' movements between the three levels of NED role trust varied across the Case Dyads; not all MDs and NEDs followed the relevant pattern in Figure 6.7 due to their unique personal, dyad partner and SME context.

However the model captures the overriding patterns of NED role trust development for the MDs and for the NEDs. Through cross case data condensation the idiosyncrasies of NED role trust in each dyad produced a composite pattern of NED role trust for the MDs and a separate composite pattern of NED role trust for the NEDs. These composite patterns of NED role trust for MDs and NEDs are different. It is these different patterns of NED role trust that are the imagined causal laws of the dyad partners' realities' Actual domain as shown in Figure 8.1. The different patterns are summarised as follows.²⁸⁸

The MD moves from the **NED tells** to the **NED advises** level of trust prior to the NED's joining the board. If this transition does not occur it is unlikely that the MD will make or recommend the NED's appointment. Any initial loss of trust to **NED tells** represents the MD's reaction to unexpected or unwelcome advice given by the newly appointed NED on, for example, how to manage the business. The temporary movement to **NED acts** represents the MD's perception that the NED is too involved in the internal business operation; this is an unwelcome loss of trust in

²⁸⁸ The different composite patterns of NED role trust were discussed in full in sections 6.7.2 *MD Patterns of Trust Development* on page 192ff, 6.7.3 *NED Patterns of Trust Development* on page 192ff and 6.8.7 *Different Patterns of NED Role Trust* on pages 219 to 222

the NED's outside objectivity. The return to **NED advises** in either situation represents the restoration of the MD's trust after discussions with the NED. The gradual, permanent movement to **NED acts** represents three possibilities. The MD may trust the NED to represent the company on their behalf (as described by respondents CMD, DMD, EMD) acting as a 'de facto executive' (a term used by DNED) or the MD may identify the NED as a role model (as described by FMD). Alternatively, they may perceive the NED has lost their outside objectivity by becoming part of the company 'family' (as described by AMD). The NED pattern demonstrates an initial **NED tells** bias to their NED recipe, although by the time they accept the appointment the parallel track of **NED advises** is present. If the NED offers advice from the **NED advises** perspective, the MD's refusal of, for example, operational advice can prompt a loss of trust to **NED tells**. Alternatively, advice offered from the **NED tells** perspective that is accepted by the MD, or challenged and proved inappropriate, can move the NED to **NED advises**. The NED's oscillation between the dual tracks of **NED tells** and **NED advises** levels of NED role trust continues throughout their appointment. The NED regards the **NED acts** level of trust as unprofessional.

In Chapter Six it was argued that the dyad partners' Attribution Theory bias patterns found in the analysis of the ACCA survey dyad differences (Boxer *et al*, 2005) could be interpreted as proxies for these different patterns of NED role trust. The survey analysis relied on the answers to only one question "How has your NED/have you helped this company?" It was argued that a MD would only seek and accept advice to address external threats and opportunities as these did not threaten their image of themselves as 'questing heroes' (Perren *et al*, 2000) perfectly capable of managing the internal operation of their business without help. However a NED wished to protect their own image as a 'diligent director' (Boxer *et al*, 2005) and to do this they had to manage risk by offering advice on external and internal threats and opportunities. The internal advice included telling the MD how to run a profitable business operation. The thesis data were richer than the surveys and, in addition to agency, accessed the causal dimensions of stability and volition. As shown in Figure 8.1, the retrodution process used Attribution Theory bias to interpret the dyad partners' relationship incidents. This allowed the *generative mechanisms* in their Real domains of reality to be accessed.

8.5 *Generative mechanisms*

As discussed in Chapter Four, retroduction enables the researcher to move between the levels of *events* and *generative mechanisms* as shown in Figures 4.3 and 4.9. This process addresses the third research aim:

To develop an understanding of the complex patterns of relationships and processes of the NED role in UK privately-owned small and medium-sized enterprises, in particular,

- Why do the MDs and NEDs of privately-owned UK SMEs have different perceptions of the role of a NED?
- Where such differences of perception exist, how do these affect the partners' dyadic working relationship?

The interpretation of the relationship incidents using Attribution Theory bias explains why MDs and NEDs have different perceptions of the NED role. The development of NED role trust by the MDs and NEDs is influenced by their Attribution Theory bias as they alternate between Actor and Observer in the action-reaction process of a dyadic relationship. How the partners deal with and resolve temporary losses of trust and avoid the emergence of the *fundamental attribution error* tension is important. This influences the process of dyad partner trust and the partners' perceptions of an effective SME advisory role. This thesis argues that the conjunction between the dyad partners' patterns of their NED role trust and their Attribution Theory bias for NED role success and failure explains how together these affect the dyad partners' working relationship. In Figure 8.1 it is this analysis process that takes the imagined causal laws of the Actual domain of reality and uncovers the inaccessible structures of the Real domains of reality (Bhaskar, 1975). The *generative mechanisms* exposed reveal the NED role process 'double helix' of trust formation, repair and maintenance and eventual trust loss as shown in Figure 8.2 overleaf.²⁸⁹ This figure is an amalgam of Figure 7.6 *NED role process of dyad trust formation and maintenance* on page 270 and Figure 7.7 *The routes to NED role dyad dissolution* on page 272. It reveals the separate trust spirals for the MDs and NEDs that are crucial to the understanding and interpretation of the NED role differences in UK SMEs.

²⁸⁹ This figure is an amalgam of Figure 7.6 *NED role process of dyad trust formation and maintenance* on page 270 and Figure 7.7 *The routes to NED role dyad dissolution* on page 272.

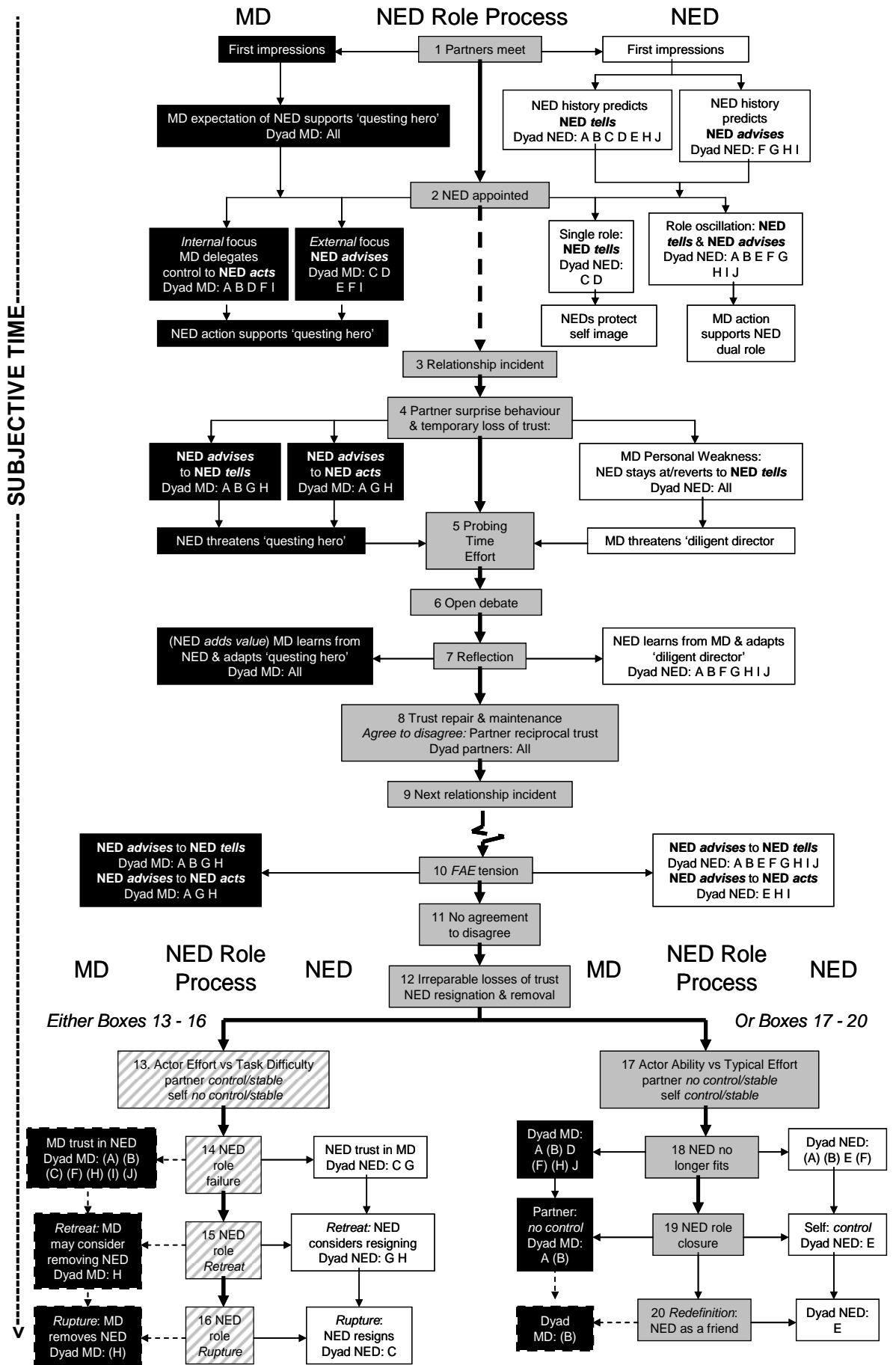


Figure 8.2: The NED role process 'double helix' depicting dyad trust formation, repair and maintenance and the alternative routes to NED role trust loss

8.6 Implications for policy makers and practitioners

8.6.1 Experiences

Chapter Five discussed seven key points that arose from the first level analysis. Two of these related to the differing perceptions of the SME NED role and have implications for policy makers and practitioners.

Dyad partners in SME-advisor dyads need to be apprised of the benefits of investing time and effort in getting to know each other in a variety of formal and informal settings, that is, beyond the boardroom or client's office. In the case of NED appointments, ideally this interaction should happen prior to the offer and acceptance of a company directorship. This social process aids the development of dyad partner relationship trust and reduces information asymmetry in respect of, for example, advisor/NED role expectations and client/company goals. A lack of such investment can quickly lead to perceptions of partner distrust.

The dyad partner perceptual differences of the NED role have implications for research commissioned to inform UK SME NED and/or advisor policy and practice. In Chapter Seven the implications of amalgamating data from a variety of sources are discussed²⁹⁰ using the example of the study by McNulty *et al* (2002). This study underpinned the Higgs Review (2003) of UK PLC NED practice commissioned by the DTI. Although this thesis supports the study findings of a dual NED role of 'control' and 'collaboration' elements, this was only corroborated in the NEDs' pattern of NED role trust in Figure 6.7. It is unlikely that the dual NED role was perceived as the 'lived experience' (McNulty *et al*, 2002) of all the study's respondents. Indeed a reference was made to the 'apparent tensions ... between executive and investor interests' leading to different perceptions of the NED role, stating that the 'executives see investors' preoccupation with the "policing" role of non-executives as potentially insulting' (McNulty *et al*, 2002:22). This implies that the respondent groups' raw data were analysed separately but not reported explicitly. In any future research the different stakeholder perspectives warrant greater attention, especially when the studies are to inform policy. The data need to be collected, analysed and reported separately to ensure that any differences in the respondents' perceptions and expectations are made transparent.

²⁹⁰ See Chapter Seven section 7.4.5 Equality of status for different 'visual attention' on page 286

8.6.2 *Events*

Chapter Five highlighted the lack of HRM processes associated with SME NED appointments, including NED succession planning. It was virtually non-existent in the literature-based framework and in Case Dyad practice. In Chapter Six an argument for proactive planned NED succession was made, as the predominant practice left the decision to leave the board to the NEDs themselves. Time bound NED appointments and appraisals linked to the company goals were rare.

Policy makers and practitioners are recommended to promote a mutually negotiated succession planning process to those responsible for the NED appointment, the MD (if different) and the NED. Based on the mentor separation process (Kram, 1983) this should identify the likely structural separation prompts that would enable dyad partner psychological separation. The structural prompts could be internal to the MD and external to the NED, such as the company needing different expertise, or internal to the NED and external to the MD, such as the NED reaching a certain age. Or the prompts could be situational, such as an increase in external regulation. These prompts trigger the partners' emotional readiness for the psychological prompt of leaving the board whilst protecting the NED's feelings of self worth. This negotiated process may lead to the dyad partners redefining their relationship as one of friendship and is preferable to either the gradual loss of trust in a 'stepwise fashion' (Dibben, 2000) or in extreme circumstances catastrophic 'relationship rupture' (Lewicki & Bunker, 1996), that is, a complete and sudden breakdown in dyad partner trust.

Proactive NED succession planning is important in SMEs as the potential pool of NEDs is likely to be dominated by recently retired PLC directors seeking a transition into full retirement. If appointed without a time bound contract and an up front discussion of the likely structural prompts for removal or resignation, these NEDs may not be willing and/or able to accept psychological separation. For example, there was a temporal change in responses from BNED about his retirement from the board.²⁹¹ The difference in these responses was interpreted as, over time, as his time away from full-time employment increased, BNED was less willing to contemplate full-time retirement from board-level activity. His dyad partner acknowledged the dangers of NEDs outliving their usefulness when their

²⁹¹ See Chapter Six in *section 6.7.3.5.iii* on page 211

expertise 'phased out' (BMD:1683), although BMD still assumed it would be for BNED to decide when he wished to leave.²⁹² HMD described the consequences of not having a formal NED appointment period, especially when appointing retired company directors.²⁹³ Case studies could be devised and used to advise UK SMEs of the benefits of planned NED succession.

8.6.3 Generative mechanisms

How the NED role Actors and Observers perceive their partners' – and their own – success and failure can lead to the *fundamental attribution error* or *FAE* tension. Ren and Gray (2009) suggested that theoretical frameworks of how trust is lost could be used as management tools to help co-workers resolve workplace disagreements. This thesis argues that, by making the dyad partners aware of their potential Attribution Theory bias, this could help them resolve relationship incidents triggered by unexpected and unacceptable Actor behaviour. For example, the willingness to offer help by an Observer is influenced by attributions of Actor volition. If unexpected behaviour is believed to be avoidable, help will not be offered and *vice versa*, that is, if someone perceived to be drunk falls down they will be ignored, but will be offered assistance if perceived to be sick. Government agencies and/or practitioner organisations could use the concept of the NED process trust 'double helix', as modelled in Figure 8.2, to help stakeholders, SME MDs, potential and actual NEDs and/or SME advisors realise how Attribution Theory bias contributes to the formation, maintenance and repair, and ultimately the permanent loss, of dyad partners' trust. For example, in conjunction with Figure 6.7, Figure 8.2 could be used as part of a SME board induction and development programme for prospective and current MDs and NEDs, other executive directors, investors' nominees and regulators.

8.8 Research Limitations

8.8.1 Methodological limitations

The Literature Review concluded that research methods which took account of context and that allowed the respondents' own voices to be heard were essential to better understand the complexity of the UK SME NED role in practice. The main limitation of this research was the lack of access to board meetings to observe

²⁹² See pages 155 and 201

²⁹³ See Chapter Five section 5.5.5.1 *Time bound NED appointment* on page 155

actual dyad partner behaviour and processes inside the boardroom. This lack of access was not unusual as, for example, Spencer (1983), Hill (1995), Deakins *et al* (1999) and Stiles (2001) all reported similar problems. In the decade between Huse (1998) and Gabrielsson (2007) empirical studies of boardroom behaviour were still 'surprisingly scarce' (Gabrielsson, 2007:527). However, this limitation was rationalised by noting that observing unmodified director behaviour *in situ* presented its own difficulties. In a single longitudinal case study of a New Zealand board, respondents commented on the unusual behaviour of fellow directors when the researcher was present (Lockhart, 2006:39). Huse presented a possible solution to the access problem. Although he was able to observe board behaviour as a participant observer (see for example, Huse, 1998) he suggested using 'board life stories' and director interviews as a way of accessing 'actual board behaviour' (Huse, 2005:S76). These methods were adopted as a compromise.

The Literature Review also concluded that research into the dyad trust development process was needed to explore and explain the SME NED role complexity.²⁹⁴ Originally single, individual interviews were to be conducted with the MD, a NED and other directors from the same board. However, analysis of the first interviews between MDs and NEDs uncovered differing perceptions of the UK SME NED role. The differences between the dyad partner perceptions became the thesis' unit of analysis and requests were made to re-interview MDs and NEDs. As this additional access was not articulated at the outset, several respondents felt unable to invest more 'irrecoverable resource' of time to participate further. Therefore the data collected on the MD-NED relationships was not uniform across all the Case Dyads. For example, in Case Dyads C, D and E the data set for the dyads' trust development process was less rich but still insightful.

8.8.2 Temporal limitations

A further limitation on this research is the dynamic nature of the NED role, that is, the interviews were conducted at a particular time. This can be seen in the references to contemporary media debates and corporate governance scandals in the respondents' transcripts. As Pye and Pettigrew (2005) emphasised the timing and context of NED behaviour needs to be understood before meaning is assigned. For example, a media debate about corporate governance has re-emerged due to the recent banking crisis. Despite the PLC and banking contexts,

²⁹⁴ See Chapter Two section 2.5.2 *Dyad trust development processes* on page 42

if the interviews were conducted now there is likely be a greater awareness of NEDs' roles regarding the monitoring of risk (see Walker, 2009b) and of corporate social responsibility (CSR), as illustrated by the two publications added to the literature framework in 2008 (see Kakabadse *et al*, 2006; Mallin & Ow-Jong, 2008). The latter had an impact on the UK NED role element designations as discussed in Chapter Three.²⁹⁵

8.9 Future Research

8.9.1 Do different stakeholders have different perspectives?

This thesis has called into question previous studies' findings that have combined data from a variety of stakeholders when researching the role of NEDs. It recommends that further research be undertaken to investigate whether these concerns are justified. How do different stakeholders perceive the role of the SME NED? How do they assess NED success and failure? Why do different stakeholder perceptions exist? How and why do different stakeholders know whether to trust the NED(s)? The use of case studies is recommended to investigate the separate NED role experiences of a range of stakeholders in a single SME, for example, investors, shareholders, other directors, TMT and other employees local residents, customers, suppliers – including professional services and advisors, regulators and policy makers. The latter could include, for example, the Health & Safety Executive (HSE), local Business Link and the Department for Business, Innovation and Skills (BIS).

8.9.2 The trust process and multiple NEDs

The Case Dyad interviews deliberately focussed on the relationship between the MD and one specific NED; however in four Case Dyads there were, or had been, other simultaneous NED appointments (C; F; G; H). The four MDs agreed they had different relationships with each of their NEDs but this was not pursued. This thesis recommends that further research investigate how the NED roles are constructed on boards that have more than one NED. For example, one NED (FNED) discussed how he and his fellow NEDs invested time and effort in building reciprocal trust. The data showed that the two executive directors and three NEDs

²⁹⁵ See section 3.4 Framework Update: 2006 – 2008 on page 76

were able to form different alliances easily and amicably.²⁹⁶ Based on these data it is anticipated that the process of trust development between multiple NEDs on the same board will be similar to the process revealed by this thesis. However, how and why is the NED's unique NED recipe affected by the presence of other NEDs? Does its construction involve only the MD on a one-to-one basis, or do the NEDs discuss and agree their respective roles as a team? How and why might Attribution Theory Actor and Observer bias affect multiple NEDs' relationship trust? How and why does it differ in importance from its role in the development of MD-NED trust? The findings from this further research are likely to have applications in all companies with multiple NED appointments.

8.9.3 The trust process and other SME advisors

The NED is one of a number of advisors available to SME MDs. This thesis recommends further research into whether a comparable trust typology exists in other SME MD-Advisor dyad relationships.²⁹⁷ The levels of trust in MD-NED dyads demonstrate that most have no desire for the highest level of 'identification based trust' (Lewicki & Bunker, 1996), that is, **NED acts**. Would an **Advisor acts** level of trust be perceived as appropriate for other SME advisors, especially those from the regulated professions, such as bank managers, auditors and solicitors? Italian entrepreneur-bank dyads have been found to operate at this level of trust (Howorth & Moro, 2006). Is it perceived as appropriate in UK SME contexts? The fieldwork was conducted prior to the Companies Act (2006), that is, before directors' duties became statutory, hence further research is recommended into whether the regulatory frameworks of the different SME advisors – and newly regulated NEDs - affect how the recipes are created between the MD and the advisor. Are the recipes for all SME advisors equally dynamic and contingent on the dyad partners' actions and reactions, despite statutory or professional regulation?

8.9.4 Different perspectives and theoretical frameworks

Finally, and in the spirit of critical realism, the researcher is also interested in exploring and debating other discipline's perspectives and use of analytical tools as alternatives to understanding and explaining SME advisory dyad partners' trust development and repair processes.

²⁹⁶ See Chapter Five *section 5.4.4 Creative NED Role-making ally of other NEDs/3rd party 'gang'/ coalition formation* on page 139

²⁹⁷ **Advisor tells, Advisor advises, Advisor acts**

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|---|----|----|-------|-------|--------|-----|--------|--------|-----|--------|-----|--------|--------|----|-------|-----|-------|---------|------|----|------|------|----|-----|------|----|------|-------|-----|---------|-----|-----|----|
| Relationship Development | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| independence of mind/independent view (internal & external reassurance) | 54 | 45 | | LI 24 | 219 | | 181 | 322 | 119 | | 364 | | LI 676 | 33 | LI 77 | | | | 44 | 33 | 5 | 28 | 5 | | | | ? 63 | 59 | S15 | 211 | | 26 | |
| (long term) commitment to company | 19 | | | 18 | 222 | 367 | 184 | | | | 366 | | | | | 500 | | | | | | | | | | | ? 63 | 56 | S15 | | | 61 | |
| build quality personal relationships/ personal chemistry/trust | 67 | 27 | | 25 | 214 | 366 | 182 | 324 | 124 | | 366 | 138 | 670 | 33 | 88 | 500 | | | 38 | 71 | 23 | 27 | 9 | 173 | 70 | | | | S15 | 217 | | 45 | |
| reducing (family) conflict/fostering positive board dynamics/director balance/maintaining board balance between executives & shareholders | 43 | 46 | 18 | 18 | 219 | 370 | 183 | 323 | | 165 | 365 | | 672 | 32 | | | LI 23 | LI 1007 | 47 | | | | 11 | | | | | | S15 | 183 | | | |
| discussing problems/sharing information/stimulate open debate /dialogue/bring out best ideas | 70 | 32 | | 16 | 215 | 366 | | 323 | 120 | | 365 | 138 | 670 | | | | | | | 71 | 5 | | 5 | 169 | 69 | | | | S16 | | | | |
| challenge information supplied & seek supplementary sources | | | | | | | | | | | | | | | | | | | | | 24 | | 16 | 172 | 61 | | | | S14 | 231 | 290 | | |
| courage to dissent | 19 | | | | 217 | | 181 | 323 | | | | | | | | | | | | | 26 | | 6 | 172 | 57 | | | | S14 | 211 | 290 | | |
| change initiator/prompt for management style/organisation culture | 82 | | | | 218 | | 181 | 321 | | | | | | | | | | | | | | | | 166 | 63 | | | | S15 | | | 290 | |
| change initiator/prompt for board to act as a team | 43 | | | 16 | | | | | | | | | | | | | | | | | 30 | | 9 | | | | | | | | | | |
| investor discussions/shareholder communications | | | | | | | | | | | | | 669 | | | | | | | | | | 69 | | | | | | | | | 46 | |
| Knowledge Transfer/Director Development | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| mentor/coach/wise counsellor | 18 | 29 | 29 | | 215 | | 181 | 323 | 119 | 170 | | 137 | | | 79 | 500 | | | | | | | | | | | | | | | 207 | | 60 |
| CEO or MD sounding board/confidant | 23 | 28 | 17 | | 214 | 370 | 184 | 322 | | 165 | 363 | 138 | | 33 | 64 | 500 | | | 53 | | 15 | 24 | | 171 | | | | | | | | | |
| informal social interaction with TMT & other directors/accessible for informal discussions | | | | | | | | | | | | | 671 | | | | | | | 78 | 24 | | 5 | | 58 | | | | S13 | 206/222 | 290 | | |
| exec emotional support/sounding board/confidant/ease execs' isolation | 42 | 28 | 17 | 18 | 214 | 366 | 181 | 321 | 120 | 170 | 363 | 137 | | | | | | | | | | * 71 | 5 | | | | | | | 207 | 290 | | |
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| - SME experience | | | | | 219 | 368 | 181 | 322 | 121 | | 364 | | | | | | | | | | | | | | | | | | | | | | |
| - same sector/locality experience | | | LI 18 | | 217 | 366 | | | | LI 165 | | | 675 | 34 | 79 | | LI 23 | LI 1007 | | 31 | | | | 172 | | | | | | | 206 | | 46 |
| - specialist experience | | 28 | 18 | 22 | LI 214 | 369 | LI 180 | LI 321 | 120 | 165 | | LI 137 | 675 | | | 500 | 23 | LI 1007 | | 43 | 78 | | 7 | 172 | ? 54 | | | X S15 | 213 | | | 45 | |
| - general business experience | 18 | 32 | | 22 | 215 | | 180 | 321 | 120 | | | 137 | 672 | 34 | | 500 | | | 43 | 71 | ? 28 | 28 | | | | | | 59 | | 206 | | 45 | |

| Source reference | 2 | 4 | 5 | 9 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 23 | 24 | 25 | 27 | 28 | 29 | 1 | 3 | 6 | 7 | 8 | 10 | 11 | 20 | 21 | 22 | 25 | 30 | 31 |
|---|------|------|-------|-------|--------|-----|--------|--------|--------|--------|-----|-----|--------|----|----|-----|-------|---------|-------|----|----|------|-----|-----|-------|-------|-----|------|-----|-----|----|
| Knowledge Transfer/Director Development (continued) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| give advice/sharing & transfer of knowledge /import good practice | 72 | 29 | | 18 | 218 | 371 | 181 | 322 | 122 | | 364 | 139 | 672 | 34 | 64 | 497 | | | 47 | | 33 | | | 172 | 63 | | 59 | S16 | 207 | | 31 |
| accept/learn from advice not taken | | | | | | | | | | | | | | | | | | | | | | | 15 | | | | | | | | |
| help deal with unusual events/crises /respond to new challenges/effective problem solving/alternative solutions based on NED experience | 72 | 30 | 18 | 18 | 215 | 368 | 181 | 323 | 120 | 165 | | 140 | 672 | 33 | | | 23 | 1007 | | 71 | 38 | | 16 | 172 | 54 | | 59 | S15 | 224 | 296 | 29 |
| process (interpret) information | 81 | | | | 217 | | 180 | 321 | | | | | | | | | | | 41 | | | | | | | | | | | | |
| challenge/ask awkward questions/test/ probe (internal information acquisition) /constructive criticism/critique | 52 | 30 | | | 217 | 366 | 181 | 325 | 120 | | | | | 34 | 64 | | | | 40 | 78 | 4 | 28 | 6 | 171 | 57 | | 59 | S12 | 188 | 290 | 46 |
| implementation of vision | | | | | | | | | | | | | | | | | | | | | | | | 53 | | | | | | | |
| developing TMT/encouraging reflection ability to learn & coping with change | | 31 | | | 218 | 374 | 181 | 322 | 121 | | 364 | | LI 669 | | | 497 | | | | 71 | 4 | 29 | | | | 67 | S14 | | | | |
| special projects/contribute outside board meetings/direct & involved | 78 | | | | 218 | 367 | 181 | 322 | 121 | | 364 | | | | | | | | | | | 4 | 28 | 6 | 165 | 57 | | S 13 | | 290 | |
| Boundary Spanning | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| fresh perspective/innovatory ideas/ business opportunities/new markets | 19 | 39 | | | LI 215 | | | LI 325 | LI 119 | | | | | 33 | | | | | 29 | | | | | 173 | LI 54 | | | | | 291 | 59 |
| wider vision/outside perspective/ benchmarking | 18 | 29 | 18 | 18 | 215 | | 180 | 321 | 119 | 165 | 364 | 138 | 675 | 32 | 79 | | 23 | 1007 | 48 | | 5 | 28 | 20 | 173 | 54 | 66 | 57 | S14 | 205 | 291 | 31 |
| exec director elsewhere (NED elsewhere) | (42) | | | | (217) | | (180) | | (121) | | | | | | | | | | (43) | 78 | 4 | | | | | | 58 | S13 | 217 | 295 | |
| role model/track record/credibility | | 32 | | | | | | | 121 | | 364 | | | | | | | | | | | | | | | | | | | 291 | 31 |
| 'project' company image externally/ build credibility/external confidence | 19 | | | | | | | | | | | | | 33 | | | | | | | | | | | | LI 64 | 57 | | | 291 | |
| (use of) contacts & networks (external information acquisition) | 19 | ? 30 | 18 | 18 | LI 215 | 371 | LI 185 | LI 323 | LI 119 | 165 | | 137 | 672 | 33 | 66 | | | 1007 | LI 49 | 31 | | | 21 | | | LI 64 | 59 | | 232 | 291 | 45 |
| shareholder/exec liaison | 89 | | | | | | | | | | | | | 33 | | | | | 47 | 72 | | * 68 | | | | | 59 | | 217 | | 51 |
| exec ally/champion when dealing with shareholders/stakeholders | 90 | | 18 | | | 370 | | | | 165 | | | 673 | | | | 23 | 1007 | | | | | | | | LI 64 | | 217 | | | |
| shareholder investor nominee/eyes & ears/safety net/ally | 16 | | | LI 24 | | | | | 119 | | 362 | | 670 | 33 | | | | | 49 | 72 | 7 | | * 8 | | ? 57 | 65 | 59 | | | | |
| equal status with key stakeholders /prestigious name on board | 88 | | LI 18 | | | 367 | | | LI 165 | | | | | 34 | | | 23 | LI 1007 | | 31 | | | 21 | | | | | | | | 45 |
| regulator reassurance/confidence to financiers | | | 18 | 18 | | 368 | | | | 165 | | 137 | LI 673 | | 65 | | 23 | 1007 | | 31 | | | | | | | | 217 | 291 | 31 | |
| raising capital/acquisitions/flotation advice | 83 | | LI 18 | 18 | 218 | | | | | LI 165 | | 137 | | 34 | | 500 | LI 23 | LI 1007 | | | | | | 166 | 71 | | | | 217 | | 31 |

| Source reference | 2 | 4 | 5 | 9 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 23 | 24 | 25 | 27 | 28 | 29 | 1 | 3 | 6 | 7 | 8 | 10 | 11 | 20 | 21 | 22 | 26 | 30 | 31 |
|---|------|------------|----|----|-----|-----|-------------|-----|-----|-----|-----|-----|-----|----|----|----|----|------|---------------------|----|----|------|-------|-----|------|------|----------|---------|-----|-----|----|
| Creative NED Role making | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| add value/deliver perceived benefits | 28 | 33 | 17 | 24 | 214 | 366 | 180 | 321 | 122 | 165 | 366 | 138 | 676 | | | | | | | 71 | 5 | | 6 | 164 | | | S14 | 206 | | 46 | |
| negotiating role/flexibility | 59 | 33 | 17 | | | | 184 | 323 | 122 | 165 | 364 | | 670 | | | | | | 28 | | 4 | | 15 | | | 66 | | 204 | | | |
| understanding company/induction/ 'getting a feel' (socialisation process) | 15 | X? (33) | | | | 366 | X? (185) | | | | | | 675 | | | | | | | 72 | 4 | 28 | 5 | | | | S13 | missing | | | |
| chairman of board/company | 70 | | | | | 366 | | | | | | | | | | | | | | 35 | | | | 169 | 53 | | 57 | | 212 | | |
| involvement in board sub-committees | 70 | | | | | | | | | | | | | | | | | | | | 6 | | | 169 | | | 57 | | 210 | 291 | 47 |
| complement other directors' skills/ missing exec (operational) expertise | 18 | 28 | 17 | | | 373 | | | 119 | 165 | 362 | 137 | 670 | 32 | 64 | | 23 | 1007 | PLC X 42 * 44 | 71 | | * 28 | * 8 | | X 54 | | X S13 | 218 | 291 | 61 | |
| ally of other NEDs/3rd party 'gang'/ coalition formation (execs) | (44) | | | | | | | | | | | | | | | | | | 18 | | 31 | | LI 14 | 168 | | | S 17 | | 292 | | |
| (increasing focus on compliance) | | | | | | | | | | | | | 670 | | | | | | | 70 | 18 | 48 | 6 | | | | | 218 | 291 | 28 | |
| shareholder | 91 | X 46 | | | | | | | | | | | | | | | | | | 35 | | | | | | ? 63 | 56 | | 186 | | 46 |

| Risk Management - The People | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|----|-------|----|----|--------|-----|-----|--------|--------|-----|--|--------|--------|----|----|--|--|--|-------|----|------|----|--|-----|----|-------|----|------|-----|-----|----|
| TMT recruitment/remuneration/removal (inc CEO) | 85 | | | | | 366 | | | | | | LI 137 | LI 669 | | | | | | 38 | | 5 | 27 | | 166 | | 65 | 57 | | 211 | | 47 |
| monitoring exec competence/ TMT appraisal performance review/ identifying & addressing poor TMT performance | 85 | | | 17 | | 370 | | | | | | 138 | | | | | | | LI 46 | | 5 | 27 | | 177 | 66 | 65 | | S 14 | 210 | | 47 |
| succession planning (TMT, company) | 45 | LI 32 | | 17 | LI 215 | 367 | | 325 | LI 119 | | | | LI 669 | 33 | | | | | 53 | | ? 29 | 27 | | 166 | | | | S 15 | | | |
| influence execs | 56 | | | | | | 182 | 324 | | | | | | | | | | | 39 | | 35 | 29 | | 164 | 54 | | | | 236 | 291 | |
| focus exec ideas on objectives/exec discipline | | 38 | 17 | | 217 | 370 | 180 | 321 | | 165 | | 138 | | | | | | | | 71 | 23 | | | 172 | 57 | 65 | | S14 | | | |
| brake on exec enthusiasm/focus on stakeholder responsibilities | | | | 19 | 218 | 365 | 182 | 322 | | | | 365 | | | 34 | | | | | 78 | 35 | | | 172 | 57 | | | | 234 | 291 | 32 |
| stakeholder interests/social responsibility | 15 | LI 32 | | | LI 215 | | | LI 325 | LI 120 | | | | | 32 | 79 | | | | 24 | | | | | 172 | | LI 64 | 57 | | | 292 | 31 |

| Source reference | 2 | 4 | 5 | 9 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 23 | 24 | 25 | 27 | 28 | 29 | 1 | 3 | 6 | 7 | 8 | 10 | 11 | 20 | 21 | 22 | 26 | 30 | 32 |
|---|----|----------|-------|----|-----|-----|-----|-----|-----|--------|-----|-----|--------|----|----|-----|-------|--------------|----|----|-------|-------|------|-----|----------|----|----|------|----------|-----|----|
| Risk Management - The Processes | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| financial scrutiny | | 39 | 18 | 21 | | | | | | 165 | | 137 | 669 | | | | 23 | 1007 | | | 6 | 27 | LI 5 | 168 | 61 | | 57 | | 210 | 294 | 46 |
| managing performance indicators | 17 | | | 21 | 218 | | | | 123 | | 365 | 140 | LI 672 | 34 | | | | | | | 5 | 27 | 5 | | 64 | 63 | | S14 | | 291 | 49 |
| strategic/business plan formulation | 77 | 38 | 18 | 16 | | 368 | | | | | | 137 | 669 | | | 500 | | | | | 5 | | | 165 | 56 | | | | | | 46 |
| transition facilitation | | 28 | LI 18 | | 220 | 368 | 185 | | | LI 165 | 368 | | | 33 | | | LI 23 | 1007 | | | | | | | 767 | 66 | | S 13 | | | 39 |
| formalising/changing procedures - financial & audit | | | 18 | | | | | | | 165 | | | 671 | | | | 23 | 1007 | | | 6 | 27 | | 167 | 56 | | 57 | | 210 | | 32 |
| formalising/changing procedures - strategic decisions/business planning/ (improved) business/strategic planning | 70 | 38 44 | 18 | 16 | 218 | 366 | 181 | 322 | 121 | 165 | 364 | 138 | 669 | | | | 23 | 1007 1008 | 42 | | 5 | 27 | LI 6 | 166 | 62 64 | 65 | | S 15 | 204 | | 32 |
| formalising/changing procedures - risk assessment & management | | 38 | 17 | 18 | | 367 | 183 | 321 | | 165 | | 139 | 669 | | | | | | | | 6 | 27 | * 5 | | | 65 | | S 14 | 205 | 291 | 54 |
| duty of care/risk assessment & management/litigation support | 13 | 38 | | | | | | | | | | 137 | | 32 | 79 | | | | 21 | | 36 | 28 | ? 17 | 167 | | 66 | | | 212 | 291 | 47 |
| watchdog/policeman (compliance)/ contractual monitoring (VC)/ representative (funding requirement) | 16 | 43 | | 16 | 214 | | | | 119 | | 362 | 138 | 671 | 34 | | | | | 23 | 72 | LI 12 | LI 27 | | | | | | | 214 (LI) | | 28 |
| limit influence of major shareholders/ represent minor shareholders | | | | | | | | | | | | | 672 | | | | | | | | | | | | | | | | | | |

| | | | |
|-----------------------------|------------------------------------|---------------------------------|---------------------------------|
| KEY | | | |
| * = SME data | *(L) = Listed small companies data | LI = Less Important role aspect | ? = No consensus on role aspect |
| U/L = Unlisted company data | | | X = Not part of NED role |

Interview Questions

| Questions for Managing Director | Questions for Non-Exec Director |
|---|--|
| <p>1. MD & Company history Working life history, leading to History of company</p> | <p>1. NED history Working life history, leading to History of Executive Director appointments History of non-executive appointments (motivation etc) Confirm current appointments</p> |
| <p>2. NEDs in this company, on this Board History of non-executives in company (decision to appoint etc) History of current non-exec within the company (selection, appointment, time-bound contract etc) NED role and how agreed Changes to role over time and how agreed How MD & NED come to agree company objectives Contact with NED outside board meetings/company (social?) Other directors contact How describe MD relationship with NED How describe other directors' relationships with NED If not first NED, how differ from others</p> | <p>2. NEDs in this company, on this Board How became involved with this company (selection, appointment, time-bound contract etc) NED role and how agreed Changes to role over time and how agreed How MD & NED come to agree company objectives Contact with MD outside board meetings/company (social?) Other directors & employees contact How describe relationship with MD How describe relationship with other directors</p> |
| <p>3. Board operation Overview of Board (membership, frequency of meetings etc) Talk through typical agenda How NED prepare for Board meeting Recent Board decisions - strategic/operational/NED influence/NED little influence How involve NED if difficult decisions How does NED get exec/other directors see perspective To what extent previous experience influence NED decisions/advice to Board Unwritten rules of Board How Board changed since first/this NED appointment How different would company be without NED appointment</p> | <p>3. Board operation Overview of Board (membership, frequency of meetings etc) Talk through typical agenda How as a NED prepare for Board meeting Recent Board decisions - strategic/operational/NED influence/NED little influence How does MD involve NED in difficult Board/company decisions How does NED get exec/other directors see perspective To what extent previous experience influence NED decisions/advice to Board Unwritten rules of Board How Board/company changed since your NED appointment How different would company be without NED appointment</p> |

| Questions for Managing Director | Questions for Non-Exec Director |
|--|--|
| <p>4. NED impact on Company Benefits & problems of having a NED What makes for successful NED/company relationship How this NED match your ideal Circumstances for removing a NED How NED changed since appointment here</p> | <p>4. NED impact on Company Benefits & problems of having a NED What makes for successful NED/company relationship How this company match your ideal Circumstances for resigning as a NED How NED changed since appointment here</p> |
| <p>5. NED & Shareholders How perceive NED role vis-à-vis shareholders How show at Board meetings Affect on decision-making within/outside Board meetings</p> | <p>5. NED & Shareholders How perceive NED role vis-à-vis shareholders How show at Board meetings Affect on decision-making within/outside Board meetings</p> |
| <p>6. Training issues Training of all SME directors How differ for NEDs Induction and appraisal of NED</p> | <p>6. Training issues Training of all SME directors How differ for NEDs What else would have helped you as NED of SME Induction and appraisal of NED in this company</p> |
| <p>7. Final questions Similarities and differences between MD & NED Appointment time frame of NED</p> | <p>7. Final questions Similarities and differences between MD & NED Appointment time frame of this NED appointment</p> |
| <p>Check all issues covered Anything else about NEDs in SMEs MD feels not covered by interview</p> | <p>Check all issues covered Anything else about NEDs in SMEs NED feels not covered by interview</p> |

Brighton Business School
Small Business Research Unit

The Role of Non-Executive Directors in UK SMEs

Interview Question Synopsis

Please note that all interviews are confidential and have a semi-structured format encouraging the participants to tell the story of their experiences.

The following will form the basis of the researcher's interview framework and will follow on from a brief resumé of the interviewee's working life to date.

The process of decision-making within boards of SME companies including Board meeting preparation and with examples of recent Board decisions:

- One strategic and one operational decision
- One decision where NED had a major influence
- One decision where NED advice not taken in full

Previous experience of the NED and how this is used by the MD and by the Board

How the NED interacts with the company, including their relationship with the MD and their relationships with other members of Board and senior management

Factors contributing to successful NED/Company relationship and comparing experience with this NED/Company relationship and the 'ideal'

The benefits and problems of a company having a NED and those specific to this company

How different the company would be if the decision to appoint a NED had not been taken

How the Company objectives were communicated to NED originally and how involved in any changes

Shareholders views and Board decisions (if appropriate)

Consideration of the best preparation for being a director of a small business

Any other matters relating to the role of NEDs in UK small businesses not covered by this interview

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Research Student
Small Business Research Unit
University of Brighton Business School
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Interview Contact Summary Form

| | | |
|--|---------------|-------|
| | Completed by: | Date: |
| Company name: | | |
| Contact name & designation: | | |
| Tel: | | |
| Fax: | o Telephone | Date: |
| Email: | o Visit | Date: |

1. What were the main issues or themes that struck you in this contact?

2. Summarise the information you got (or failed to get) on each of the target questions you had for this contact:

| | | | |
|-----|--|------|--|
| 1.1 | Work / life history | 2.8 | Company information to NED |
| 1.2 | Director of XYZ history | 2.9 | How X differs from previous NED(s) |
| 1.3 | NED appointments history | 2.10 | What makes successful NED/Company relationship |
| 1.4 | How X was appointed to NED role | ? | Removal of NED |
| 2.1 | Overview of Board operation | 3.1 | Benefits & problems of having a NED |
| 2.2 | X's role & Changes over time | 3.2 | How company different if no NED |
| 2.3 | Contact with NED outside of Board meetings | 3.3 | Are you a NED or considered it? |
| 2.4 | Others contact with NED outside meetings | 4 | Training: Preparation for directorship |
| 2.5 | Relationship with NED | 5 | Anything else about NEDs in SMEs |
| 2.6 | MD relationship with NED | 6.1 | Clarification if required |
| 2.7 | Board changed with NED(s)? | 6.2 | Copy of tape required |

3. Anything else that struck you as salient, interesting, illuminating or important in this contact?

4. What new (or remaining) target questions do you have in considering the next contact with company?

Checklist

| Prior to interview: | Initial | Date |
|--|----------------|-------------|
| 1. Copy & read thoroughly the MD & NED survey replies relating to company | | |
| 2. Check recent company documentation available in public domain | | |
| 3. Customise forms (e.g. Company name, MD name, other directors - 2.3 etc) | | |
| 4. Read up on sector for awareness of current issues (FT.com) | | |
| 5. Send standard letter including time etc | | |
| 6. Send summary of questions | | |

| Day of interview | |
|--|---|
| 1. Confirm interview will be taped for transcription /analysis | ✓ |
| 2. Confirm information will remain confidential and assure anonymity of individuals and company in the final report | |
| 3. Style of interview – semi-structured ask to tell the story of their experiences rather than fire questions | |
| 4. Set up tape recorder 1 | |
| 5. Give background about the project: <ul style="list-style-type: none"> • i.e. Role of Non-executive directors in UK Small and Medium sized Enterprises. Work Funded by Association of Chartered and Certified Accountants (ACCA) • Postal survey completed in Spring 2000. On behalf of the ACCA, we now wish to gain a greater understanding of this role in small businesses | |
| 6. Give reason why the company is involved e.g. MD has agreed that the company can be considered as one of the cases. | |
| 7. Give background information about interviewer | |
| 8. Set up tape recorder 2 | |
| 9. Generally, interviewer will allow tape to go on and prompt only where necessary | |
| 10. How will participant indicate to interviewer if they wish to break off the interview? | |
| 11. Require no interruptions, including from mobile and other phones and colleagues | |

1 Interviewee #1: MD Company A Date: July 2000

2 R: So, what are the decisions, why is that they choose to have one, how do they make use of a
3 non executive director. I'm hoping to further that study by looking in depth at six companies who
4 are small companies, who have either 20-49 employees or 50-99 employees, who have one
5 non executive director and look at in particular how those companies use the non executive
6 director, the sort of relationships that build up within the company with a view to advising,
7 whether it be government or other organisations. What is that a non executive does and if a
8 business is trying to grow is that the best means to help it grow in relation to other initiatives that
9 are around?

10 AMD: It depends on the MD doesn't it?

11 R: That's what I'm trying to tease out. I like to first say, thank you very much for agreeing to see
12 me. It should only take about an hour this interview.

13 AMD: (Looks at watch) That would be fine.

14 R: If you would like a copy of the tape at the end of the interview, if you let me know, I'll make
15 sure you are sent one.

16 AMD: Yes that will go without saying.

17 R: So, you would like a copy?

18 AMD: Yes.

19 R: I'm a researcher at the Small Business Research Unit at the University of Brighton
20 [Interruption: NED] and I'm part of the team that's researching into the role of non execs and at
21 the end of the interview I'll explain about my own personal research if I may.

22 In March 1999 you filled in a questionnaire about director's and their advisors...

23 AMD: Yes, that's right.

24 R: Now, ACCA have asked us to interview a certain number of companies in more depth so this
25 is why I am here today.

26 AMD: How did you pick [Company A]? Because we are top of the alphabet?

27 R: No, there's a random sample of companies on Companies House database and we sent out
28 to five and a half thousand companies; [Company A] was one of the companies that replied, you
29 replied to the managing director survey and then of those companies that replied who had non
30 executive directors we then sent out a non executive director survey forms. From those
31 companies, we then selected the companies where both managing director and non executive
32 director had replied.

33 AMD: What sort of percentage was that?

34 R: We got a 20% response on the first survey and then a 22% response on the second survey.

35 AMD: [pause as makes note of figures] That's not bad.

36 R: For cold calling, a postal questionnaire, we were quite pleased with that response. We
37 further defined our companies by saying they must be below 200 employees and also must be
38 unquoted because we want to talk to companies as I said who don't need to have; it's not a
39 requirement to have a non executive director whereas if they were listed they would be
40 expected to have one.

41 The style of interview is I'll ask a question and ask you to talk. So, I wonder if you could take a
42 few minutes to tell me the background of [Company A], the history of it.

43 AMD: The company started in 1969 with 4 directors, [Founder], [Partner 1], [Partner 2 first
44 name].. I can't remember the other two were, their surnames but they fell by the wayside within
45 two years leaving the two major players, [Founder] and [Partner 1]. They saw a niche market for
46 a use of band sawing machines for cutting metal hitherto unused extensively in engineering
47 circles because at that time heavy duty circular saws were the norm. These are big, heavy,
48 expensive to maintain, tooling is expensive on them and because they are so big they remove a
49 lot of metal when they are cutting. The ban saw is light, cheap tooling, one man can quite easily
50 operate two or three machines and it removes just a fraction of the material the cold saw does.
51 So they built that business up and over the period of probably 4 years they had to stop working
52 part time and begin working full time and the company moved to these premises, in fact the very

53 unit we are sat in as was then the New Towns Commission for [Home town] were then building
 54 these units and they were at very preferential rates. [Founder] and [Partner 1] took the bull by
 55 the horns and we have been here ever since. We must be quite unique, the fact that we were a
 56 tenant and that we are on the same site, although we own it now.

57 The company grew, they employed more people and realised that if they were to purchase
 58 more saw blades, they could get them substantially cheaper than what they were purchasing at
 59 the moment. So that spawned the sale of saw blades and the tooling which is a division within
 60 the company which in turn assisted us because people were coming to us for saw blades and
 61 invariably they would ask for sawing machines plus the fact some of the accounts that the
 62 company was cutting for at that time were blue chip companies and governed by accountants
 63 and the accountants were saying, why are you spending a hundred thousand on just cutting
 64 metal when we can do that, so we had sufficient relationship with these companies, so they
 65 would come to us and say where can we buy one of these machines. Buy it off us and we'll
 66 supply you with the saw blades, we will also maintain it for you, we'll do the whole turnkey
 67 package and by and large the company still operates in the same vein today.

68 In 1982 maybe 81, I'll have to check my facts, [Founder] and [Partner 1] somewhat ambiguously
 69 parted company, [Partner 1] wanted to retire, [Founder] wanted to carry on and it really did
 70 stretch the company to its limits at that time. During that period I was managing the operation
 71 for them, I wasn't a director of the company and I was being pulled between to two. It was most
 72 unsatisfactory but it did resolve itself in the end. I think [Founder] took out some sort of loan with
 73 the bank and paid the other guy off; he went to live in America and the company continued.

74 In '87 I was elected on to the Board of Directors. We had diversified; we had invested heavily in
 75 large capacity sawing machines, two other units which we are still in. It was a long haul after
 76 paying off one partner to come back into profit. [Founder] was killed in a road traffic accident in
 77 1987, September, which was quite a hit for the company because it was a small family run
 78 business; he left a widow and three children. [Owner] had not been involved with the company
 79 on a day to day running basis. It was a very steep learning curve for her, a very steep learning
 80 curve for me because she elected me as her managing director then and with a recession that
 81 was hitting us then, I was in for quite a tough time. We did have a non executive director at that
 82 time who was tasked with increasing sales. He did a very good job on marketing, a lousy job on
 83 sales. He caused a lot of animosity within the company. He went. His contract was not renewed.
 84 Still, in the grip of that recession and heavily involved with the bank, the bank [pause] in their
 85 wisdom advised [Owner] that we should use more professional advice; to this end they
 86 recommended [Accountants & Management consultants]. I wouldn't pay them buttons. They
 87 ripped this place apart and we're still reaping the benefit of it now. People have very long
 88 memories.

89 We came through that, basically on the back of aerospace business that I had developed with
 90 [Founder] back in 83, 84 and we're a first tier supplier to [Engineering PLC 1] on their wide core
 91 fan blades, in fact all of the wide core manufacturing comes through us and we have a separate
 92 operation now in [County] adjacent to [Engineering PLC 1] . [pause]

93 So with [Accountants & Management consultants] pulling the place to pieces, in the interests of
 94 profitability and the bank, we came through that; started to make profits again. Can't remember
 95 when [NED] came on board, it's on my graph though in my office, must be five years now, four
 96 or five years.

97 R: I think he said in 94.

98 AMD: Yes, it would have been 94. Just after [Owner]'s son decided to join the company.
 99 [Production Director] had been indirectly involved with the company because his father had set
 100 him up in a business; video rental and tooling in the village just down the road. Videos and
 101 computers were fine but it's a competitive market place, [pause] we lost a lot of money on that.
 102 Fathers and sons do not always mix in business and I don't think [Production Director] fully
 103 realised the potential of this company until after his father had died when we were looking to
 104 upgrade our own IT operation and it's a case if you're going out into the market place and being
 105 sold something you don't really want by some shark who is going to rip you off or utilising the
 106 skills within the business. And that's where [Production Director] came in because he's an
 107 excellent computer programmer, didn't know anything about the business other than what he
 108 had seen from the outside looking in and he came on board as works director but with a brief to
 109 give me IT information that was unavailable with the current accounts package we were using
 110 before and I would think it must have been 9 or 12 months after that [NED] came along. That
 111 was a surprise to me because I wasn't consulted. I think [Owner] recognised her son's

112 shortcomings. She wants to keep the business going, she'd like it to be a family business and
 113 obviously her son and heir is the guy who's going to carry on with it. He hasn't got an
 114 engineering background; he had a got a sketchy business acumen with the shop he was
 115 running and [NED] is really there as his mentor. I must admit I have learnt a lot from [NED]
 116 [pause].

117 [softly] So here we are today.

118 **R:** Thank you, that was very comprehensive. I would like to talk about the roles of non
 119 executives in this company. Now you mentioned briefly that you had one that was very good in
 120 marketing but lousy on sales.

121 **AMD:** Yes.

122 **R:** Could you perhaps tell me, if you are aware, why the decision was to appoint that person in
 123 the first place and how he was selected and how he was let go...

124 **AMD:** I don't know how he was selected or why he was selected because I was running the
 125 spanner end of the business and had no input at all to the running of the business, the finances
 126 of the business.

127 **R:** This was prior to you becoming a director?

128 **AMD:** Yes.

129 **R:** Yes, as you said it was 1987, so he was already...

130 **AMD:** But I was left with him when [Founder] died.

131 **R:** Any idea when he was appointed?

132 **AMD:** Not off the top of my head. It must have been ...

133 **R:** Was it one year or two years...?

134 **AMD:** A year or [pause], no. No he came and went while [Founder] was alive. Yes he came
 135 and went while [Founder] was alive. He had a fixed term contract and after that period he went.

136 **R:** He was a director, a non executive director?

137 **AMD:** A non executive director, yes.

138 **R:** As opposed to a consultant?

139 **AMD:** Oh, I assume he was a non executive director. He acted like a non executive director
 140 [laughs].

141 **R:** I am just trying to understand what the history is within the company and you have been very
 142 discreet about the gentleman from [Accountants & Management consultants] but I gather it
 143 wasn't a success?

144 **AMD:** No.

145 **R:** [NED]'s appointment, you say, was a surprise to you. You weren't consulted, certainly. So
 146 who made the appointment?

147 **AMD:** [Owner], the equity owner of the company.

148 **R:** And that time, she was chairman of the board, was she?

149 **AMD:** Yes.

150 **R:** You described how [NED] became a non executive director, how do you see, how his role in
 151 the company has developed over six years?

152 **AMD:** [pause] Not having been party to the terms of reference why he was employed, I can only
 153 assume it was for the development of [Owner] 's son and to give external view on the
 154 profitability on various parts of the company. One area of the company is very, [pause] how
 155 shall I say, isn't a profitable as others, it's a very, very competitive market and this is the sale of
 156 tool and band saw blades, circular saw blades. Initially when the company started in 1969, it
 157 was very, very profitable because it was new to the market place. If you were giving 5%
 158 discount away, it was much as you were giving on the list price of a product. I don't know what
 159 we were buying them for then but I can imagine, nowadays the large players that you have to
 160 deal with, [Steel production companies] are all big users and you are giving 70% away. That's
 161 how much the market has changed. Now if your giving that sort of discount away you've got to

162 have high volume turnover to make the same bottom line and I guess [NED] came to have a
163 look at that.

164 **R:** Has his role changed over time?

165 **AMD:** Yes it has.

166 **R:** In what way?

167 **AMD:** Initially, I think [NED] was looking at it with an accountant's eye as he's become more
168 familiar with everybody, it's colouring his judgement.

169 **R:** He's "going native"?

170 **AMD:** Yep.

171 **R:** I'll explain why I used that expression later on. You made an aside that he was brought on
172 really as a mentor for the son,

173 **AMD:** Yes, [Production Director].

174 **R:** but you said you had learnt a lot from him as well. What sort of things have you gained?

175 **AMD:** Err [pause] To be a bit more patient, [pause] to stand back before making a decision
176 [pause] and keep your eye on the bottom line at all times.

177 **R:** You said he was coming having an accountant's view, is that his background?

178 **AMD:** No, [NED]'s a metallurgist in sales.

179 **R:** But he has... but to you he has a ...

180 **AMD:** He has a greater understanding of accounts than I ever will. I'm a toolmaker by trade and
181 very much hands on, so I can see the applications, the opportunities; [NED] could probably see
182 those as well but he would then tailor it to how much money can we make. I don't think I lose
183 track of how much money can we make but [NED] has to have a justification and it doesn't
184 always work.

185 In fact we have a new line of machines in the factory at the moment which [Production Director]
186 and I saw at the EMO trade fair in Paris last year and when I first saw it I said "we have got to
187 have one of those" and his reaction was "we haven't got any work to put on it, we can't fill the
188 machines we've got!". I said, "if you put that in, the work we have got, you'll do in hours rather
189 than days and you'll generate other work. We can also sell those machines." Having discussed
190 that [Production Director] was in agreement with me and we browbeat the Board to let us have
191 the first one. If we had gone down [NED]'s path and did a justification we would still be
192 pontificating and debating it now and we would be [pause] two thousand ton of steel lighter
193 which is what we have already processed through the three machines we have got now.

194 **R:** In 12 months did say?

195 **AMD:** In the next twelve months we'll be doing twelve thousand tons and that's only probably a
196 third of what the automotive industry user.

197 **R:** How many of these machines are there in the UK?

198 **AMD:** Three. There are other marks and some of the steel stockholders are using the other
199 types but in my opinion they are not as good, they are not as efficient and they certainly don't
200 give the quality, but if it is for a forging industry, quality isn't quite as important because they are
201 just getting it red hot and putting it under a hammer and giving it a good bash.

202 **R:** I think when I was devising this protocol I made an assumption that the managing director
203 and the NED would have sat down and agreed what their roles would be and from what you
204 said to me...

205 **AMD:** Quite the reverse.

206 **R:** Yes. Have you had any discussions with [NED] about...?

207 **AMD:** Yes, I have. I had occasion to take [NED] to customers in the past where I have sat him
208 in a car for three hours at a time and we have got to know each other. We have been out
209 socially together as well, so yes; we have had the opportunity to discuss my role in the
210 company, his role in the company and the goals that we have to achieve.

211 **R:** Do you share the vision?

212 **AMD:** Yes.

213 **R:** Moving on to the Board of Directors now, could you give me a brief overview of the Board?

214 **AMD:** OK! Now we have [pause] we'll put [Owner] to one side, she is the equity owner of the
215 company, she has made over some of the shares to her son, [roduction Director]. Whilst [NED]
216 is chairman, I am managing director; we have [Production Director] as works director and
217 [Finance Director] as financial director. [pause] [Owner] will still dictate.

218 **R:** How often does it meet?

219 **AMD:** Once a month.

220 **R:** Everyone attends?

221 **AMD:** Yes.

222 **R:** What contact do you have personally with [NED] outside of Board meetings?

223 **AMD:** We probably socialise two or three times a year. We have been shooting together on one
224 occasion; I keep threatening to take him and play golf with him.[laughs]

225 **R:** There is a theory that all NEDs are found on a golf course!

226 **AMD:** That's very true, in fact that's where [NED] came from. [Owner] was a member of the
227 local golf club and an associate of hers there, who she had taken advice from in the past,
228 informally let her know about [NED] and so that's how they were introduced.

229 **R:** There's truth in the joke after all!

230 **AMD:** Oh definitely!

231 **R:** On a business side, what contact do you have outside of Board meetings?

232 **AMD:** On a business side, [NED]'s in two half days a week and he will always pop his head in
233 round the door and say hello and if we have got anything to discuss, personal, or specific within
234 the company then we'll have it out there and then. We don't always see eye to eye.

235 **R:** Can you give me an example of when you haven't seen eye to eye?

236 *AMD blushes and takes a long time before answering this question*

237 **AMD:** [28 seconds] I should be able to, [laughs] let me think. [40 seconds] It's not that often
238 actually because we keep a pretty strict regime on what we are trying to achieve here, it would
239 [60 seconds]

240 Personnel [80 seconds] I didn't believe that we were taking the right approach to discipline and
241 the overview of some of our managers and we were at the opposite ends of the spectrum on
242 that. In the end we ended up respecting each other's views and it's still not resolved to my
243 complete satisfaction.[100 seconds] The other side is on sales, [NED] is very much of the
244 opinion that our core business is as efficient as it can be, it isn't, we are running at about 50%
245 efficiency. We could do a lot, lot more and this is where he is getting too close to individuals
246 within that area, it's colouring his judgement, in my opinion.

247 **R:** You have sufficient respect to agree to disagree?

248 **AMD:** It's comfortable at the moment. It's too damn comfortable; it's not tight enough. But as
249 you're gleaned from the organisation that we have here, I'm not an equity owner, it's literally a
250 name only and if it has to be this way then fine! It's not satisfactory though.

251 **R:** I've worked with companies with a similar situation to yours, in my other role and so I do
252 appreciate the problems. Do others..... I am getting a slight feedback, I may be wrong, the
253 answer to the next question "Do others in the company have contact with [NED] outside of
254 Board meetings?" There are people who do, if so in what way do they have contact with him?

255 **AMD:** I don't know. [Owner], I mean they have, [NED] and [Owner] have contact outside of the
256 Board. I don't know how often and to what extent. It's none of my business.

257 **R:** Senior managers, employees?

258 **AMD:** I don't know.

259 **R:** Presumably when he is here he has contact with people outside of Board meetings.

260 **AMD:** Oh, right. Sorry I was taking it out of context. I thought you meant entirely out of work.

261 **R:** No I'm sorry. He is a director...

262 **AMD:** Within work, he has day to day contact with senior managers and shop floor personnel.
263 He's very informal in his attitude to the guys on the shop floor and they appreciate it.

264 **R:** The issue of getting too close?

265 **AMD:** That [pause] where do you draw the line? I don't know. I would not have said that was his
266 any detriment to his ability to do the job and he's strong enough o recognise that, however, on
267 the day to day running of our core business, [NED]'s of the opinion that it is good as it can get
268 and it isn't. But, [pause] he may be in a cleft stick as well because he's here to mentor the works
269 director whose job it is to rip that top which he isn't. He's the sort of guy that you can't [sigh] give
270 direction to easily.

271 **R:** The mentee? [Production Director]?

272 **AMD:** Yes.

273 **R:** Is this an issue of a family firm?

274 **AMD:** Yes.

275 **R:** How would you describe the relationship between yourself and [NED] ?

276 **AMD:** Friendly [pause]. One of mutual respect [pause]. He's very funny socially [pause]; in fact I
277 have to mug up on jokes before we go out socially so that I can compete with him.[laughs]

278 **R:** I've got a good Posh and Becks joke! I was with a company in [City] on Monday and I gather
279 the MD there is an avid Manchester United supporter; it's a good thing I didn't tell him that joke.

280 (AMD laughs out aloud)

281 **R:** You say it's mutual respect. From what you have already told me, you may not always see
282 eye to eye but you can resolve

283 **AMD:** Yes

284 **R:** to a working situation

285 **AMD:** Yes

286 **R:** but there is one thing that you feel uncomfortable about.

287 **AMD:** Hmm (affirmation)

288 **R:** What about the relationship between {NED} and other members of the Board? How would
289 you describe these?

290 **AMD:** [pause] [Finance Director] likes him; I think she holds him in awe. [pause] [Production
291 Director] respects him for what he is and what he has done but will still go his own way
292 whichever. [pause] And [Owner], [pause] she's very pleased with him.

293 **R:** You came on board in 1987 when the first non-executive here had been and gone. Has the
294 way in which the Board operates changed in any way since [NED]'s arrival?

295 **AMD:** Dramatically.

296 **R:** In what way?

297 **AMD:** It's very much more structured. [NED] recognises that I was doing far too much, been far
298 too involved in the day to day selling and he's eased me out of that role. I miss it a little bit but
299 it's the correct decision much more so than I realised. Again I was at the coalface with a pick
300 axe and really I should have been over in the corner saying look do it this way [chuckles]. Yes,
301 certainly a benefit. [pause]

302 Sorry what was the question?

303 **R:** How has it changed?

304 **AMD:** Oh yes. There are regular meetings, follow ups, linked into the business plan, linked into
305 the budgets and the financial plan cascaded down on to sales production needs, tooling needs,
306 machine needs and unless you get an opportunity that came along like it did last year then
307 [pause] that's where we took a little bit of a fire. I don't know what would have happened if it had
308 gone wrong. I would have been probably looking for a job.[chuckles]

309 **R:** Have you had to take risks? Speculate to accumulate?

310 **AMD:** Yes, I guess.

311 **R:** I gather you recently got IIP?

312 **AMD:** Yes.

313 **R:** Would you have got that if there hadn't been someone like [NED]?

314 **AMD:** [pause] [NED] didn't have anything to do with that.

315 **R:** Was that a Board decision to go for IIP?

316 **AMD:** Yes, it was. I'm trying to think how it came about now? With being BS5750 approved,
317 which went on to ISO9000 and it really rolled on to the back of that.

318 **R:** Was it that something that either your contractors expected? Or was it seen as a feather in
319 the cap?

320 **AMD:** It was a natural progression.

321 **R:** One of the organisations I work for has it and to remain a contractor for the local Training &
322 Enterprise Council

323 **AMD:** Aha

324 **R:** it was almost a condition, I don't think it was written into the contract, it was expected that...

325 **AMD:** We seem to do everything the hard way here, we did ours completely back to front. We
326 built it up from the bottom till we got up to the top and then we thought if we had a business plan
327 we could have gone down and done this much easier.[chuckle]

328 **R:** Hindsight is wonderful, isn't it? I was holding a presentation to companies about IIP and I had
329 one of my star companies saying don't bother it's far too much paperwork! I could have
330 throttled him!

331 **AMD:** [chuckles]

332 **R:** I gather since then our local TEC have abandoned much the paperwork and gone for a much
333 more streamlined approach.

334 **AMD:** It is happening nationally. In fact we have our follow up meeting with IIP alongside on the
335 15th August and it seems like they have adopted the same strategy.

336 **R:** The paperwork is a lot for a small business.

337 **AMD:** It is a lot...the portfolio you have to keep is ... It's a lot of work, a lot of work.

338 **R:** I have done part of an NVQ and told my husband, which is portfolio building that if I ever
339 threaten to do another one of these to physically restrain me. [AMD laughs] Sorry I digress!

340 **R:** How does [NED] receive information about the company?

341 **AMD:** In which respect?

342 **R:** Obviously the formal way through board minutes, board papers. What are the informal ways
343 of getting information to him?

344 **AMD:** There is always [employee first name] on the shop floor who seems to know more than
345 anyone else, so he always has a chat with him! [chuckles] Seriously, [NED] will go out of his
346 way when he comes in to go and see individuals just to say hello, how are you and he'll get a
347 feedback. In that respect, much as I like to do on a day to day to day basis is when I come in,
348 even before I get to my office I will take a walk around the factory and say hello to everybody. If
349 someone has got something to say they'll say it. [pause] [Production Director] has developed a
350 super executive information system, which is reeled off once a month. It is a massive
351 spreadsheet downloaded off the general ledger and every conceivable management information
352 that you require on this company is all there in a pack each month that we are able to dissect
353 and go through. So from a business information point of view [NED]'s got it all at his fingertips
354 and we can all look at it and discuss it, dissect it and make the necessary decisions on that. The
355 informal side, he gleans as much the same way as I do – word of mouth, talking to people,
356 observations...

357 **R:** Does that cause you any difficulties with him?

358 **AMD:** No, because in that respect we are probably right on the same wavelength.

359 **R:** This is rather a sensitive question. Under what circumstances might you consider removing a
360 non executive director from the Board. I mean I know you weren't on the Board when one was
361 previously removed.

362 **AMD:** If it was quite apparent that the guy was not doing his job, having said that I don't know
363 what job he was brought in to do, but if he wasn't pulling his weight and benefiting the company
364 from his contribution then he'd have to go. If he were antagonising and alienating key personnel
365 for no good reason, he or she would have to go.

366 **R:** Is this based on your experience with the consultancy?

367 **AMD:** Yes, it is.

368 **R:** So you have been there

369 **AMD:** Got that t-shirt

370 **R:** So you would recognise the signs and would...

371 **AMD:** Yep

372 **R:** I think we have already discussed this one which is if [NED] was not the first NED this
373 company appointed, how does he differ from the previous appointee?

374 **AMD:** Well, [NED] has been here five years.

375 **R:** And the previous person was here.....?

376 **AMD:** The very first one, it was a one year contract which was extended for six months, so he
377 was here eighteen months. The second one was [Accountants & Management consultants] ,
378 [pause] I can't remember if it was five or six months but they did an awful lot of damage in that
379 time.

380 **R:** So in your experience what makes for a successful non executive company relationship?

381 **AMD:** [pause] An understanding non executive director, one that is sympathetic to the MD and
382 his team. [pause] One that will help and assist with any [pause] awkward or difficult decisions
383 that has to be made in a business. Not one that says right we'll do this, this and this, you get rid
384 of those people and walks away from it.

385 **R:** Doesn't walk away when things get tough?

386 **AMD:** No

387 **R:** How do your experiences of [NED] match up to your ideal?

388 **AMD:** Up to my ideal?

389 **R:** To a successful relationship.

390 **AMD:** I suppose on a scale of 1 to 10, [NED] has got to be up in the eight and three quarters.
391 Could be younger and female, couldn't he! [laughs]

392 **R:** I hope you have an equal opportunities policy!

393 If I could move on, and I'm conscious of the time, to the benefits and problems of having a non-
394 executive director involved with the firm. Could you take a few minutes to tell me what you feel
395 the benefits and the problems are from having a non exec director?

396 **AMD:** Problems – it's a big chunk of money going out each year. [20 second pause] No other
397 problems.

398 **R:** Benefits?

399 **AMD:** Benefits? [pause] [NED]'s brought contacts to the company which we wouldn't have been
400 party to through his old companies. He's given the principal shareholder a lot more confidence
401 in the set up of the company, the way it is run, the way it's structured, the way it's going
402 forwards. [pause] It has benefited [Production Director] in the way he perceives his job and how
403 it has to be done. Although he's still very headstrong, there's still a lot of work to do there. I don't
404 think we'll change him.

405 And he [NED] has a very, what can I say, a kind way of motivating, it isn't a carrot or a stick but
406 you almost finding yourself reaching the same decision with him.

407 **R:** He helps you to get to the decision

408 **AMD:** Hmm

409 **R:** that he thinks you ought to take, but you make the decision.

410 **AMD:** Yes.

411 **R:** Good manager of people, interpersonal skills?

412 **AMD:** Good interpersonal skills, but I don't know whether he's a good manager of people
413 because I have never seen him in that position.

414 **R:** How different do you think this company would be if it hadn't taken the decision to appoint a
415 non executive director?

416

417 **AMD:** There would not be the structured accounting monthly. Some of the management
418 systems wouldn't be tailored quite the way they are from [NED]'s input. [pause] We would be
419 probably be spending an awful lot more on advertising, [NED]'s a got a bee in his bonnet about
420 advertising.

421 **R:** Using marketing rather than advertising?

422 **AMD:** It's not marketing either. [both laugh] Actually that's another area where we differ. I think
423 we should be marketing and pushing and advertising quite proactively whereas [NED] seems to
424 think we have got to a threshold within the business that it doesn't need that and it's strong
425 enough to go its own way without the media hype and interest. I think it will stagnate if you do
426 that.

427 **R:** Right. I think I know the answer to this one. Are you a non executive director?

428 **AMD:** No.

429 **R:** Have you ever considered becoming one or might you in the future?

430 **AMD:** I don't know whether I'm qualified to. If someone were to come along offering me a
431 bucket full of money I would certainly look at it.

432 **R:** Based on your own experience, what do you consider the best preparation for being a
433 director of a UK small business?

434 **AMD:** [laughs] You shouldn't ask me that! [pause] I don't think anybody ever sets out on an
435 employment career and if you were to say to me "what do you want to be?" "I want to be a
436 director", it doesn't happen like that. I think you need a desire to want to achieve the best out of
437 the given career that you're in and in the career I'm in, engineering, I guess the directorship is
438 top of the tree and you have achieved what you want to achieve. To go any higher is to own the
439 company and that nearly happened the year when [Founder] died. [Owner] was considering
440 selling it, in fact that went to the wire three times and it won't happen now because her son is in
441 the business. So it has to be a burning ambition to be the best, to be there at the top and I
442 guess if it was in the armed forces you would want to be brigadier or general or chief constable
443 in the police.

444 **R:** So, the top of the tree of your chosen career ...In other words to be good at what it is you do
445 and then become a director.

446 **AMD:** Yes, in a nutshell.

447 **R:** Do you think this preparation differs from between executives and non executives?

448 **AMD:** The non executive will have done it and been recognised for his or her expertise, the
449 ability is there. You have just answered your other question there!

450 **R:** So, the non executive, if I am right in what you are saying, is almost a step after becoming a
451 director?

452 **AMD:** Yes.

453 **R:** A logical progression. How does this company support its directors? Is there a difference
454 between supporting executive and non executive directors? I put this to [NED] by saying does
455 this company have a training plan and does it include the directors?

456 **AMD:** The company has a training plan and it doesn't include the directors. I think we are
457 expected to be there all the time and nobody trains you to be a director. There is no sort of
458 module here and this is what you do. This is what I found most frustrating when I became

459 managing director, not only was I running the company, being responsible for everything but I
460 also had to train myself to be a managing director. It has to come from within.

461 **R:** One of the reasons I am asking this, I mean I come from a quasi-training background or I
462 work within the training industry shall we say,

463 **AMD:** Hm hm

464 **R:** and there are courses starting up for – [Business School 1] holds one - directors of small
465 businesses. There is a training programme and [University 1] also offer a non executive director
466 training programme and one of the things I want to look at once I have spoken to people, who
467 are operating as the MDs and the non execs in small businesses, as there is very little
468 academic research that's gone into this

469 **AMD:** Hm hm

470 **R:** in small businesses in particular and then I would like to look at what it is they are offering.
471 They must have come up with that, those set of courses and materials from talking to non
472 executives, were they non executives for the [Chemical PLC]s of the world or were they non
473 executive for [Company A] or whoever else?

474 **AMD:** [sigh] I don't know. I guess as with anything a good education is going to benefit. It was
475 hard work for me because I didn't start educating myself until a long time after I finished school
476 [pause] and I don't think that anyone at university can tell them that or at school even can tell
477 them that. You really have to mature within yourself before you realise where you're going.

478 **R:** I think these courses are designed to be post-experience courses and they're not for
479 someone like me going along and learning how to be a director of a company never having
480 been in whatever industry it was, I've never aspired to own my own company. I'm not a
481 manager, I like people to like me too much.

482 **AMD:** Right!

483 **R:** I learned the hard way that it doesn't work because people abuse

484 **AMD:** Yes

485 **R:** what you expect of them and your trust. Once bitten...

486 I am just going to check my questions, is there anything else you would like to say about non
487 execs in small businesses that you feel hasn't been covered?

488 **AMD:** Goodness. [pause] How do you choose a good one? We've had two bad ones, our third
489 time lucky I suppose. [Owner] got this one, [NED] by referral from a valued, trusted friend. The
490 other two, the first one was hired to do a job which he did to a certain degree of satisfaction but
491 he did not have good interpersonal skills and the second ones were forced on to us by the bank
492 who are faceless entities that are just looking for a bottom line and return on capital and then
493 they didn't stay. We made a mistake by having taken them on board, we were not strong
494 enough to stand up to the bank at that time and say no.

495 **R:** Were you given the choice, or were you told you must have one and here's a list or you were
496 told you must have one and here he is.

497 **AMD:** I think there was a veiled threat there; if you don't do something about it, we are going to
498 have to step in and do it for you because we were heavily into debt then. Fortunately we pulled
499 through it, I don't think we had any assistance from the bank but they foistered these guys on us
500 who didn't do a good job and they could have done it a lot more sensitively than they did but I
501 think some credit must go to myself, to [Finance Director] and to [Owner] , because there were
502 just three of us then, who were able to come through that and have done with these characters
503 and built the company up to the situation it is now where the bank is paying us.

504 **R:** Nice to have turned the tables. I am interested in non executive/consultants who are
505 imposed either by the venture capitalists or the banks. Earlier I used the expression "going
506 native" My supervisor did some research on the original managing director questionnaire and
507 there they compared people who had non executive directors which they were part of the group
508 and the group decided on the non executive director and compared that with the experiences of
509 the managing directors who had chosen their own. There was an assumption in the difference
510 in the way they operated and there is no difference.

511 **AMD:** Oh right!

512 **R:** Now, as part of my pilot study, I interviewed somebody I know who is a non executive
513 director of a company who's been selected by a company but also put into a company by a
514 bank, and she said she did not act any differently, she was a non executive director first and
515 foremost. Who had appointed her irrespective of..., didn't matter, she was there, she did the
516 best for the company and from this research it looks as though it doesn't matter why you have
517 been put on the Board, you are a non executive director, you do the best for the company. Now
518 that may not be what the group wants, that may be that they are 'going native' after they have
519 been there for about a year so that the best thing is to pull them out after about a year, so you
520 actually want somebody to go in and stir things up it depends on the reason that you are putting
521 a non-exec in.

522 **AMD:** Yes

523 **R:** The other point I mentioned to [NED] when he was asking what else was this research
524 leading to, for me personally it is part of my PhD and for that I am looking to get the co-
525 operation of six companies, three with 20-49 employees, 3 with 50-99 employees who have one
526 non executive director and for me to look at that company in depth and look at the relationships
527 between managing director and non executive director and if possible another board member
528 and just get to know how that non executive director works within the company. I was hoping
529 that [Company A] would let me study them as one of my case studies. What it would involve is
530 copies of your sales brochures, possibly copies of letter of appointment you sent to your non
531 executive directors. If at all possible attendance a Board meeting, not to be taped and anything
532 said there would be kept totally confidential. I am just trying to understand about working
533 relationships, the sort of social science side of the workings of the business with a view to
534 holding up examples, role models to other companies.

535 **AMD:** What is the benefit to [Company A]? When you are famous.....?

536 **R:** Highly unlikely! [AMD laughs]

537 You would be contributing to the knowledge of non executive directors, I mean hopefully from
538 my research I would be able to answer your question, how to choose a good one? So it would
539 help your own company, I don't know if you had thought of perhaps look at a succession plan
540 for [NED], but it might help the company look at that. One of my supervisors, he worked with a
541 company who was willing to have their name mentioned in academic papers as being an
542 example of good practice. I don't use the words best practice, just good practice but I would
543 never identify a company unless I had the explicit agreement from that company that they could
544 be identified.

545 **AMD:** I can't give you an answer on that at the moment, Rosie.

546 **R:** I appreciate that.

547 **AMD:** Again, I shall discuss that with [NED] and the other Board members. Before we
548 embarked on this interview [NED] and I discussed it. I wasn't particularly in favour of it because I
549 couldn't see where it was leading or what advantage there would be to [Company A]. I could
550 see it being a great benefit to [NED]. You highlighted an opportunity that may be there for
551 myself so it's beneficial from that point of view. We'll see.

552 **R:** Thank you - that is all I ask. I do thank for your time. I work with small businesses in the town
553 of Newhaven and I know time is most precious commodity that you have.

554 **AMD:** It certainly is!

555 **R:** I do appreciate that, far more than some of my colleagues in both the college I work in and
556 the university and I look forward hopefully to meeting you again.

557 **AMD:** OK. Cheers.

558 **INTERVIEW #2: MD Company A Date: Sept 2002**

559 **R:** You don't object to the taping?

560 **AMD:** No.

561 **R:** Would you like a copy of the tape as you did last time?

562 **AMD:** Yep.

563 **R:** Okay. As I, I mentioned I think that I now following up from the ACCA interviews...

564 **AMD:** Yeah.

565 R: ... and there will be a report on that, produced by my supervisors, I hope in the not too
566 distant future.

567 AMD: What does ACCA stand for?

568 R: Association of Chartered Certified Accountants. They were the people who originally
569 commissioned the research.

570 AMD: Yeah, yeah.

571 R: Now, just like last time, I'm going to ask some semi-structured questions.

572 AMD: Okay.

573 R: Last time I interviewed you I'd only just started on this round of interviewing, since then
574 I've done about 15 or so interviews, so I'm now coming back and this is part of my personal
575 research that I'm doing for my PhD. doctorate and it's based on decision making within SME
576 boards but I'll also be linking it back to some of the things you mentioned to me in the first
577 interview.

578 AMD: Okay.

579 R: I'll try and tease out a bit more detail, there.

580 AMD: Right.

581 R: Now, one question I didn't ask you last time and I would appreciate if you wouldn't mind
582 telling me a brief history of your working life, like a mini-autobiography.

583 AMD: Okay. Right. Apprentice Engineer. Finished my apprenticeship in – Oh Lord, it's a long
584 time ago isn't it – '68 or '69. I then took up a post in [local town], which is only a couple of miles
585 from here, when [spouse first name] and I got married. Wages in this region were much higher
586 than where I served my apprenticeship and took a post as a tool maker, where I served for
587 maybe three or four years, making machine tools and tooling for the needle making industry.

588 R: Right.

589 AMD: Went back to the organisation that I served my apprenticeship with – money was much
590 better there than when they were doing multiple shift systems – only stayed for 12 months. I
591 couldn't work three shifts, it was killing me. Having fallen asleep at the wheel coming home one
592 morning, I thought "No". I handed my notice in the next day. I then went to an organisation local
593 to us that manufacture flail mowing machines - I'm sure you've seen them on the sides of
594 motorways – as a machine tool fitter and worked there for, it must have been another four to
595 five years. Saw this post advertised at this organisation, at [Company A], for a machine tool
596 fitter, applied for it and did not get the job. I was subsequently approached by the then
597 Managing Director here six or nine months later, asking me to come and have a chat with him.
598 Well, I thought "I'll do that", but I had written to him in the meantime because he hadn't had the
599 courtesy to write to me and tell me why I didn't get the job and told him what I thought of his
600 interview techniques and his ability to interview people. So, I came along and thought "Well, if
601 he's interested and the other guy didn't pan out, this will do until something better comes along."
602 That was 27 years ago. *(Laughter)* Recognised while I was here that working on the shop floor
603 was not my forte. Put myself through college on what was then the old Institute of Works
604 Managers course for three years and applied for a job here as foreman; became foreman;
605 became Works Manager; appointed to the board; the MD as was then was tragically killed in a
606 road accident, so I was in at the deep end as MD at that time and the rest is history.

607 R: You said you're apprenticeship wasn't around here.

608 AMD: No, that was down by [regional town]...

609 R: Right.

610 AMD: ... at, what are now [PLC 3 subsidiary].

611 R: Sorry, [PLC 3]?

612 AMD: [PLC 3 subsidiary].

613 R: All right, okay. I know [PLC 3], I used to work in [UK region of PLC 3 head office]. Okay,
614 Thank you very much for that.

615 AMD: You're welcome.

- 616 **R:** Since my last visit, which was two years ago now, has there been any changes in the
617 company or the Board which you think I ought to be aware of?
- 618 **AMD:** No changes to the Board. We now have an additional satellite – I don't know whether
619 we had this when we last spoke, Rosie – we have a joint venture with [Engineering plc 2], which
620 is formerly [company name] in [Home town], where we have implemented a cell to saw their
621 material and we have our men working in their factory.
- 622 **R:** Right, and where is that?
- 623 **AMD:** That's in [Home town] .
- 624 **R:** Ok.
- 625 **AMD:** We operate on three sites now; one in [County], another one in [Home town] and the
626 Head Office here.
- 627 **R:** Right, okay. Okay, thanks very much. Well, as I say, since I spoke to you last I've
628 conducted quite a few interviews with Chief Executives of small businesses, whether they be
629 the founders, owner/managers or professional managers...
- 630 **AMD:** Okay.
- 631 **R:** ... all different types, and also the Non-Executives that work with those Chief
632 Executives and what's come out of those ACCA interviews is the most important thing is the
633 relationship the Non-Executives has with the Chief Executive Officer.
- 634 **AMD:** Right.
- 635 **R:** So, I would like to explore that in more detail, but using the synopsis I sent to you and
636 also going back to your first interview and teasing out some of the things that I'd like to know a
637 little bit more about if that's okay.
- 638 **AMD:** Okay.
- 639 **R:** Okay? First off, perhaps you could just talk me through a typical Board Agenda.
- 640 **AMD:** Right. I've brought some crib notes here. This is our management pack that we table at
641 each board meeting. At the front of there we have an Agenda where we go through Matters
642 Arising from Previous Meetings. I chair this meeting...
- 643 **R:** Right.
- 644 **AMD:** ... and the Non-Exec is always in attendance at those meetings with a full board.
- 645 **R:** Right.
- 646 **AMD:** We then have Finance, which is tabled by [Financial Director], my Financial Director,
647 who also then takes Capital Expenditure and any Litigation that may have been taken by us or
648 against us.
- 649 **R:** Right.
- 650 **AMD:** Item 5 is Sales. We then look at the various performances on the five areas that we
651 have within the company: [Division 3:C], [Division 5: NB], [Division 6 :SB], [Division 1: S&S] and
652 any capital equipment that we may have sold. We then take production, quality, personnel, and
653 there's one stand-alone, [Division 4: Engineering PLC 1] and discuss those in detail.
- 654 **R:** Sorry, who leads on those? You said [Finance Director] led on...
- 655 **AMD:** Oh, I beg your pardon. Sales, I take Sales and we discuss that and then production,
656 quality, personnel and [Division 4: Engineering PLC 1] my Production Director takes those.
- 657 **R:** Right.
- 658 **AMD:** Item 7 is Business Plan, which we sort of review every month, we table it and discuss
659 whether there are any alterations to the plan, any market forces that may be impinging on it and
660 by and large it doesn't alter that much, but it's there, it's tabled and discussed.
- 661 **R:** Right, and who leads on that?
- 662 **AMD:** That's open forum.
- 663 **R:** Right.

664 **AMD:** As are, we've changed the name of this, Communications. It used to be called IIP and
665 we have taken IIP, being accredited to it and it has enhanced our operation I would say, it
666 makes us look inwards, outwards and develops our business plan, but to be perfectly frank I
667 don't think it has helped us grow more business.

668 **R:** Right.

669 **AMD:** Or it has made us more efficient within our operation. So, we call it Communications
670 now.

671 **R:** Right.

672 **AMD:** Again, open forum. Item 9, Health and Safety and Risk Assessment, that's tabled by the
673 Works Director and Item 10, Any Other Business is usually circulated by our secretary,
674 [Secretary], and if it's brought to the table it's brought to the table by whichever member of the
675 Board and coupled with that Agenda, I mean we then have Management Accounts. Which are
676 fairly in-depth, giving a breakdown of profitability by division, expenditure by division...

677 **R:** And the divisions are the, the one's you mentioned before, ...

678 **AMD:** That's right. Just print those off for you. [Division 1: S&S], [Division 2: MS], [Division 3:
679 C], [Division 4: Engineering PLC 1], [Division 5: NB] and [Division 6: SB].

680 **R:** So [Company activity at PLC 2], you don't consider.

681 **AMD:** No, that's rolled into what we do at Head Office here, although we are talking about
682 splitting that out now because it is a stand-alone business which is very profitable. It detracts
683 from the profitability of Head Office, but there seems to be a change in direction to our business
684 plan by default. We've developed the operation in [County] at [Division 4: Engineering PLC 1]
685 and we've developed the operation at [Engineering PLC 2] from both of those operations from
686 what we have done at Head Office here and we seem to be developing an expertise for
687 outsourcing and creating joint ventures for what we do best, which is our [Division 3], by taking
688 work in here, developing it and giving the customer what they want in regards to quality, service
689 and price and as that business has grown, rather than them take it away from us, we've
690 suggested, "Well, why don't we come to your site and do it on site for you, more cost effectively
691 than you could do it yourselves?" And we've had two instances where it's worked very well and
692 we're currently discussing a third at the moment.

693 **R:** And who was it that, or yes, who was it that made that decision? Or how was that
694 decision made?

695 **AMD:** The decision was made for us by, at [Division 4: PLC 1], by the end customer, which is
696 [Engineering PLC 1].

697 **R:** Right.

698 **AMD:** There was so much value in material on the road at any one time up and down the
699 country that it made sense to take that cost out and locate the operation closer to their factory in
700 the north. The same with [Engineering PLC 2] and the same with the third one that we're
701 discussing at the moment. But we haven't gone out into the marketplace and said "This is our
702 business plan and this is how we're going to do it," like I say it's come about by default that we
703 seem quite proficient in what we do in that direction.

704 **R:** How did the Board cope with that, having to make that decision?

705 **AMD:** It was an easy decision to make, because if we didn't do it, we would have lost the
706 business.

707 **R:** Right, okay.

708 **AMD:** But it was... once that decision was made then it was quite straight forward.

709 **R:** And who took that, who took it to the Board to get the decision?

710 **AMD:** I did.

711 **R:** And who did you, who did you involve prior to the meeting?

712 **AMD:** The Board members that were on the Board at that time, we were only a Board of three
713 at that time...

714 **R:** Right.

- 715 **AMD:** The managers that were involved with the operation here at that time and obviously the
716 customer.
- 717 **R:** And did that approach change when you went to [Engineering PLC 2]?
- 718 **AMD:** *(long pause)* Yes, we planted the seed with them that we could do it.
- 719 **R:** Right. Okay. Did you involve the same people internally?
- 720 **AMD:** We'd grown to a Board of five then and really I was speaking with the Production
721 Director and the Financial Director only.
- 722 **R:** Okay. Thank you. How does [NED] prepare for Board meetings?
- 723 **AMD:** He has the pack, he has the Agenda, he has the opportunity to bring other matters on
724 Any Other Business. Other than that, [NED]'s here two mornings a week. I would say [NED]'s
725 probably closer to the company as a Non-Executive than other Non-Executives are that we've
726 used in the past.
- 727 **R:** Right, okay. Does he do anything, does he refer to anything else other than the Board
728 papers?
- 729 **AMD:** Oh yes. He has his own Agenda with guys on the shop floor.
- 730 **R:** Right.
- 731 **AMD:** So, he's not seen as someone that is being brought in whose remote from them. He
732 certainly has his own ideas on how things should be done, which don't always agree with what
733 the Board believes in. *(long pause)* Yeah, ask me another.
- 734 **R:** Okay, well as I said in the leader thing that I sent in advance, I'd like to look at some
735 recent Board decisions and if you could talk me through some recent Board decisions, which
736 were one strategic, one operational, one where you feel [NED] had a major influence and one
737 where you feel perhaps his advice wasn't acted on as much as he would have liked.
- 738 **AMD:** Okay. Strategic, we have recently appointed a new employee to ... who will eventually
739 replace our Financial Director.
- 740 **R:** Oh, right, okay.
- 741 **AMD:** This guy doesn't have an accounting background but we can train him there, he is an
742 ex-[Computer PLC] computer programmer and trainer.
- 743 **R:** Right.
- 744 **AMD:** Operational. We have changed the type of equipment we've used within the factory,
745 certainly within the last two to three years from band sawing technology to high precision
746 circular carbide sawing machines.
- 747 **R:** Right.
- 748 **AMD:** Quite a large investment there, we have seven of these machines now and they're sort
749 of £60,000 or £70,000 each, so it's a lot of investment. I would say the decision where [NED]'s
750 been a major influence is driving profitability, certainly on [Division 6] and [Division 5] sales. He
751 keeps bringing this to the Board's attention that the profitability isn't as good as he would like to
752 see it and he keeps whipping that top of greater sales, greater efficiencies and we've put some
753 greater efficiencies in there by replacing one, two, three, four, five old fashioned grinding
754 machines with three state of the art CNC machines.
- 755 **R:** Right.
- 756 **AMD:** And that's proved quite successful. A decision where [NED]'s advice wasn't taken in full
757 has to be the operational decision where we went for the carbide sawing machines.
- 758 **R:** Okay.
- 759 **AMD:** [NED]'s always looking at profitability and the need to maintain profitability and whilst at
760 a trade fair myself and my Works Director saw this type of equipment, recognised it for what it
761 was and promptly bought one when the Board had already made a decision that we were going
762 to have no capital expenditure *(chuckles)* and we've grown it from there! And this is an area
763 where we're talking to the third customer where we might take the whole damn lot from there
764 and take it to another part of the country and operate on their site with their equipment.

765 **R:** Okay. I mean I have picked up from your previous transcript and in fact when you
766 mentioned this one under operational I realised it was the same thing I'd picked up on. You said
767 you'd, by then you'd installed three machines, which you and your Works Director had seen at
768 the 1999 [European city] EMO Trade fair?

769 **AMD:** God, is it as long ago as that? It only seems like yesterday.

770 **R:** Because you obviously said, having discussed it, having discussed that, [Production
771 Director] was in agreement with me, we brow beat the Board into letting us have the first one.

772 **AMD:** Yes, we did.

773 **R:** If we'd gone down [NED]'s path and did a justification we'd still be pontificating and
774 debating it now and would be 2000 ton of steel lighter which we have already processed
775 through the machines we've got now. So, how did you persuade the Board and in particular,
776 [NED], that to make that decision to get the three machines?

777 **AMD:** Right, we justified it with quite an elaborate spreadsheet based on volume of material
778 that we could process, tooling life which we estimated on manufacturers' database and the
779 ability to be able to process so much more material with the existing manpower we've got
780 without utilising more band saws and more space that we would need. For example, one of
781 these machines would do the work of three band saws.

782 **R:** Right.

783 **AMD:** So, three of the machines then would have done the work of nine.

784 **R:** Right.

785 **AMD:** One man can work three of those machines. On band sawing machines you need a
786 man at every machine. So that there's tremendous labour saving. We've now seven of those
787 machines in Bay 2, which are doing the work of 21 band saws.

788 **R:** Right.

789 **AMD:** 21 band saws you'd need a factory the size of a football pitch to get them in.

790 **R:** Right, okay.

791 **AMD:** We're probably at the end of our tether now, because the sheer volume of steel that
792 we're putting in and out of that unit dictates that we are up to capacity. We really do need a
793 bigger factory now.

794 **R:** Right. Okay.

795 **AMD:** Which will be the next debate no doubt the Board will be having. (*chuckles*)

796 **R:** You said you presented the information in quite a complex spreadsheet...

797 **AMD:** Yes.

798 **R:** What made you decide to use that?

799 **AMD:** It's the easiest way to look at the information that you've got.

800 **R:** Right, okay.

801 **AMD:** By far.

802 **R:** And [NED] was convinced?

803 **AMD:** Yes.

804 **R:** Can you think back to any other situations where a difficult decision needed to be taken
805 by the Board or thinking ahead to perhaps looking for new premises? Either how did you
806 involve, or how would you involve [NED]?

807 **AMD:** Looking for new premises – I hope we don't have to do that because I would much
808 prefer to take the work off site and do it on the customers' premises.

809 **R:** Right.

810 **AMD:** It's a nice, easy scenario for the company to expand and grow without spending an
811 awful lot of money.

812 **R:** Right, okay.

- 813 **AMD:** To make the justification for premises on the type of work we're doing would involve a
814 three, maybe five year long-term agreement with those customers. We can only settle on two
815 years at the moment at best with those clients, so we're at an impasse.
- 816 **R:** Right.
- 817 **AMD:** The formula works, I know, because the two joint ventures that we currently have, the
818 ones been running since 1989 and the other's been running for three or five years.
- 819 **R:** [Engineering PLC 2]?
- 820 **AMD:** Yes. I can't remember whether I mentioned that last time.
- 821 **R:** You didn't mention it, no.
- 822 **AMD:** No. It was in its infancy then.
- 823 **R:** Right, okay. So, around '99?
- 824 **AMD:** Must be.
- 825 **R:** So, rather than thinking forward, can you think back to any difficult decisions the board
826 had to take that you haven't already mentioned and how did you involve him and how did he
827 contribute?
- 828 **AMD:** I suppose I've always backed away from his idea going away from capital plant sales.
829 I've always felt it was as one with the aims of the company and the ethos of the company giving
830 the customer the total sawing service be it cutting the metal, supplying the blades, servicing the
831 blades, supplying the machinery, servicing the machinery.
- 832 **R:** Right.
- 833 **AMD:** I can see where he came from with the capital involved with capital equipment and quite
834 frankly we haven't got the space now in any case.
- 835 **R:** Right.
- 836 **AMD:** So, yeah, I guess I was dragged screaming towards that decision.
- 837 **R:** So, how do you think he contributed to that decision?
- 838 **AMD:** Oh, he brow beat me.
- 839 **R:** Okay. How did you feel about that?
- 840 **AMD:** Miffed at the time, but I think he was right.
- 841 **R:** Right, okay. Did it affect your relationship with him or damage it in any way?
- 842 **AMD:** No.
- 843 **R:** Right. What are the unwritten rules of the board?
- 844 **AMD:** Last one in makes the coffee! The unwritten rules? You know, I don't think we've got
845 any. Give me an example.
- 846 **R:** Acceptable/unacceptable conduct. (long pause) Perhaps Director versus Shareholder
847 issue. Shouldn't really be leading you, but...
- 848 **AMD:** No. Obviously the major shareholder of the company has – if she wants something she
849 has it. So...
- 850 **R:** How does she influence the Board?
- 851 **AMD:** Well, she'll either come to me or to [NED] and say "I would like this."
- 852 **R:** Right.
- 853 **AMD:** And if it's within reason, I've no objection. It is her business after all.
- 854 **R:** Right.
- 855 **AMD:** But, I mean there's nothing over the top that the major shareholder has ever requested
856 of the company. I mean she's just had a new vehicle and I couldn't for the life of me understand
857 why she went for something as mundane as she's gone for, but if she's happy with it, fine.
- 858 **R:** Right, okay. So, I'm getting the impression that you don't feel there are any unwritten
859 rules.

860 **AMD:** *(long pause)* No.

861 **R:** That's fine, thank you. Could you talk me through an example of how [NED] tried to get
862 the Executive Directors to see his perspective on an issue, perhaps on the purchase of the
863 three machines or, you know, how does he try and convince you, or on the, was it machine
864 sales side, how did he, how did he get the Board to listen to him?

865 **AMD:** Purely on a profit argument.

866 **R:** Okay.

867 **AMD:** If we can convince our [NED first name in full] that we can reduce cost and enhance
868 profitability by any acquisition he will put his name to it.

869 **R:** Right.

870 **AMD:** If we cannot, then he will want to know why. Machine sales in the past have always
871 been very marginal, because there are so many other people out there doing it and it was
872 always my argument that there are other sales riding on the back of those machine tool sales
873 that we would not get an opportunity to go in for, for example, servicing of machines. If we don't
874 sell the machine we will never ever have machine tools servicing. We would have to wait until
875 warranty periods has expired and then we would just be someone else knocking on the door
876 instead of being in the factory. And the same goes with the tooling that goes on those
877 machines. So, by stopping machine tools sales we've lost two opportunities and we've also lost
878 the opportunity to do additional subcontract sawing when that machine tool breaks down.

879 **R:** Right, yes.

880 **AMD:** Whilst [NED]'s just looked solely at the one sale and the net profit on that one sale. So
881 what might have been a loss leader, would have been building opportunities in the future.

882 **R:** Okay. He doesn't (look beyond..?)

883 **AMD:** Yes.

884 **R:** Okay. If you think of other examples, does his approach differ if he knows you don't
885 share his perspective?

886 **AMD:** *(long pause)* Don't think so. We tend to be very much of an accord. Because he is with
887 us two mornings a week, invariably we have the opportunity to sit down, have a cup of coffee
888 and discuss what's been going on, what our plans are, what our aspirations are, what our
889 customers doing, what's happening in the marketplace, what the major players are doing and
890 what they're likely strategy is going to be and how it might impact on us.

891 **R:** Right.

892 **AMD:** I don't know whether it's a good thing that he is so close to us, or whether it's a bad
893 thing. I think on balance, because we've had previous experience with Non-Executives that
894 have been, that have come in, done a job and gone away. I think on balance it's probably a
895 better, a better relationship. It has to be or he wouldn't have been here so long.

896 **R:** Right. I mean, you said... I mean I asked if his approach differed if he knew you didn't
897 share, if he felt that the Board wasn't taking, the whole Board wasn't taking on his ideas, or
898 perhaps [Owner] seemed not to support his ideas does his approach differ then? Or, how might
899 his approach differ?

900 **AMD:** I think *(long pause)* I think if there's an agenda there [NED] brings it straight out.

901 **R:** Right.

902 **AMD:** There's no side or deviousness to him at all.

903 **R:** Right, okay.

904 **AMD:** Which is nice and refreshing, because you know where you stand with the guy. He
905 doesn't use a divide and conquer routine. The nice thing with [NED] is what you see is what you
906 get; it's on the table, it's open for discussion.

907 **R:** Right. And to what extent do you think his previous experience influences his actions?

908 **AMD:** Certainly with the larger organisations that he has worked within it brings a more
909 structured approach to our own decision making process.

- 910 **R:** You said in the first interview and you mentioned it just again about sharing the vision,
911 so the vision for [Company A] is about providing the whole service for the customer.
- 912 **AMD:** Right.
- 913 **R:** Whether it's on their premises or...
- 914 **AMD:** I think the vision's changed slightly.
- 915 **R:** Right.
- 916 **AMD:** We're here to make money now. (*Laughter*)
- 917 **R:** Well, thinking back, can you, can you remember how you and [NED] – I mean the
918 question I asked you was a closed question that time, which I had my wrist slapped for, I asked
919 you "Do you share the vision?" and you said "Yes." So, you've told me what the vision is, how
920 did you and [NED] come to understand and share that vision.
- 921 **AMD:** [NED] was retained, not by myself but by [Owner] , the major shareholder of the
922 company, to bring to the table the experience of [NED], I wouldn't say it was for the Board it was
923 for her son who had recently come to the company who had no experience of industry
924 whatsoever.
- 925 **R:** Right.
- 926 **AMD:** So, [NED] had to understand me and what I was trying to do and I also had a new
927 mentor who had never been there before! Because with all due respect to [Owner], she has had
928 no organisational skills or company administrative experience. So, [NED] was learning about
929 me and I was learning about him. I think [NED] recognised my practical ability and I certainly
930 recognised his accountancy background and large organisation structured approach to
931 problems which in the past I had probably run the whole thing by the seat of my pants, touch
932 wood, there were no bad decisions then. It could have gone totally the other way. So, what was
933 the question?
- 934 **R:** It was how did you and [NED] come to understand the shared vision?
- 935 **AMD:** I think he saw the advantage of my practical approach and I certainly recognised his
936 organisational and structured approach and we literally together made the thing together to
937 where it is today.
- 938 **R:** I mean you made a joke just a minute ago about – well, I assume it was a joke – that
939 the vision had changed from providing a service to the customer to making money and I was
940 going to ask you, have the company objectives or the vision changed over time and if so, how
941 did [NED] become aware of these changes or how was he involved?
- 942 **AMD:** Let's see now. He has certainly made us all aware of the need to enhance the
943 profitability of the company in any way, shape or form that we can. When all said and done
944 that's the only thing that keeps it afloat, keeps it regenerating, that keeps it going. I would say in
945 the past we were more orientated towards having the best equipment, probably slightly
946 overstaffed to give the customer the service they wanted...
- 947 **R:** Right.
- 948 **AMD:** Whereas we were losing sight of the financial implications of what we were doing. Now
949 we look at it from the other way around and look at it from the financial implications and then
950 work it backwards, can we afford it, can we do it?
- 951 **R:** Right. So it wasn't a joke that...?
- 952 **AMD:** That's right.
- 953 **R:** Again, going back to what you told me in the first interview, you told me, referring to
954 [NED], you weren't involved in [NED]'s appointment...
- 955 **AMD:** No.
- 956 **R:** ... it came as a surprise to you and it was also very apparent that you and the company
957 were still getting (*over the painful experience of your association with [Accountants &*
958 *Management consultancy].*)
- 959 **R:** Thinking back at what stage did you personally realise that [NED] wasn't a consultant?
- 960 **AMD:** Probably on a second meeting.

- 961 **R:** Why was that?
- 962 **AMD:** We sat down together at [NED]'s invitation and had a frank informal discussion on who I
963 was, who he is, what we're doing, where are we going.
- 964 **R:** Right. How long did that meeting last? Can you remember?
- 965 **AMD:** It was probably two or three hours.
- 966 **R:** Right, okay.
- 967 **AMD:** Very informal.
- 968 **R:** Right, right. Was there any particular incident, I mean you said it was his invitation, was
969 there any other particular incident or decision or action on his part that made you realise he was
970 different?
- 971 **AMD:** Much more informal, ... less aggressive, ... very approachable, ... his age had a
972 standing on his whole being, his approach, his attitude to the company. Going back to
973 [Accountants & Management consultancy] who you mentioned, at the time we had one guy who
974 was assigned to us who would have been middle forties, no doubt a very astute and intelligent
975 guy but there was a hidden agenda from him. Overtures were made to [Owner] , "Sell the
976 business. Let me come in. Let me do this. Let me invest" and at the time she was still a woman
977 in her prime, attractive and she could have been open to overtures that would have been
978 disastrous for her and for the business. Fortunately, she didn't take up on that. Well, she's
979 probably more astute than I ever thought she was. But [NED] has this father figure about him
980 which is not only acceptable to myself and my fellow Board members, but also it's acceptable to
981 guys on the shop floor, he's not seen as some besuited, coiffured whiz kid who's out to feather
982 their own nest.
- 983 **R:** Right. I mean you, you just said that the consultant from [Accountants & Management
984 consultancy] wanted to buy the business himself and...
- 985 **AMD:** That has subsequently come to my attention by [Owner] .
- 986 **R:** Okay. Did you ever consider a management buyout or...?
- 987 **AMD:** Yes.
- 988 **R:** You did. Okay.
- 989 **AMD:** Went to the line twice with that.
- 990 **R:** Right, okay. I thought that came out of the first interview but I just wanted to confirm that
991 that was a...
- 992 **AMD:** Yeah.
- 993 **R:** ... fair assumption on my part, okay. There are a couple of issues with the previous
994 interview I'd just like to go through quickly now.
- 995 **AMD:** Okay.
- 996 **R:** Normally, what contact do you have with [NED] when he's not on the company
997 premises?
- 998 **AMD:** We get together socially a couple of times a year, it's been more than that just lately.
999 We regularly email and telephone.
- 1000 **R:** And under what circumstances might you do that – email, telephone?
- 1001 **AMD:** If there's something I want him to know with litigation within the organisation, with
1002 market trends or a seminar that I think he might be interested in going on.
- 1003 **R:** Right, okay. Previously, you acknowledged you had learnt a lot from [NED] and you've
1004 mentioned again today, including using more patience, stand back before making a decision.
1005 You actually said you were at the coal face with a pickaxe, when really you should have been in
1006 the corner, saying, "Look, do it this way."
- 1007 **AMD:** Yeah.
- 1008 **R:** How did he get you to realise, accept, again in your words, that you were doing far too
1009 much?
- 1010 **AMD:** By example.

- 1011 **R:** Right. And that worked. Why did that approach work for you?
- 1012 **AMD:** Well, when I stood back and looked at what he was saying and the results it was quite
1013 apparent.
- 1014 **R:** Right. Had you ever thought about, or had you had time or...
- 1015 **AMD:** No.
- 1016 **R:** ... why hadn't you not done that before?
- 1017 **AMD:** Because we weren't making enough profit to pay for someone else so that I could stand
1018 back and look at it.
- 1019 **R:** Okay. It's very difficult sometimes couching the question you want answered without
1020 actually putting it into the question, so it's a challenge. I mean, he's been with you now eight
1021 years, you mentioned that it's been a long time...
- 1022 **AMD:** Yes.
- 1023 **R:** ... so he's obviously doing something right.
- 1024 **AMD:** Yes.
- 1025 **R:** Are you still learning from him?
- 1026 **AMD:** No, I think we're coming to the end of our learning process.
- 1027 **R:** Why do you think that?
- 1028 **AMD:** He keeps trotting out the same old dialogue, there's nothing new there.
- 1029 **R:** Right, and how do you think over those eight years your relationship with him has
1030 changed?
- 1031 **AMD:** We're a lot more comfortable with one another.
- 1032 **R:** Right. How did that come about?
- 1033 **AMD:** Socialising, discussing the business, sharing problems, sharing experiences, visiting
1034 customers, introducing [NED] to my peers at various customers, explaining to him how we fitted
1035 in with their needs and ends, going to exhibitions with him.
- 1036 **R:** That leads on very nicely to he's been here for eight years and you obviously feel that
1037 you've learnt a lot from him, the Board has. What's he learned from [Company A]? And how has
1038 he changed?
- 1039 **AMD:** I don't know how he's changed, because I didn't know him before he came to us. He's
1040 probably not quite so rigid in his manner that he used to be, I wouldn't say rigid. He's probably a
1041 little bit too forgiving now, actually. And we never cease to surprise him on what is a very simple
1042 operation that we do here, how well received in the marketplace we are by numerous blue chip
1043 organisations. I think he's mellowed quite a lot, that could be age though.
- 1044 **R:** Right. You said you didn't know him before so you couldn't judge how he's changed.
1045 You can't perceive a change from 1995 to now?
- 1046 **AMD:** (*pause*) He's a lot more familiar with all members of the Board, because he's not just a
1047 NED who's come in to do a job; he's almost become part of the family at the company.
- 1048 **R:** Right, okay.
- 1049 **AMD:** That would be the major change I would suggest.
- 1050 **R:** Right. Again, last time when I asked you if you had sufficient respect to agree to
1051 disagree, you went on to say "it's comfortable at the moment, too damn comfortable, it's not
1052 tight enough." What did you mean by that?
- 1053 **AMD:** (*long pause – blushed?*) We're still suffering from this malaise here at the moment.
1054 (*sigh, long pause*) I have managers here who are not managers. This reflects badly on
1055 [Production Director], my Works Director, that he does let them have their own way too much
1056 and their administration isn't tight enough, which I suppose is a bad reflection on [NED],
1057 because he was brought in to tutor [Production Director], it's still not tight enough.
- 1058 **R:** Right, I was about to say, I mean that's two years ago, in what way has the situation
1059 changed, if any changes, how did they come about?

- 1060 **AMD:** Probably cost.
- 1061 **R:** Right.
- 1062 **AMD:** I think if I want good managers I'm going really have to pay good managers' wages and
 1063 we're not paying good enough managers' wages. Which impacts back on the type of service
 1064 that we offer which is probably the very lowest down any manufacturing process, in fact it's the
 1065 very first process in any manufacturing area of industry and it's perceived as very low cost. So
 1066 we have to add value where we can on the higher end of what we do, which is affiliated to
 1067 aerospace, tooling, the major metal manufacturers whereby we can do a job better than they
 1068 can do themselves and add the value. The trouble is as this goes on the problem gets greater.
 1069 It's been there for two or three years now and it's not got any better. Keep flagging it up at
 1070 Board meetings but we choose to be ignoring it at the moment.
- 1071 **R:** I mean...
- 1072 **AMD:** You know, I'm taking [NED]'s advice here and standing away from it and flagging it up.
- 1073 **R:** Right, okay.
- 1074 **AMD:** Five years ago I would have been in there and sacked them and taken someone else
 1075 on.
- 1076 **R:** Right. You'd also, I mean you've mentioned that the two areas where you did not see
 1077 eye-to-eye, one was the management of people and the other was an area core business that
 1078 [NED] felt the company was as efficient as it ever would be and you felt it was only running at
 1079 50% efficiency. You didn't elaborate which area it was, but you said that [NED] was too close to
 1080 the people in that area and what did you mean by was too close to the individuals?
- 1081 **AMD:** Talking [Divisions 5 & 6] now.
- 1082 **R:** Right, okay.
- 1083 **AMD:** And I think we've proved with the sales that we've got so far that we've probably
 1084 improved those by 25% and we've still got spare capacity...
- 1085 **R:** So, who...
- 1086 **AMD:** ... and that's in a falling market, so we've done quite well there.
- 1087 **R:** So, you said he was too close to individuals, what did you... what influenced him or who
 1088 influenced him?
- 1089 **AMD:** He has this grandfatherly approach with guys on the shop floor...
- 1090 **R:** Right.
- 1091 **AMD:** ... and I think he recognises that they were manipulating him.
- 1092 **R:** Right.
- 1093 **AMD:** He recognises it more now than he did then and I think he's probably changed his way
 1094 of thinking since then, I hope he has.
- 1095 **R:** Going back to Board meetings, have there ever been any instances where you felt that
 1096 your relationship with [NED] has been affected by other members of the Board?
- 1097 **AMD:** No.
- 1098 **R:** If we move on to shareholders now, how do you perceive [NED]'s role vis-à-vis the
 1099 [Owner] family as shareholders of [Company A]?
- 1100 **AMD:** *(long pause)* Personally, I think [NED]'s done about all that he can do for the
 1101 organisation.
- 1102 **R:** Right.
- 1103 **AMD:** And I don't think [Owner] has come to that conclusion yet.
- 1104 **R:** Okay. Have you ever felt at a Board meeting that he is representing shareholders'
 1105 views? Can you think of an example where you felt he's representing the views of the
 1106 shareholders in particular?
- 1107 **AMD:** *(long pause)* Only when we argue about bonuses at the end of the financial year.
- 1108 **R:** What makes you say that?

1109 **AMD:** Well, they're never big enough are they? (*chuckles*) No, I think, I think [NED] fights both
 1110 corners equally aggressively because this particular unit now does not belong to the company it
 1111 belongs to the shareholders and we rent it and obviously he argues with the Board quite
 1112 vigorously for rent reductions, where the roof might be leaking and who's responsibility is it? Is it
 1113 the shareholders or is it the people who are renting the property? And obviously he argues the
 1114 shareholders' views most vigorously at the end of year when we're discussing bonuses. So I
 1115 think he gives quite a balanced view actually.

1116 **R:** Have you ever felt, or have you got an example of where you think the shareholders
 1117 might have asked him to steer the company in a particular direction, which you feel is against
 1118 the company's best interests?

1119 **AMD:** (*long pause*) No. I mean we've been pursuing automotive industry with this new
 1120 equipment, that's only for the good of the company, because they're all major players in there
 1121 now. The aerospace market we've grown into and continue to grow, that hasn't changed. No, I
 1122 don't think any of his influences detracted from the direction with which the company is going. In
 1123 fact every opportunity that comes along to us he will whole-heartedly support if it is profitable,
 1124 fine.

1125 **R:** Right. What would you say are the similarities between you and [NED]?

1126 **AMD:** (*long pause*) On a personal or business level?

1127 **R:** Both of those.

1128 **AMD:** Okay, we've both had the business interests, the best business interests of this
 1129 company at heart and we will each tell one another quite openly and frankly if what we believe
 1130 is right or wrong without antagonising one another. I think we're both fairly stable individuals,
 1131 with our feet firmly on the ground. We have similar interests; he likes playing golf, I like playing
 1132 golf; he enjoys shooting, I used to enjoy shooting, I can't at the moment. I had an accident last
 1133 year.

1134 **R:** Oh dear!

1135 **AMD:** I came off my motorcycle and my shoulder blade ended up in three pieces, my collar
 1136 pieces in two and these top three ribs inside my lung. It still pains me now.

1137 **R:** What, physically or emotionally?

1138 **AMD:** No, physically.

1139 **R:** And what bike was it?

1140 **AMD:** It was a Suzuki GSXR 750. High sided me.

1141 **R:** Sorry, that must be a technical term.

1142 **AMD:** Well, it's when the driving wheel at the back...

1143 **R:** Oh, right.

1144 **AMD:** Skids and then grips and when it grips it usually thinks it's going faster than front so it
 1145 tries to overtake the front and it kicks you straight over the top.

1146 **R:** Hopefully there was nothing coming the other way.

1147 **AMD:** Oh, no, no, no. I managed to do it all on my own.

1148 **R:** Oh dear. Going back to these interests, how important do you think it is that you share
 1149 interests outside of the business?

1150 **AMD:** We certainly enjoy socialising, enjoy good food. Unless there's that sort of common
 1151 bond there, I don't think there's any chance for a development of a relationship other than a
 1152 working one and a working one where a guy comes in once a month or once to a Board
 1153 meeting is fairly tenuous.

1154 **R:** What are the differences?

1155 **AMD:** Well, he's got to be 90 and I'm only 22! The difference is [NED]'s much better educated
 1156 than I am, he's – (*long pause*) do you know, there aren't that many, not that I can think of.
 1157 (*pause*) Experience, I guess, worldly wise he's, being older than I, he obviously has got more
 1158 experience under his belt.

1159 **R:** That's fine, thanks. I wonder if you could have a look at this chart, which the line
1160 represents [NED]'s time with the company from being appointed to whenever it is he resigns
1161 from the Board. Where do you think you are at the moment? Or where do you think [NED] is on
1162 that line at the moment?

1163 **AMD:** I'll have to draw a line on here, do I?

1164 **R:** Well, you can just tell me when you think. I mean the first dot is early 1995. You can
1165 draw a line on if you wish, or you can just tell me when you think the dot on the other end of the
1166 line is going to, what date that dot will be. Whichever way you wish to interpret the time with the
1167 company.

1168 **AMD:** (*studies chart, long pause, sigh, taps desk*) I would say resignation from the Board -
1169 2005.

1170 **R:** Why do you say that?

1171 **AMD:** I think he will have done his job and run his course by then.

1172 **R:** Right. I mean at the end of the interview last time I asked you if there was anything you
1173 wanted to say about Non-Execs in small business that I hadn't covered in the interview and you
1174 said, "Goodness, how do you find a good one?" You said 2005, so have you or have the Board
1175 or how do you think you and the Board might consider a replacement?

1176 **AMD:** I don't know whether we would replace a Non-Exec immediately.

1177 **R:** Right.

1178 **AMD:** And if we did take on another Non-Exec I would probably want a referral from [NED].

1179 **R:** Right.

1180 **AMD:** He's got another – I say 2005 because that's another two and a half years time and the
1181 new guy that we've got in the Accounts department, replacing our current Financial Director, will
1182 eventually come on to the Board.

1183 **R:** Right.

1184 **AMD:** So he will want to be schooled...

1185 **R:** Right.

1186 **AMD:** ... and I shall want [NED] to help schooling him.

1187 **R:** Right. So, acting as a mentor for a new Director?

1188 **AMD:** Yes.

1189 **R:** Okay.

1190 **AMD:** Yeah.

1191 **R:** You obviously feel he was good at that role.

1192 **AMD:** Most certainly.

1193 **R:** Thinking back, has or could you describe to me a particular incident, if there has ever
1194 been one, that put your relationship with [NED], as Non-Executive, under any strain?

1195 **AMD:** (*pause*) No, there hasn't been. (*pause*) Whether that's because I'm confident in what I
1196 do or whether it's because he and I have got an understanding and a good relation or whether
1197 it's because we can talk openly and frankly, I really don't know, but there's never been an
1198 occasion where we've had a strain put on our relationship in any way, shape or form.

1199 **R:** Well, thank you, very much.

1200 **AMD:** Your welcome.

1201 **R:** Again...

1202 **AMD:** I hope it makes sense to you.

1203 **R:** I'll have a good few hours listening to the tapes and then looking at the transcripts.
1204 Obviously, thank you very much for doing this again, I do appreciate it. Is it all right if I get in
1205 touch with you if there's any further clarification I need from you?

1206 **AMD:** I don't see a problem there.

1207 **R:** Okay. Is your opportunity now, is there anything you feel I haven't covered about Non-
1208 Executives in small businesses in either of the interviews that we've had together, anything
1209 that's occurred to you over the past two years?

1210 **AMD:** Is there a national measure that someone in my position can go to a body and say,
1211 "Right, I want a Non-Executive Director that's got to be good with people, able to communicate
1212 freely and openly at all levels of Boards, is honest, cheap"...

1213 **R:** You were saying earlier about paying managers.

1214 **AMD:** Hmm. *(pause)* I think [NED]'s cheap for what we get.

1215 **R:** Right.

1216 **AMD:** But, you know, I think [Accountants & Management consultancy] were paid absolutely
1217 over the top! It's a lottery isn't it?

1218 **R:** I mean there are organisations which invite people to put themselves forward to be
1219 Non-Executives and companies can go to those organisations. That's entirely up to you, there
1220 are also, there are books, I mean my two supervisors have written a book, I think it's called
1221 'Non-Executive Directors: Some Dos and Some Don'ts'. So there are, there are sources of
1222 information out there. What I'm looking at is I'm looking at a number of companies in-depth,
1223 obviously it won't be a statistical sample, I am looking at what individual companies want and
1224 get from their individual Non-Execs. So, I think without telling you the answer, at the moment
1225 you're asking me "Can you go and buy a NED off the shelf?" You could in theory, but I've yet to
1226 meet anyone who has.

1227 **AMD:** I see. Yeah. Yeah. *(pause)* Okay, well, I've no other questions, thank you, Rosie.

1228 **R:** Thank you.

1 Interview #1: NED Company A Date: July 2000

2 **R:** There are two bits of research, there's my own personal research but also the ACCA
3 research on non executive directors and my supervisors were keen to find out why small
4 businesses who have no need to have a non executive director, they are not listed, so there's
5 no compunction to have a non exec but some do and some don't, so we want to know those
6 that do, what do they get out of it, so I'm talking to the managing directors and the non executive
7 directors and try to understand what the relationship is there and what the benefits are.

8 **ANED:** Yes, I see. They will be special cases, won't they really, I suppose. You wouldn't have
9 one if it was just for the sake of having one which I think the non executive director register is
10 trying to push towards so it has to be reason for it so...

11 **R:** Yes, and also it's becoming obvious as I go around talking to companies that there are
12 certain criteria that have got to be there. It is no use just having a prestigious name - that is
13 completely different. Anyway I mustn't put words in your mouth. Thank you very much for
14 agreeing to do this interview and the style of research is that I ask a question and ask you to
15 just talk through so it very semi structured, not like a questionnaire. It's about the ACCA, the
16 Association of Chartered Certified Accountants who want to know what is the role of the non
17 exec in a small company. I've been working on this project for about a year now and as I said I
18 am a research student at the University, so that's my background. In spring of this year you
19 filled in a questionnaire and sent it back to me.

20 **ANED:** Yes, that's the one.

21 **R:** So, I wonder if you could help us get a greater understanding by telling me first of all your
22 autobiography, the autobiography of your working life?

23 **ANED:** Hmm. I started with [Chemical PLC] back in 1953 in a laboratory after grammar school
24 and that was [Chemical PLC] metals division in [City 2], metals is important because this is a
25 metals business. I did an external degree in metallurgy which came from the [University 2] and I
26 progressed in the true [Chemical PLC] style in that if you showed any promise they tended to
27 move you around every three years and I progressed through research and development into
28 technical support in the metals production unit mainly titanium which is a neo-space alloy, a
29 neo-space metal and then went to South Wales in 1969 as a commercial, oh I had a spell on
30 the road as a sales person, technical salesman then went to Wales in 1969 as a commercial
31 manager and left there in 1979 as the managing director of the plant.

32 Came back up to here as a sales director for [Metals PLC subsidiary] then I got promoted to
33 managing director of the [Metals PLC] [City 2] Site Services which is a big size about 200 odd
34 acres and employed at one stage 20,000 people at its height in the War because it made
35 ammunition amongst other things. It had its own Services – it did everything did everything,
36 everything was in house, once you were within the gates, you were in the gates and you had
37 medical care, dental care, you were fed, you were emptied, you were cosseted, you went
38 outside and home again at the end of it. It was typical, very advanced system really that
39 [Chemical PLC] has always had and many people have strived since to get that system but
40 obviously far too expensive in the end. So I ran the services and ran them down and then got a
41 job running a metal stockholding division and that was bought by and the company I was
42 running for [Metals PLC] was bought by [European nationality] by a company in the [trade
43 name] group and I went with them. So I then became a group director of a [European
44 nationality] company running metal stockholding and distribution businesses in UK, Denmark,
45 Sweden and Finland. And then they decided after some years they wanted to get out of that
46 business so I was given the task of winding it up and selling them and I retired in 1994 at the
47 age of 58 and found plenty to do not working. And then I was approached in late 94 to whether,
48 because of my experience in business and my metallurgy background, I would be interested in
49 joining this company as a non exec which I did. You should know a bit about the history of the
50 company, may I carry on with that or was that your next question?

51 **R:** No, I mean I will be asking [MD] but I would be delighted for you to...

52 **ANED:** Just briefly, the company was set up and run by [Founder] and [Owner], I would think
53 probably in the late 70s or early 80s. [Founder] unfortunately had a fatal accident. He was
54 cycling and he was killed and it left [Owner] with the business. [Founder] has always run it in a
55 very owner autocratic style but which was completely understandable. You know he was the
56 captain of the ship and he did and what he said went and he did everything. [MD] was promoted
57 into the MD's, I think he was the works manager; he was promoted into the MD's job and
58 perhaps has taken very much the same line. Just as I - before I joined and one of the reasons

59 for the appointment was that [Owner]'s son [Production Director], who had considerable
60 experience in computers and other things decided that he would join the business. He'd been,
61 he had his own little business up to then and he came in with a fantastic IT knowledge and a
62 very good mechanical brain, obviously a lot of his father in him but he never had run meetings,
63 hired or fired or whatever, knew no structure of industry... So, one of the reasons for the
64 appointment, my appointment was to be his mentor. So, I'm sort of to steer him and the other
65 area which was clear was that we had to change it from an autocratic, you know, I shout and
66 you jump attitude into the more properly structured organisation where you have a Board, you
67 have managing director's, you have board meetings, managing director's meetings. The
68 operations or manufacturing director has a meeting with his managers and so there is a
69 cascade of information downwards and a whole lot of complications all along the route, so I saw
70 quite a lot of opportunity to change the structure of the company, in that you will probably note
71 from [MD] that I have considerably changed his role in that and he is quite willing to admit this
72 and there isn't any problem there.

73 That's just a bit of background, so a new man coming in, potentially to take over from his mother
74 and will eventually take the reins. His mother then relinquished the chairman's job and I became
75 non executive chairman, so I hold no shares. She owns all the shares and [Production Director]
76 has one share or something like that. You should understand that, so there were particular
77 circumstances which probably triggered off this "we ought to have somebody else to come in".

78 **R:** I note from your survey form, you said you haven't been a non exec, or this was your first
79 non exec and you don't have any others. Is that still the case?

80 **ANED:** That is the case and the involvement in this is very different from a normal non
81 executive directors I've seen in the past, who turn up once a month for a Board meeting and
82 either make it quite difficult to spend money or to do anything or, you use them because they
83 have contacts within various industrial sectors where you might want to penetrate. This is very
84 different. I have a much more detailed role in that I'm closely involved in the company. I have
85 had...I'll just give you some examples; I've been abroad to purchase services and machines to
86 throw a different angle on it. I've been given the task of [pause] trying to get a department back
87 on its feet which was ailing, so I get involved in... I run the appraisal system, I do the salary
88 surveys and reviews. I do a lot more than just coming in every Board meeting and nodding.

89 **R:** On your form, you said you spent about a hundred days a year.

90 **ANED:** Yes, I spend about... I come in two days a week, it could be more and they could very
91 well be two full days but sometimes, for example, if one of the directors is away, I might come in
92 three or four times a week, if the finance director and company secretary who is a woman is left
93 on her own, I would... I would, because the two seniors are away travelling or whatever, I would
94 come in and just be there or be here.

95 **R:** Well my next question I think you've mentioned about how you first became involved with
96 [Company A]. So it was only an untimely death...

97 **ANED:** Well, no. It was after that. It was really on the appointment of... I'll give you a little bit
98 more information. They went through a sticky patch. In the two recessions of the 70s and early
99 90s, particularly the 90s, they went through a sticky patch. The bank - this is confidential isn't it?

100 **R:** Oh, yes it is.

101 **ANED:** The bank forced them to sell the building next door, which was a great pity, and the
102 bank brought in a consultant, I think from [Accountants & Management consultants]. I know
103 nothing of the man, all I know is that the results of his visit were not of the best.
104 In fact, I think the owner in the end asked him to go.

105 **R:** So, he was a consultant, he wasn't put in as a director?

106 **ANED:** No, he was brought in by the bank to give them some help. I think he sacked all the
107 wrong people, actually but there you are. So, they'd been through a sticky patch, the trading
108 results were not all that good and then [Production Director] came into the business and [pause]
109 [Owner], the owner, [Owner] knew a friend of hers that was a friend of mine and either she
110 approached him to do it or he said it wasn't his field and he approached me. He said, "look it's
111 metals, its alloys and you know the language and everything else and its oil and dirty fingernails
112 [chuckles] and you've been involved in that so would you do it?" I didn't know whether I wanted
113 to, actually, I had been in my retirement but I'm very pleased that I did. It isn't my efforts but it's
114 a combined effort, the thing has turned round, there isn't any, there isn't any financial problems,

115 there are no financial problems now and wish we had got the building next door if you know
116 what I mean.

117 **R:** So, do you have a formal contract?

118 **ANED:** I have an annual contract which is renewed by [Owner] on an annual basis, which is a
119 letter of appointment really if you want to call it a contract.

120 **R:** OK. My next question is, what is your role within the company and has it changed over time
121 and if so, in what way? You were brought in to begin with, as you said as a mentor for the son

122 **ANED:** Yes, yes

123 **R:** and also to help the new MD.

124 **ANED:** Yes. Well, yes, more as a mentor for the son and more as it were to bringing, as
125 [Owner] would put it, some business experience in and I think she was under great pressure
126 because she had been chairman and it had just been her and the MD through the difficult years
127 and I think she really wanted some relief as well, she wanted somebody to sound off ideas or to
128 do other things. So, I think that triggered it and the other thing that triggered it off was obviously
129 [Production Director] coming in and she felt an older head assisting a younger one might help.
130 So the question you asked, how has it changed, is that [Production Director] has just taken to it
131 like a duck takes to water. Very well, knows far more about the business than I do, in detail.
132 One of things he has done which makes certainly my job and everybody else's job much easier;
133 he produces on a monthly basis for a Board meeting, the most magnificent set of management
134 control information that I have ever seen, certainly in combination with [Financial Director] as
135 financial director and company secretary who will not let a penny pass her desk unless it is
136 accounted for.

137 This is an important point because many small businesses have trouble within the cost office
138 and the accounts office and this is where most of them founder because people don't realise
139 what the true financial situation is of the company, particularly if you are manufacturing and
140 adding value which we're not - we are in some areas but we're not basically - it's very easy to
141 get into a mess. And you think you are doing better than you are doing.

142 But a very safe pair of hands in the accounts department coupled with [Production Director]'s IT
143 skills and attention to detail produces this superb information, so we sit down and you don't
144 have to ask any questions, the only question you have to ask is "which page is it on?" because
145 it is basically all there. This makes management considerably easier than saying "why have we
146 got stock date deficiency" or "why can't we account for this" or "why wasn't an invoice sent out",
147 you know the usual things that you hear in companies. So that's made it quite good so since 95
148 when I came in the whole thing has progressed but I can't put that as the result of my
149 appointment, it is everybody... everybody going in the right direction and certainly responding to
150 many of the changes I have suggested. We got our Investors in People award this year and
151 that.. that really demonstrates that our information flow is right, that our meeting and
152 communication structure is right and that's been tested by, you know, an outside source and we
153 are very pleased that we got that.

154 **R:** I presume you also have ISO 9000?

155 **ANED:** Yes and 5750 and we are looking at ISO 14000 and something, the environmental thing
156 at the moment.

157 **R:** How has the role been agreed between you and [Owner], originally ... how was it..?

158 **ANED:** It was.....I don't have any detailed terms of reference. I... it's difficult to remember in
159 detail, but I was told about the financial position, I was given some old reports to read. I asked
160 for a SWOT analysis from the MD and I started to learn a bit about sawing machines but
161 basically it grew from there and it was apparent to me from the background that I had that there
162 was a lot to do. On the whole, basically we are doing it all.

163 **R:** So was it with [Owner] or [MD] ... who.. What I'm trying to establish is...

164 **ANED:** The appointment was made by [Owner], yes. But, obviously, I think, if you put yourself in
165 [MD]'s seat, it must have been quite difficult for him because although they were both under
166 pressure, he had command, total command of the ship and could probably see there was an
167 admiral coming aboard rather than, and he was going to be captain, and that we might not sail
168 at the same time as he thought and the other things. So but we ... I think we have built up, I
169 know we have built up a good working relationship and in the appraisal interviews a lot of these
170 changes that I feel ought to be made have been thrashed out and particularly there has been a

171 lot of discussion about [pause] insecurity. Did the appointment make the MD and other
172 directors feel insecure? And one of the reasons for saying that is that the consultant brought in
173 by the bank certainly made everybody feel shaky.

174 **R:** Once bitten, twice shy.

175 **ANED:** Yes, it made my introduction quite difficult in many respects because a lot of the people
176 on the shop floor and middle management thought "here we go again!" you know. So I had ... I
177 had quite an interesting first year in that respect.

178 **R:** How does the Board operate?

179 **ANED:** It meets once a month to a formal agenda. [opens drawer] I'll show you what an agenda
180 looks like if I have one in here [shuffles through papers]. That's the agenda for the next meeting.
181 [hands across to researcher]. We're obliged to cover all aspects of health and safety, of quality
182 and other things so that the Board is fully aware of any accidents or any quality problems, but
183 we obviously discuss finance, capital expenditure, any litigation and how we are doing in all
184 respects. In personnel, we have a strategic business plan and now our IIP, it covers 10 items on
185 there without any other business. So, it meets once a month, it is backed up by... one of those
186 that's the management control information that we get, you know it's superb, absolutely superb
187 thanks to [Production Director] ... and it consists of the owner who remains as a director and
188 that is [Owner], Managing Director who I let continue to chair that meeting. He chaired it for
189 [Owner] because she felt more comfortable when he chaired it when there were just 3 of them, I
190 think. So I've let him carry on chairing, although ostensibly I am chairman of the company. The
191 Sales, the Production Director, [Production Director]; the Finance Director [Financial Director]
192 and myself and we meet once a month and we then will probably suggest as we have done now
193 that we review the budget, we review the strategy, we review the business plan so we popped
194 in another meeting in, we've diaried other meeting in between now and the next one.

195 **R:** So, that's like a special Board meeting for those..

196 **ANED:** Yes, for those items.

197 **R:** Right

198 **ANED:** Arising from this meeting the managing director will meet his two other directors about,
199 about once a fortnight, so they will probably meet at least once after the Board meeting, so that
200 he knows what's going on and they know what he's doing because this is a small company and
201 in small companies you have the maximum problem of communication because everybody
202 assumes that everybody knows what's going on. They know exactly when the sandwich man
203 arrives outside but they are a bit slow on the fire alarm, you know it's an assumption people
204 make. So, he tells them what he is doing and they tell him what they are doing and they have an
205 agenda and they minute that. We have minutes for the Board meeting. The production director
206 every other week meets the middle management and he will cascade information from the
207 Board. Information that is capable of being passed on, like "we have or we haven't made any
208 money" or "we are going to buy one of these" or "we are thinking of buying one of these but we
209 ask you to get together with the shop floor and decide which one you want". I'm a great believer
210 if the people got to say drive a fork lift truck, the guy that's driving the fork lift truck has an
211 influence on the fork lift truck that we buy, rather than the managing director buying a fork lift
212 truck and going downstairs and everybody says "rubbish".

213 **R:** He's never driven one.

214 **ANED:** Right. So, we do involve people in capital expenditure. That is merely an example of a
215 cascade of information down and then in theory the middle management go out, get the shop
216 floor together, say "we are not making any money. Your bonus at the end of the year could be
217 affected. The reasons we see are this, that, the other". So, that in theory everybody should
218 know that we, if you go back to the ship again, and the guy at the bottom of the ship stoking the
219 boilers knows that when he gets to the other end knows that he's got to put his shorts on
220 because we've gone to the tropics rather than to the arctic, if you know what I mean.

221 **R:** No surprises?

222 **ANED:** Yes. Well that's a great phrase of mine, no surprises. That's what I keep telling people
223 at appraisal, no surprises. Yes.

224 So that's how the Board operates. If we want to spend anything we have a capital expenditure
225 proposal form. So that can be put out, you know, "I want one of these and it costs this much and
226 I've asked three suppliers and they quoted me this, the reason I want it is this, it's going to bring

227 us in this, the cost will be recovered in this da-de-da". Rather than somebody, as in the past,
228 just going out and buying something, so the Board would sign those, at least two Board
229 members would approve capital expenditure and it would be up to a director to bring an
230 expenditure proposal to the Board.

231 **R:** In general, I'm trying to find out now how you interact within the company. You say you are in
232 two days a week, sometimes more. You're kept informed about the company through the paper
233 work. How else?

234 **ANED:** Well I have a fax. I'm shortly going to have a computer but the fax keeps me informed
235 so if there are meetings fixed that I were to come to they will put it on a fax. I speak on the
236 phone but coming in a couple of days a week, on the whole, covers most of it. I go on social
237 functions. We have a part of the company operating in [County] where we actually have a cell in
238 somebody else's works doing cutting for them instead of bringing the metal to here and taking it
239 back. We took the machines to them, employed men up there and a supervisor, so we do work
240 up there. So I get involved going up there if they have social functions up there, we probably go
241 up to social functions there. I go if we are exhibiting, say Farnborough Air Show, which we will
242 exhibit at and if we are at the National Exhibition Centre, I would go to things like that. I've been
243 to Italy and to France on purchasing visits for new equipment, to cast you know another eye on
244 it, really, another view.

245 **R:** I noticed on the website that the [UK Region Sector Group]...

246 **ANED:** Yes, [Sector group] yes, that's right. We are a member of that group through our
247 involvement in [County].

248 **R:** Is that [Sector PLC 1] at [County location] or...?

249 **ANED:** No, that's the company called [Sector PLC 2].

250 **R:** Oh!

251 **ANED:** Do you know it?

252 **R:** My father used to work for [Parent company Sector PLC 2] in [County town].

253 **ANED:** Yes! How strange, isn't it?

254 **R:** My father worked for them, he was a chemist

255 **ANED:** Yes?

256 **R:** but he worked for [Subsidiary].

257 **ANED:** Yes, I know.

258 **R:** He left after a disagreement over something and joined the Factory Inspectorate.

259 **ANED:** How strange, you tell [MD] that because [MD] is really the one that set up [Sector PLC
260 2] and spends a lot of time up there.

261 **R:** I ended up working in [County town] for a while. It's quite a coincidence because my father
262 had worked in [County town] and then moved to [County 2] and met my mother.

263 **ANED:** How strange!

264 **R:** So, do you see Board members socially?

265 **ANED:** Not sort of ... We do not have rounds of dinner parties, and we don't play golf or
266 anything like that and we don't do anything together other than we would have a Christmas
267 lunch. If we had to go, if there was a [UK Region Sector Group] dinner and dance, we would
268 probably... the Board would turn out with wives in force and go up there and support them.

269 **R:** So, it's the business side of the social thing.

270 **ANED:** No, there isn't a hidden agenda!

271 **R:** No, no..

272 **ANED:** Well, but there is in some companies. You know, what I call the estate agents, the gin
273 and tonic circuit. You might see a house you want to buy but it isn't a matter of turning up at the
274 estate agents, that house has already been rung around, you know I've got something here that
275 may interest you, and you do get that operating as a sort of, a sort of Masonic effect of that
276 group, that group of people. But we don't tend to get it in this industry and certainly wouldn't in

277 this company. We don't socialise, very little. When [Owner] goes to the Christmas dinner she
278 does not allow us to talk work, which is quite difficult! Where did you go for your holidays, it's all
279 over in two minutes!

280 **R:** It's very difficult not to talk shop. You say, although you're chair of the company, you are not
281 chair of the Board, the managing director...

282 **ANED:** Well, I don't take the chair at the Board meetings because the managing director was
283 doing it before and I could see no reason why he shouldn't continue. I don't see it, you know, I
284 don't see it necessary for me to sit there, as long as I can have an input into the way the Board
285 meetings are progressing, which we all do because it, you know, it isn't 15 people round a table.
286 It's only four of us, five of us we can see it easily, so if I want to interject or add anything or say
287 "wouldn't it be a good idea if we discussed this", that's fine. There isn't any problem.

288 **R:** Right. You've touched on it briefly already, this next question, which is how would you
289 describe your relationship with [MD]?

290 **ANED:** Fine. Yes there's no problem whatsoever. We get on very well.

291 **R:** It's that you just said at the beginning he may have felt a little under an admiral?

292 **ANED:** I think, putting myself in his shoes, I think that when [Owner] decided to enlarge the
293 Board and bring somebody in unknown particularly after the sad events with the consultant;
294 he... anybody would have felt insecure in that respect. I think we've gone out of our way to
295 assure him that he shouldn't worry. There isn't ... there isn't any letter in the drawer, sort of
296 thing, if you know what I mean.

297 **R:** And any other members of the Board, how would you describe your relationships with them?

298 **ANED:** Fine, yes. They are very co-operative so you don't feel as if you're saying, "oh, for god's
299 sake, you know, don't you see that point?" They are very competent and also younger than I am
300 so they think quicker. There isn't any problem, at all.

301 **R:** In your experience, what would you say makes for a successful non executive and company
302 relationship?

303 **ANED:** In my limited experience...I think...

304 **R:** You did say earlier that you'd been on a Board and seen a non executives in action as well...

305 **ANED:** Oh, yes, yes. I think ... I think there is a great temptation to try to do the managing
306 director's job... or to tell him what he should be doing and I don't think that should happen. I
307 think if the managing director is competent and it's all going in the right direction, you can steer,
308 but you can't... you can't push, if you know what I mean. [pause] I think that's probably the
309 biggest temptation to try and exert... It's like having a family, there's a time when you can say "I
310 don't think you should do that", previously you'd say "don't do it" and then you would pick them
311 up by the scruff of the neck and say "don't do it", you know, but you have to... you have to steer
312 and guide. I think that's the biggest problem is to try and exert more influence than is justified
313 over a situation. If you are going to make changes, you have got to plan them out and sit down
314 and discuss them with people and get a lot of "what do you think of this?" and "what do you
315 think of that?" You can't say, "next week we are going to put in an appraisal system and I'll be
316 interviewing you on Thursday morning", you know, "Here is the list of questions." You have got
317 to introduce it slowly and get a view from people. I think that maybe just coming in once a
318 month, if you just came into a Board and the situation wasn't doing well, you might very quickly
319 reach the conclusion that you wanted to get rid of somebody, do you know what I mean? That
320 may not be, that may not be the answer. Consult-isation, some of these people who come in
321 seem to reach very quick conclusions in my opinion.

322 **R:** With the caveat that you have been only a non executive of this company, how do your
323 experiences of this company match up to your ideal?

324 **ANED:** I find this fine. I would... I enjoy this immensely, you know. You could say, I don't enjoy it
325 because it is small and difficult, and it's a funny market. I'll tell you a bit more about the type of
326 company, I should do that, shortly. But, no, I find this is fine. I don't want to do anymore for
327 anybody else. I don't want to be another non exec because (a) I haven't got the time and (b) I
328 don't think it's fair on this company for the amount of involvement I've got here.

329 **R:** So, for small companies you feel, rather than get the big name, who's on lots of boards, you
330 feel that if you're a small company...

331 **ANED:** Yes, I think for a small company, you need somebody that is prepared to understand
 332 the, what I call getting into the capillaries of the system rather than just look at the heartbeat.
 333 You have got to get in and understand it. I don't think for this sort of company that any type of
 334 big name would help it really. I think it would be overweight, the Board would be over-awed and
 335 they wouldn't probably react properly, do you know what I mean? If you're having tea with the
 336 Queen or somebody, you are not really yourself, are you?

337 **R:** You made an aside earlier about non exec registers.

338 **ANED:** Yes. I... we've been pressed aren't we that sort of people of my age and experience to
 339 get on to non exec registers and join. I'm not ... Somebody asked me why and I said
 340 "somebody in the government or somewhere up above feels that small companies need us or
 341 medium companies need us" but I never really found out the reason. You must know that more
 342 than I do.

343 **R:** The evidence is that a lot of people are putting themselves forward but small companies
 344 don't seem either to understand or know of the existence or understand why they should do it.
 345 Part of this research is to unpick what it is that makes a successful relationship

346 **ANED:** Yes, yes...

347 **R:** and perhaps the government or the even the Registers themselves will use that research to
 348 explain the advantages of having a non exec over what any other initiative to support small
 349 businesses there may be.

350 **ANED:** Yes, yes...

351 **R:** So I mean, you used the word mentor earlier

352 **ANED:** To a younger trainee, yes,

353 **R:** so there are analogies there.

354 **ANED:** Yes, yes. I think also, somebody said to me you'll never operate in a small company
 355 because you have come from a big company and I find that absolutely wrong because the
 356 advantages of the, of these big companies that were very good, the sort if [Chemical PLC]'s, the
 357 [Metals PLC]'s, the [trade name group] etc, they are very successful companies, the way they
 358 are structured and the way they work contribute significantly to that success and there's
 359 absolutely no reason whatsoever why it shouldn't be applied to small companies. The only thing
 360 you've got to watch is that you don't end up with meetings, meetings and not making anything.

361 **R:** It's the structure but not a bureaucracy.

362 **ANED:** Yes, it is. Yes, yes. This place isn't and bureaucratic at all. I know many of places where
 363 I've worked where we have had 4 tiers of dining systems – that's quite common - and "thy shalt
 364 not venture over....". I remember when I started with [Chemical PLC], it was amazing. If you
 365 were a lab assistant you were allowed a chair, if you were an assistant technical officer you
 366 were allowed a table with one set of drawers and a stool. If you were a technical officer you had
 367 a table with two chairs and everything had been laid out. It's all sorted like this and it was...
 368 Actually you accepted it for some reason in those days but it isn't like that at all.

369 **R:** You aspire to the armchairs.

370 **ANED:** Yes, you aspire. I'd go home and say they don't give me any money but they give me
 371 the desk and two sets of drawers in!

372 **R:** It is interesting because the managing director I was speaking to earlier in the week made a
 373 conscious decision to employ a non exec with big company experience for that very reason that
 374 he could bring a structure that was necessary – to grow.

375 **ANED:** Yes, yes. If you, I mean this really was a green field site. It was amazing because of
 376 the problems of the death of the owner and because [MD] had been deep, had literally been
 377 deep ended. He had come off the shop floor and as the production manager and really doing
 378 what the owner had said what they had agreed what they were going to do and then he was
 379 faced with all the broad spectrum of a managing director's job, financial controls, with PR and
 380 with everything else, so he did remarkably well under the circumstances. I mean the whole thing
 381 could have just gone belly up and disappeared but he did, he did remarkably well. Coming into
 382 that where you have got a sort of autocratic style and as a result of that consultant from the
 383 bank a fair amount of dissatisfaction in the ranks does give you a lot of scope providing you can
 384 get the confidence of the people that are involved. And I find it is still necessary to know
 385 everybody's name on the shop floor, to be able to talk to people and this sort of thing, so my

386 management style has always been a sort of 'arm around the shoulder and what do you think
387 you are going to do next?' sort of thing, rather than "come up into my office and I'll tell you what
388 you are going to do". That's my style and that's the way I've developed through a big company
389 system.

390 **R:** Could you take a few minutes to tell me what you think the benefits and the problems are of
391 a small company having a non exec?

392 **ANED:** [pause] Hmm...If you assume the non executive director has some in depth knowledge
393 of what is happening. Now that is not just within the company but because I've been in the metal
394 business all my life when somebody says a name, you know, or an aeroplane or this bit is off
395 the front end of a jet engine you know, I can relate to it, so I can probably add, rather than just
396 say "Oh, super", I will probably say "Well I know somebody else who makes those" or "who's still
397 there" and add a subject to influence which is not ring up Sir John or anything like that, it's "have
398 you thought of this?". If you have a small company that is in engineering, in my opinion you
399 either need a financial man or an engineering man because that's going to...most of the
400 discussion is going to centre around "are we making any money?".

401 **R:** Do you think this applies to whichever sector? You need either a financial person or a sector
402 specific...

403 **ANED:** If I went in as a non exec in Sainsbury's, I would have to sit and listen for an awful long
404 time. I might only be able to bring my experience from walking around a Sainsbury's store which
405 would be, I don't think... it's rather like putting the MD down on the shop floor like in these
406 television programmes. It does some good but it isn't really, I couldn't really contribute
407 significantly, in my mind, to strategic planning of the food distribution business. So I think I
408 would... I certainly wouldn't take anything like that on but I'm using that as an example. It's got
409 to be, I think the financial one is common, is common to anything, so anybody who is an
410 accountant or somebody who can crunch numbers is helpful. They need to be able to listen or
411 an accountant that's grown from an engineer. I only know one of those. Or an engineer who
412 understands the background. [Interruption: tape finishes]

413 **R:** So, it's the ability to listen and understand?

414 **ANED:** Yes, because I think, if you use the analogy again, if you're going to quote me sort of
415 facts and figures about the consumption of white bread, I might not want to listen, do you know
416 what I mean? But if somebody talks about the metals market because it triggers off something
417 in me and I'm interested and can probably offer something.

418 **R:** So the benefits of having a non exec are either an in depth understanding of the sector or of
419 financial issues around running a business.

420 **ANED:** There is one other, in that he's a sounding board. I don't just mean for ideas or the
421 business plan. I mean I was given the opportunity to contribute to the strategic thinking of the
422 company and write a business plan, I don't mean that, but I'm talking about the MD saying "look,
423 I've got a bit of a problem" you know "we've had a case of sexual harassment" or something, do
424 you know what I mean, "how would you play it in your experience?" Off the cuff and informal,
425 "what do you think? Do I sack the guy, do this or do this?". I'll give him a view and he will
426 probably take another view from a lawyer or somebody like that. Or the owner might say "I'm
427 going to do something about the pension scheme, it isn't right, never has been and what do you
428 think?" So, I would say because I have some pensions experience in being chairman of a
429 pension fund once I'd say, I think I would say "you should do this, that or the other" or "I cannot
430 answer those questions but I do know somebody who can". So there's a sort of "can I have a
431 few minutes of your time?" from various people that ask me questions that either because they
432 do not want to expose their ignorance to their colleagues or nobody knows the answer or that
433 there's a field they know nothing about, that I get bounced on, so I get asked all kinds of
434 questions. Some I can answer and some I can't and some I can contribute too, others I find to
435 someone who can help me answer them. So it's another... it's a bit ... I suppose it's very much
436 like a husband and wife relationship. If a women is left on her own, she hasn't got anybody to
437 say "what do you think about this" or "what do you think I should do?" And there is this sort of
438 thing that goes on. So, it isn't all coming out in minutes of meetings and it doesn't all come out in
439 agendas, there's something else.

440 **R:** A sort of informal safety valve?

441 **ANED:** Yes, yes, yes.

442 **R:** How different do you think this company would have been if it hadn't taken the decision to
443 appoint a non exec?

444 **ANED:** I think that the way young [Production Director] has progressed, ok, he's had some
445 guidance and there has been a mentor influence, I think he would have been where he is now
446 probably because he is very good and he's picked up the ball and run with it and [pause] he's
447 doing very well, so I think it would have got there but it's a difficult question to ask me, isn't it?
448 (*staged voice*) "No, of course it wouldn't, it would have been on its knees!"

449 **R:** Not wanting to put words into your mouth, do you think that they have got there quicker,
450 perhaps?

451 **ANED:** I suppose they have. I can't, I find that difficult to measure, really.

452 **R:** You said you got IIP this year. My next questions are about the support of the directors.
453 What do you consider the best preparation for being a director of a UK small business?

454 **ANED:** [pause] A non exec director or a director?

455 **R:** A director in general.

456 **ANED:** I think either approximately coming up through the ranks, I don't mean necessarily from
457 toilet cleaner to MD but some experience of the operation which you are directing. Or a strong
458 entrepreneurial flavour where you actually thought of the whole thing.

459 **R:** And does this preparation differ between exec and non exec?

460 **ANED:** I don't think it does, no.

461 **R:** It's not on my protocol but I'm quite interested – you obviously have a training plan for the
462 company...

463 **ANED:** Yes.

464 **R:** Does it include the directors?

465 **ANED:** Yes, I've just been on Windows and Word. Yes, it does and it includes the non executive
466 directors, obviously. Without a training programme, and a lot of evidence that it's working, a lot
467 of people saying, "yes I've been on one on one and enjoyed it", but you don't get IIP.

468 **R:** Including the directors?

469 **ANED:** Yes. I was interviewed as part of the IIP on a random basis. So, I got interviewed and
470 the cleaner got interviewed and she chose them not by rank but I think probably out of a hat or it
471 just fell that way or she chose people from various areas. So we had to get that straight, we had
472 a business plan; we had a training plan. We spent a lot of money on training last year.

473 **R:** When I was working in [UK region], it was in the early 90s when the recession was biting,
474 just as I was embarking on a project to encourage training...

475 **ANED:** People were closing apprentice schools.

476 **R:** There were two companies who weren't. One was American owned and one was German
477 owned. The German owned was using the recession to buy in new equipment and training
478 people on it...

479 **ANED:** It depends on the size and the liquidity of the company. I mean this company does not
480 make vast profits so you can't accumulate vast amounts of money so you try to shelter
481 something for a rainy day but the rainy days are always longer than you think. So in the end
482 most companies in the small engineering side have to resort to throwing women and children
483 over the side before the beer, do you know what I mean? It's that sort of thing, you ... you can't,
484 you can't take on people in the form of apprentices, if you have to cut costs.

485 **R:** What else do you think would have helped or might have helped you as a NED of this small
486 business when you first started? Was there any preparation or training or support?

487 **ANED:** No. I think I expected to find the financial situation not very good, not in terms of its profit
488 or loss but in terms of the way it was controlled because in my experience in having small
489 engineering companies in some of the groups of companies that I've been involved in, they do
490 get themselves into problems, as I mentioned earlier in relation into how they account for their
491 pennies. And I was very pleasantly surprised to find that this was watertight and that the
492 management control information which [Production Director] had started to deliver, where I ask
493 questions like can you allocate these costs against that product line and the next time, you

494 know, we got an analysis which gave us that so we can see within the company within the six
495 operating areas, which is profitable and which isn't and we can take steps to address it. So, I
496 expected that but I didn't get it.

497 I didn't know very much about the mechanical side of the equipment, so I had to learn quite a lot
498 about that and you could argue that I might have spent more time on the shop floor as a saw
499 operator. I didn't do that in the end, that would have been useful to me, like a non exec in
500 Sainsbury's working in a bakery.

501 **R:** Again, it's trying to look at; there are some programmes, which allegedly train non execs...

502 **ANED:** Yes, I noticed that from the questionnaire. I've never come across them but maybe
503 people who haven't had board experience. Do you know?

504 **R:** One question that I should have asked on that survey form was, have you had any
505 experience as an executive director. Some people answered that question, no specific training
506 but many years as an executive director. People like [University 1] and also [Business School 1]
507 have director training. [Business School 1] has director training programmes. I think effectively it
508 is a management development programme for a board of directors.

509 **ANED:** Who lectures? Visiting...?

510 **R:** I really don't know. I would have to go into that. [University 1] runs non executive weeklong
511 training courses. So, I was trying to tease out from people doing the job what kind of support
512 would have been useful. Look at what those training programmes provide and see,

513 **ANED:** Yes

514 **R:** compared with the interviews and the discussions I had because from published academic
515 research no one has looked at small business non execs before.

516 **ANED:** Oh, interesting.

517 **R:** I have my own theory why the ACCA is interested in non executives.

518 **ANED:** Let me say that we didn't have a structure like that when I came [points to Board papers
519 discussed earlier]. I put in an agenda like that. It is alright to have an agenda like that but we
520 can't discuss Joe Bloggs' back injury for 25 minutes on a Board meeting. It would be nice too
521 but it's up to the chairman to skim that agenda at a level that which directors can significantly
522 contribute; not to get involved in too much detail but at the same time to make sure that the
523 layer of discussion is important. Now that training can only come from sharing board meetings
524 or being a director because you can make that thing last two days if you wanted to! [taps
525 agenda] It's got to be pulled out in three hours or four hours, or whatever. So ...it's got to
526 examine everything, and leave no stone unturned, but it, he hasn't got to wait until the patient
527 gets cured. He's got to diagnose the illness and he's got to recommend some type of medicine
528 but he can't always wait and sit about to see if it works until the next meeting. It is important that
529 you are trained to operate at that level. I don't know if you understand what I am trying to say.

530 **R:** A strategic level.

531 **ANED:** When you get people into board meetings and they start off, "In 1914 my father..." etc.

532 **R:** They are trained to operate...

533 **ANED:** At the right, at the correct level for a board discussion. And you have got to, you have
534 got to understand the language, so it's no good coming to a board meeting if you don't, if you
535 can't read a trading account or balance sheet. I'm not an accountant but you have to be able to
536 do that. So it's no good coming to a board meeting if the technical terms are put forward are
537 strange and foreign to you. If you are going to go into a food company, you'll need to
538 understand their jargon, if you are going into an engineering company you'll need to understand
539 what CNC's are, turret lathes, and band saws and swarf and all the other things that people
540 don't really know what it means. So, you need to understand the language, so that's part of the
541 training.

542 **R:** What about education?

543 **ANED:** I don't know how university can actually offer that.

544 **R:** Unless it's being delivered by people...

545 **ANED:** Unless we've already got all the engineers on the course today and all the accountants
546 on the course tomorrow.

547 **R:** I think you have already answered this question through your IIP answer; how does this
548 company support its either new directors or its existing directors. You are part of the training
549 plan, so presumably, the appraisal system.

550 **ANED:** Nobody has ever appraised me. I noticed that question on your questionnaire and that's
551 my fault. When I say nobody's appraised me, let me put that differently. I have an annual
552 contract and [Owner] had renewed it. And I think I might have been slightly rebuked a couple of
553 times for maybe going, taking things in a direction in which she didn't want it, but for past
554 experience reasons I was not aware of, but she said I would like you to continue again and I
555 said, "Well, how are we're doing?" and she said "fine". So, if you call that a sort of an appraisal
556 and she's renewed the contract. Otherwise she has the opportunity to say, "now everybody has
557 gained from your experience, thank you very much". What she has asked me is interesting. It is
558 confidential. If and when I pack it up, would I recommend somebody to take over? So she
559 obviously wants it continuing, a NED presence.

560 **R:** Can you see a time when you feel you want to move on, or move out?

561 **ANED:** I wouldn't want to move on. I'd move out. I retired at 58 and my official retirement age
562 was 62 and I'm not yet 65. When I feel I cannot contribute significantly to it I will come out. The
563 problem is actually recommending somebody to come in, is a real problem at the moment
564 because I don't have exposure to lots of people who are in similar jobs anymore. I can ring up
565 old colleagues but I don't know really their recent experiences.

566 **R:** There is no one in the aerospace side of things?

567 **ANED:** I know one or two but whether I would be happy to put them in I don't know...

568 **R:** Succession planning for NEDs?

569 **ANED:** Yes, that's right. Succession planning for NEDs, yes.

570 **R:** I'm just going to check through that I've got everything I wanted. Is there anything you
571 wanted to say about non executives in small businesses that you don't think has been covered?

572 **ANED:** No, only to demonstrate that again the situation arising at this appointment was maybe
573 somewhat different from somebody going absolutely flat. The owner dying a few years before,
574 new man coming in, so there are obviously special circumstances here to somebody just going
575 along nice and quietly. I suppose somebody who can bring... how about structuring the
576 company. "Do you have a long term strategy?" " Pardon?" "You have a business plan?"
577 "Pardon?" "Do you have a succession plan?" "Pardon?" You know, it's people are not always
578 willing.....Entrepreneurs and managing directors don't want, I'm sure do not want to be
579 interfered with I'm sure. If you leave it to them to appoint they probably won't. It's just another,
580 it's somebody else on the payroll or it's another nose in the hay bag. They probably won't do it.
581 So that's my view you can tell the ACCA. But if the government offered a grant they would
582 probably all be knocking on the door.

583 **R:** A DTI grant.....I hoping that the six companies I look at in depth will give examples of
584 good practice.

585 **ANED:** So, you are looking at six of us, are you? Oh, that's interesting.

586 **R:** Well, the ACCA are looking much broader. I will be asking [MD] later on whether I could be
587 allowed to look at [Company A] in detail.

588 **ANED:** Oh right. So there's another stage after this?

589 **R:** Only, it would be to gain clarification obviously from the interviews, attendance at a possible
590 Board meeting, looking at all the company brochures, perhaps looking at some Board minutes,
591 trying to understand the company, really understand the company and interviewing another
592 member of the Board if at all possible.

593 **ANED:** You should interview ... You should interview [Production Director] or [Financial
594 Director]. They would be significant. I think [Production Director], who's going to be the eventual
595 owner would be a good person to interview because of his detailed knowledge. He could say
596 whether I was of any use to him or not, you know.

597 **R:** So, far this is the second company I've been to who fit all the right criteria

598 **ANED:** Yes

599 **R:** that I have set myself and they are both different. I can see things from what you said about
600 this company that the other company could learn from. So it's been good, thank you.

601 **ANED:** We told the owner yesterday what was happening. Because we said that I had filled in a
602 form, I'll show it you and I could not put my hands on it but I've got it now. You are coming
603 today, was it alright and she said "yes". I said we are obviously not going to talk, if anything
604 comes up that we are not prepared to answer we shall say so, we're not going into financial
605 details, we don't know what will happen to the information in the long term and I'll ask you
606 questions about that. But is it alright and she said fine. So, I will tell her what's happened today.
607 When you ask [MD] whether you can go on to the next stage he will say he will ask the Board.

608 **R:** Yes, I appreciate that. As to what happens to the information. For the ACCA, there will be
609 ...two of the team will look at the information and produce a report from that information. That
610 will go to ACCA. No company will be identified; we guarantee that. Anything said on tape will be
611 heard by the transcriber, myself and my supervisors for obvious reasons. As far as the PhD is
612 concerned again the six companies will not be identified as far as humanly possible. Again any
613 information which is sensitive, you can either ask me to stop the tape and again if I am allowed
614 to attend a Board meeting that wouldn't be taped obviously. I'm looking for relationships, how
615 people operate and so I'm not here to try and do a tabloid exposé.

616 **ANED:** The problem... I think the main problem that results from this sort of thing, it's like writing
617 an article in a magazine, you get call after call after call from people saying, will you write in my
618 magazine or can I come and see you about a new computer or whatever else and people are
619 living off, you know, the magazines and the media, they see somebody has got an order and
620 they are on to them. I think that's one of the painful processes of... but obviously we are in the
621 service industry. We have a brochure, we publish; we like our name to be known. We are
622 almost unique; I would suspect in some of things that we do and we are not going to hide our
623 light under the bed, you know. I think all of us are very proud actually because it is working. It
624 isn't as if we say I'll give you half an hour but we have got so many problems. [Production
625 Director] is busy as anything really, you might find it a job to get an hour of his time but I'm sure
626 that everybody works well together, there isn't any backbiting or anything like that.

627 **R:** I obviously will hope to publish academically ... and again.

628 **ANED:** Yes, of course. You will acknowledge on the...

629 **R:** Oh, yes, certainly. I know one of my supervisors has named a company in an academic
630 paper but that was with the company's agreement. So again if I did want to do something
631 specifically on this company I would of course approach the Board.

632 **ANED:** What was your reasonable sample size from the number of questionnaires that came
633 back?

634 **R:** We had 19, 21% response.

635 **ANED:** Did you...

636 **R:** We surveyed the managing directors, or my supervisors surveyed the managing directors in
637 March 1999. We then selected those companies who had non executive directors irrespective
638 of size and sent surveys out via the managing directors to the non executive directors. So we
639 were in the hands of the managing director whether (a) he would pass it on and then whether
640 the non exec decided to return it. We then got I think about 21%...

641 **ANED:** If you've brought it down to six in depth, how many did the six come out of, six out of a
642 hundred or six out of thirty?

643 **R:** My mind has suddenly gone blank. I've been travelling since Sunday!

644 It was relatively small. For my PhD we are looking at companies between 20 and 49 and 50 and
645 99. I have a bi-polar sample of three of each except my supervisors original study of the
646 managing director's surveys showed that companies with less than 20 employees, 30% had non
647 execs, 20-49 only 18%, 50-99, 30 something % had non execs and over 99 had 40%. Another
648 reason we are looking at the two groups is if the 20-49 want to grow and the government always
649 are very keen for small businesses to grow, is the NED contributing to that growth process?
650 Also for the validity of my own research I have to look at a one on one relationship, one
651 managing director and one non executive director otherwise how do you know which non
652 executive director the managing director is talking about.

653 **ANED:** Oh right. I get you, I see

654 **R:** I said to my supervisor how do you know which non execs they had in their minds as they
655 filled in the forms, he's a waste of space or best thing since sliced bread. It's quite difficult, to be
656 honest there were only 2 companies that fitted the bill.

657 **ANED:** Oh, really.

658 **R:** By the time you got all those criteria. I'm now looking at other companies in [UK Region 2] to
659 do the other cases.

660 **ANED:** Are they all in engineering or...?

661 **R:** If I had my way, they would be. But that's a personal preference although I'm a scientist by
662 original background, I worked in administration in higher education in an engineering side.

663 **ANED:** What are you, a physicist?

664 **R:** Oh no, I'm a biologist.

665 **ANED:** Are you?

666 **R:** Systems, I'm fascinated by systems, parasitology and so on.

667 **ANED:** Ticks!

668 **R:** That sort of thing – the lifecycle of myxomitosis is fascinating... but my husband is a
669 mechanical engineer. He was an aeronautical engineer, he's into fracture and fatigue so I
670 understand such phrases as autofretage. The Comet crashes were part of his PhD.

671 **ANED:** The Elmer Disaster, marvellous. Failure of the tank and the fuselage, I remember it well.

672 **R:** It's loading materials. He's tended to go on land based things now, pressurised cylinders, so
673 I've sat through presentations on mechanical engineering...

674 **ANED:** One of our things here is because we do a cold sawing process and some of it up to 2
675 metres diameter, one and a half metres diameter which is a big chunk of steel. We do not
676 significantly affect the area where we're cutting. So if you do it with plasma or flame or laser or
677 anything you actually do a fusion process which has a metallurgical effect on the surrounding
678 area and can have all sorts of strange effects on the structure particularly on its ability for long
679 cycle fatigue properties so this cold sawing process is very attractive. We do an enormous
680 amount of aerospace work.

681 **INTERVIEW #2: NED Company A Date: Sept 2002**

682 **ANED:** So, yes, you're right. The big thing I think is these fat cat salaries which has stirred up
683 an awful lot, I mean they have been grotesque in some of these.

684 **R:** Well, it's also the fact that I heard a definition a Non-Executive Director, a full week's
685 pay for a one day's work, for a nice day's work or something...

686 **ANED:** But looking at some of the plc pay, salary statements if you look at the annual reports,
687 some of them, some of them are not all that well rewarded and I think it's, you know, a very
688 small sum compared with the working Directors and then others are, I think it entirely depends
689 on, on...

690 **R:** Well, you...

691 **ANED:** ... co-advisors. When I came in here, they offered me a salary which I was, I thought
692 was extremely high. I haven't told that to anybody else and I said "How did you arrive at it?"

693 **R:** Yeah.

694 **ANED:** And they'd consulted the Chamber of Commerce or something...

695 **R:** Right.

696 **ANED:** ... who told them, so they were, right. I'll stop talking and you do what you want.

697 **R:** Well, thank you again very much, as last time anything you say is confidential...

698 **ANED:** Yes.

699 **R:** ... and in the final work that I do as far as humanly possible the company will not be
700 identified. Obviously, it should take around about an hour and I am going to pick up on one or
701 two questions that I didn't ask last time, then move on to the questions that are in that
702 synopsis...

- 703 **ANED:** Yes.
- 704 **R:** ... but also going back to some of the things that you mentioned last time...
- 705 **ANED:** Yes.
- 706 **R:** ... and how I can clarify some things. Well, there is one question I didn't ask directly last
707 time, which was briefly tell us of your Executive Director experience.
- 708 **ANED:** Right.
- 709 **R:** If you wouldn't mind starting off that and I'll just listen while you tell me...
- 710 **ANED:** Yes.
- 711 **R:** ... a little bit about that.
- 712 **ANED:** I worked most of my life for [Metals PLC] a metal bashing company in [City 2]...
- 713 **R:** Right.
- 714 **ANED:** ... and worked my way up till Managing Director, now that is not Executive Director in
715 [Metals PLC] terms, because you've got an Executive Director layer...
- 716 **R:** Yeah.
- 717 **ANED:** ... and, which are really basically Group Directors and they have groups of people and I
718 was a Managing Director of one of their, of two of their businesses, having been a Works
719 Director and a Sales Director – I've been everything but a Financial Director.
- 720 **R:** Right.
- 721 **ANED:** So, I was a Managing Director running a business under the layer of the Executive
722 Directors, I ran one business, I ran a second one. They sold that second one to a [European
723 nationality] company, a [European nationality] [metal] company, I went with it, I then ran the
724 group of companies for the [European nationality] and I was a Vice President but I think it was
725 probably not a Non-Executive but Vice President in this upper layer of the [European nationality]
726 group...
- 727 **R:** Right.
- 728 **ANED:** ... and then they asked me in the fullness of time to dispose of that group, which I did
729 and I took early retirement.
- 730 **R:** Right.
- 731 **ANED:** So, I've been in basically in manufacturing industry in connected with metals and along
732 that route somewhere as when I was an MD for [Metals PLC] I did some property development
733 and a fairly high level personnel management as well. So, basically that's it and I did about, oh
734 dear, started when I was – I did about 40 years.
- 735 **R:** Right, okay.
- 736 **ANED:** (mutters 1993) Yeah, I did 41 years and then did about a year of retirement and then
737 somebody asked me if I would like a go at this.
- 738 **R:** So, you were a senior manager in those with the title Director but...
- 739 **ANED:** Yes.
- 740 **R:** ... but you didn't sit on the Board, or did you?
- 741 **ANED:** I didn't sit on the board at the [Metals PLC] plc...
- 742 **R:** Right.
- 743 **ANED:** ... I had my own Boards of the company and I did sit on the Board of the [European
744 nationality] one.
- 745 **R:** That's great. Could you just confirm your current Non-Executive posts?
- 746 **ANED:** Here, just this one.
- 747 **R:** Just this one.
- 748 **ANED:** Yeah and bearing in mind that I attend here two mornings a week in a sort of, originally
749 as a mentor role for the new Production Director but that's far distant now, but I don't just attend

750 a once a month Board meeting. It does make a difference when you talk about the sort of things
751 that you're talking about.

752 **R:** Right, thank you, thank you. If you could think back to, you know, your one year of
753 retirement.

754 **ANED:** Yes.

755 **R:** What motivated you to become a Non-Executive Director?

756 **ANED:** Well, I suppose my main motivation was that I didn't feel that I was ready to completely
757 wind down. Although I didn't have strong feelings about that, I had with somebody else's
758 encouragement, pursued the Chairman of a pension fund, a large pension fund and got to the
759 sort of final two or something and I think a lawyer got it. I'm very pleased he did, because it's not
760 a pleasant thing to be Chairman of the Trustees of a large pension fund these days, and then I
761 just put that on one side and then somebody came along and said "Look, you know something
762 about metals, you know something about management. Do you want to do some work?" and I
763 said "Not really," but I think he was determined to deliver me and I obviously got delivered. And I
764 must say I found it quite interesting and stimulating, because I came here there was an, there
765 was tremendous potential for change.

766 **R:** Right, okay. And so what is the motivation to continue?

767 **ANED:** Well, it's twofold. Simply to keep the brain going obviously, but there is, the company is
768 interesting in that it is, it is changing all of the time. It's interesting in the way that we can, we
769 can produce a fairly large strategy document business plan and two years later we're up an
770 alley which was not even, that was hardly mentioned and one of the challenges of this business
771 is it's been a service industry so it's a bit like everything else, the telephone rings today and
772 you've got some work tomorrow and if it doesn't ring you haven't and because it's difficult to
773 identify the customer base and the customer requirements you can't do a sort of soap powder
774 ad or a spend mega money on marketing, it's usually wasted if you do. So, we've got to
775 somehow find a way to decide our own destiny and lay down a plan which can be followed and
776 is profitable, rather than bumping into opportunities. Now, that is, now that we've got the inside
777 of the business tidied this is very much in the forefront of my mind, the strategic objectives of
778 the company and how we're going to achieve them. Whereas in the early days it was very
779 much, "Well, you know, we haven't got a, we haven't got a proper communication system. We
780 haven't got a proper payment system. We haven't got a proper list system." It had come out of a
781 family business, it was very autocratic and we hadn't got a, so we made a lot changes along the
782 road. But the main one now is where do we go from here and how do we, you know, how do we
783 go about deciding where we go from here?

784 **R:** Well, thank you for that. One last question before I get on to the new ones and since my
785 last visit which was about two years ago...

786 **ANED:** Yes.

787 **R:** Doesn't seem like it

788 **ANED:** No, it doesn't, does it?

789 **R:** Have there been any changes in the company or on the Board that you think I should
790 be aware of?

791 **ANED:** The only, there's been a recent change in that the shareholder, the owner, [Owner], you
792 recall she brought her son in late 1994 and I came in early 1995 to help him. He's extremely
793 competent now, that's the Production Director, [Production Director]. She has just delivered her
794 second son into the business...

795 **R:** Oh, right.

796 **ANED:** ... so that was a recent Board decision. It's quite interesting really, when the major
797 shareholder/owner sort of wants something and as a Non-Executive Director whether, you
798 know, your duty bound to say if you don't agree with it. I did agree with it, but it's a very
799 interesting pressure point. He's come in, basically in the long term to be Financial Director and
800 Company Secretary because [Financial Director], who's done a marvellous job in that
801 department, in the medium term will retire but in the short term will be whisked off to have two
802 knees replaced and nobody knows what goes on in there, basically. So, he's been on a crash
803 course to learn how to pay the wages, build a bank statements and all the rest of it, and collect
804 the money and he will fill a very useful role there. Of course, against that background he's got to

- 805 have a broader experience in the, we going to have to immerse him in the oil and greasy bit of it
806 and other things... but that's the most recent thing. Now he isn't on the Board.
- 807 **R:** Oh, right.
- 808 **ANED:** He's designate, if you like.
- 809 **R:** Right.
- 810 **ANED:** We've just had a Board meeting where it was suggested he might come in as an
811 observer and I said "No". They said that to you when you wanted to come in as an observer,
812 that was agreed, so I said "Well, why should you make exceptions, we've always said no to
813 people wanting to come on the Board, coming to Board meetings." I'm not sure if that's gone
814 down very well.
- 815 **R:** Interesting you should say that. I'm going to tease out things like that...
- 816 **ANED:** Yeah.
- 817 **R:** ... a bit later on.
- 818 **ANED:** Yeah.
- 819 **R:** So, when, sorry, when did he become involved in the company?
- 820 **ANED:** He's just started last, about a month ago, yes.
- 821 **R:** Oh, right, so August.
- 822 **ANED:** Yeah.
- 823 **R:** Obviously since I last saw you, I think you were probably one of the very first people I
824 interviewed...
- 825 **ANED:** Yeah.
- 826 **R:** ... since then I've done a lot more interviews...
- 827 **ANED:** Yes.
- 828 **R:** ... across a lot more companies, all private or family-run businesses...
- 829 **ANED:** Yes.
- 830 **R:** ... with Non-Executive Directors. Now, so this work I'm doing now is my PhD rather than
831 the ACCA work...
- 832 **ANED:** Yeah.
- 833 **R:** ... but obviously it's heavily grounded in the ACCA work...
- 834 **ANED:** Yeah.
- 835 **R:** ... and the thing that came out of those original, of those other interviews was the most
836 important thing in a small business with a Non-Executive Director is the relationship that a Non-
837 Executive has with the Chief Executive...
- 838 **ANED:** Yeah.
- 839 **R:** ... whether that person is the owner/manager...
- 840 **ANED:** Yes.
- 841 **R:** ... a professional manager...
- 842 **ANED:** Yeah.
- 843 **R:** ... or the founder.
- 844 **ANED:** Yes.
- 845 **R:** So, using the questions that I've sent in advance what I'd like to do is sort of tease out
846 that relationship...
- 847 **ANED:** Yes.
- 848 **R:** ... referring back to some of the things you said, before...
- 849 **ANED:** Yeah.

850 R: ... and again I'll assure you it's confidential...

851 ANED: Yeah. We have to decide who we're talking about, because [Owner] owns all the shares
852 but a couple. She attends the Board meetings and she said to me and we've agreed basically,
853 I've said to her "You really shouldn't worry about the business." Well, previously she used to
854 come in frequently and sort of throw papers around and still comes in for things about pensions
855 and her sort of family ties with the business, but one of the reasons for me doing this job was to
856 take some of the pressure off her, because she was Chairman and I'm now Chairman, a non-
857 executive Chairman, although I don't actually take the Board meetings – I'll come to that in a
858 minute. So, I get on fine with her and she's become more involved recently as [Financial
859 Director designate] has – that's her second son, has come in but the main person I have to get
860 on well with is the Managing Director, because he is running the business. Now, if you put
861 yourself in his shoes, he's got three members of family now around him and if you wanted to
862 create a sort of an edgy, insecure situation, that's probably one of the best ways to do it. But he
863 assures me that he feels alright about it, and he has assured the owner that he feels alright
864 about it and you'll be interviewing him later in the day. But, I feel that maybe one of the tasks
865 that [Owner] used to constantly reassure him that he, you know, he isn't going to be submerged.

866 So, really, that's the one person I have to get on with in terms of his closer responsibility for the
867 business.

868 R: Yes, I mean going back to what you told me previously...

869 ANED: Yeah.

870 R: ... I had, for the sake of these interviews, had made an assumption that the Chief
871 Executive Officer for this company was [MD] and any shareholder questions related to the
872 [Owner] family...

873 ANED: Yeah.

874 R: ... but in particular [Owner].

875 ANED: That's right.

876 R: So, is that, is that a fair assessment?

877 ANED: Yes, that's right.

878 R: Right, that's fine, because that's an assumption I've made which I needed to clarify with
879 you.

880 ANED: Yeah, and there's a sort of, as you say this is confidential, but there's a, it's closely knit
881 in that the parts to the building now are owned by her pension scheme and we, the company,
882 pay her a rent for it. So, she's got an interest if the ceilings are leaking and we've got a full
883 repairing lease. She wants something done about it sort of thing.

884 R: Right.

885 ANED: But, it also strengthens her interest in the company... and having now two family
886 members in there she's certainly, I would think we'll probably see more of her than we have
887 although she says she's, you know, sort of slowing down, but I would suspect we'll probably see
888 more of her.

889 R: Right, okay. Last time, you mentioned that – if we go on to the questions that are on
890 your sheet. Last time, you told me typically there are about 10 items on a Board Agenda...

891 ANED: Yeah.

892 R: ... I just wondered if you could talk me through an example.

893 ANED: Yeah. That's an Agenda.

894 R: Right.

895 ANED: So, you can see at the bottom of that is that if... that's a standard Agenda and at the
896 bottom of that, if we want to raise anything else then we notify [Company PA]...

897 R: Right.

898 ANED: ... under Any Other Business.

899 R: Right.

900 **ANED:** We have Board minutes, those are the ones of the 19th August (*copy shown as across*
901 *table but not handed to researcher*), with actions arising from...

902 **R:** Right.

903 **ANED:** ... and the, if you take an Item on Board meeting preparation, the preparation that
904 everybody needs is a) to look at the Agenda to see if anything's been dropped on it. Secondly,
905 to pick up the last Minutes and look at the actions arising, whether they've been highlighted or
906 not (*[Company PA] appears to highlight individual director's actions arising*) or whether they're
907 implicit in the way they've been constructed...

908 **R:** Right.

909 **ANED:** ... and to have those answers ready when the Chairman, now, [MD] as Managing
910 Director always ran the meeting for [Owner] and I decided that he could go on doing that. I think
911 it's better for him, if you know what I mean, that he sits in this chair and runs the meeting and I
912 sit there, although I am "Non-Executive Chairman". So, when he come round to Matters Arising,
913 everybody has got their answers ready. There are occasionally examples when he will bring to
914 the meeting under Any Other Business items for the Board.

915 **R:** Right.

916 **ANED:** Now, I'm not all that keen on that and often I will say if it's an in-depth item, "Chairman, I
917 think we ought to, we ought to have greater notification and detail of that and discuss it and the
918 next Board meeting." If it's, you know, if it's capable of being discussed without absorbing, you
919 know, woggles of paper then we'll let it carry through. So there is, if you like, that Any Other
920 Business angle is a little bit, can occasionally contain surprises.

921 **R:** Okay, thank you very much.

922 **ANED:** So, this is all part, if I can just bore you with going back to where we started, you may or
923 may not recall that there was no structured system in this company for communications and
924 decisions. So we put in a Board meeting once a month, got to attend and we'll shift the dates if
925 we can't get a reasonable attendance. We then put underneath that a Managing Director's
926 meeting where [MD] meets [Financial Director] and [Production Director] and that's an exchange
927 of views. He tells them what he's doing and they tell him what they're doing, so that we're all not
928 going off in different directions. Underneath that, [Production Director] has a Production
929 Manager's meeting once a fortnight, so he can tell them what he's doing and then direct them in
930 any way he wants to and they're supposed to go away from that and get the shop floor together
931 and tell them...

932 **R:** Right.

933 **ANED:** ... and that is the most difficult part of communication because they often don't, or
934 people don't listen or don't want to listen.

935 **R:** Right.

936 **ANED:** There are Sales meetings then as well, which I used to run because I was particularly
937 interested in the way the Sales department was structured and working, but I've now delegated
938 that to [MD], so he runs the Sales meetings. So, we get, all of those things are minuted, so we
939 do get three or four, or five pieces of paper a month...

940 **R:** Right, okay.

941 **ANED:** ... which tells us where we're all going.

942 **R:** Okay. Do you prepare in any other way, other than papers and minutes, minutes of the
943 last meeting, minutes of these structured meetings further down? Is there any other preparation
944 that you do?

945 **ANED:** Well, we're heavily into aerospace and since a year ago next week (*September 11,*
946 *2001*), the whole place, the whole industry is in chaos...

947 **R:** Right.

948 **ANED:** ... so, I tend to cull press cuttings of various parts of the industry, there's been an awful
949 lot on [Engineering PLC 1] lately and we are a [Engineering PLC 1] customer and there's been a
950 lot of people are throwing doubts about their accounting system following Enron and World
951 Telecom, doubts about their order book following 9/11. So I will bring that sort of stuff in and
952 what I usually do is bring in or fax it in or bring it to the Board and we can sort of get a general

953 feeling for that background where our business might be, might be involved. I might have to go,
 954 I have been used as a sort of engineering assessor to look at a supplier and go with a technical
 955 man and bring back an opinion to the Board and I have, when we've purchased hefty chunks of
 956 capital equipment I, other than being involved in the, you know, the decision to buy it and why, I
 957 have been to the manufacturer to, you know, cast a engineering eye over it. We have, we don't
 958 allow any off the cuff spending, we have a formal capital expenditure proposal system here
 959 which is brought to the Board, discussed and signed. So, you can't just go out with your cheque
 960 book and buy a couple of things, which you could do at one stage.

961 **R:** The meetings that cascade down...

962 **ANED:** Yes.

963 **R:** ... the minutes are obviously seen by the Board...

964 **ANED:** Yeah.

965 **R:** ... so that information then cascades back up.

966 **ANED:** Yes.

967 **R:** Are there any other ways that information cascades up?

968 **ANED:** I get my ear bent every Tuesday and Thursday morning by, I've just had it bent on the
 969 way over here, "What are you going to discuss this morning?" I said "It's not a Board meeting."
 970 "Well, if it was you do realise that our wage rates want looking at." "I always realise that and I'm
 971 first on that list," says I and departed. You know, so I do tend, we, I do encourage an open door
 972 policy, tactile, talk to people, go around, it's not pleasant sometimes because there is some
 973 strange characters in this life, but I do encourage everybody on the Board to do the same, so
 974 there's always a sort of a "Did he tell you this" and "Did you hear this" and "Good God, what's
 975 happened there" and that sort of thing. Yes, with sixty odd people I suppose it's a bit like a soap
 976 opera isn't it, it's moving forward all the time, you know.

977 **R:** Could you talk me through some recent Board decisions? I think I asked

978 **ANED:** Yeah.

979 **R:** ... one strategic, one operational, one where you had a major influence and one where
 980 you think your influence wasn't as much as you had hoped.

981 **ANED:** This strategic, this thing I mentioned earlier about suddenly finding yourself two years
 982 later in the direction which nobody had ever thought of. We – I'm trying to think how it first
 983 happened. It happened in a small way and it's grown up. We started to cut components for the
 984 motor industry, it's forging stock, they're bars about that (4cm) diameter and we cut them into a
 985 precision length. We actually cut a volume...

986 **R:** Right.

987 **ANED:** ... so, if the diameter of the bar varies... we cut volume, that volume is critical in that it's
 988 put into a dye and thumped and it fills the dye completely. If it doesn't fill it it's not right, if it
 989 overfills it, it breaks the dye, so it's very critical and we started to do some of this on a [Asian
 990 nationality] machine and it has grown enormously and we now have the whole of the middle
 991 bay, I think we've got about six of these machines, very expensive machines, bashing away,
 992 cutting these – it's a high speed circular sawing machine, [Asian nationality] machine – cutting
 993 these slugs for three major, at least three major suppliers to the motor industry and these slugs
 994 either end up as – do you know what a gudgeon pin is in a piston. The piston goes up and
 995 down...

996 **R:** Yeah.

997 **ANED:** ... and there's a pin in there which the conrod sort of revolves on. So, they are either
 998 that or crank shafts or whatever, they're all blanks for forging something out of...

999 **R:** Right, okay.

1000 **ANED:** ... and it's just grown, we started work, we've done more and more and throughout the
 1001 whole of this, the Managing Director and the Production Director came to the Board meeting
 1002 and said "We want to buy another machine." And these machines are about £50,000 a piece, it
 1003 made very interesting debate, because you almost feel that you could be swept along by this
 1004 enthusiasm, so you have to ask a lot of questions as to, you know, what it is the long-term
 1005 future of the business? Are the people likely to buy their own machines and leave us high and

1006 dry? Can you get a long-term contract? Is it price sensitive? Can you get them to buy the hours
 1007 instead of the components? So if they don't deliver the stock, you know, we're not left with a
 1008 milling machines idle – a hundred and one thousand questions? So, when this started and
 1009 suddenly started to widen like this there was a lot of Board discussion and if you take the
 1010 strategic decision as saying "Yes, we will go for this market" and the operational decision as
 1011 "We don't have any equipment to do that, so we have to buy it, train men and put in statistical
 1012 sampling techniques" and, well, no cars in the yard because the lorries are so big. You know,
 1013 we've got to get stuff in, knocking walls down and doing all kinds of things to service this
 1014 industry and we're right in at the peak of it at the moment, it's going well. I'm waiting now for the
 1015 feedback of the financial results to see if it is truly profitable because on paper it says it is but
 1016 the true test is when we've have been doing it for two or three months, is that part of the
 1017 business profitable or not? So, I suppose that's a good example of one strategic and one
 1018 operational and then you think "Well, how, why didn't, why didn't we originally identify this?" and
 1019 one of the things I'm very keen on is to use [MD], the Managing Director, as in an identifying
 1020 role for new business. Now, this means he'll be outside of the business rather than inside the
 1021 building most of the time and the, I have confidence in that because [Production Director] is now
 1022 totally competent to run...

1023 R: Yeah.

1024 ANED: ... the day-to-day operation and I'm pressing [MD] to, you know, to go and find what's
 1025 available in the oil industry, the well, let's see where we're busy, rail industry, that sort of thing.
 1026 You know, we don't build ships or mine coal but you can identify certain areas where there is
 1027 potential for us involving metal cutting.

1028 R: Yeah.

1029 ANED: Right, so, is that, does that sort of fill that bill of those two items?

1030 R: Yes, that's, that's great.

1031 ANED: And it's all really happened since you were last here.

1032 R: Yes. So, when did you get the six machines? I mean did you start with six...

1033 ANED: I think we got five, was it. No, no, we bought one and then if you go through these
 1034 minutes you can see capital expenditure go "Please can we have another one of those?" So
 1035 then all the questions start again.

1036 R: Right, okay.

1037 ANED: "Well, why aren't you running that one three shifts, and how much will it do..."

1038 R: Yeah.

1039 ANED: ... and what about the down, you know, so. But, we've managed to occupy most of
 1040 them and it's been, hopefully, if the numbers tick out correctly, quite an interesting success.

1041 R: Okay, and who originally identified that, that, if you said it was your, you – I think I
 1042 gather you were more geared towards aerospace, when you say don't use this machine to
 1043 service the automotive...

1044 ANED: Yeah.

1045 R: ... so, ...

1046 ANED: Well, we've always had a broad spectrum of stuff from practically every industry you
 1047 can name. I mean anybody that uses metal in a wrought form or even in a cast form we've done
 1048 work for at some time or other but this is, this isn't jobbing cutting ware, if you go in the heavy
 1049 bay, you'll see that every piece is different every day, almost.

1050 R: Yeah, right.

1051 ANED: This is production work this is, it's regular of the same if you know what I mean in high
 1052 volume, which is interesting. [MD] is an expert on saws, I think he identified this saw and bought
 1053 one and we put it in an exhibition and did some cutting on the stand and it started to take off
 1054 after that although I don't think the exhibition had a significant influence on it, I maybe wrong but
 1055 I don't think it did and then we, customers identified us and we identified customers and then we
 1056 sort of said "Well, who else is in this business" in terms of the raw materials. So we're cutting
 1057 people's steel bars, so we really need to identify the steel suppliers and how they do it and can
 1058 we do anything for them and [MD] did an awful lot on the machines and [Production Director]

1059 has done an awful lot in costing and encouraging the customer and then getting it up to
1060 production.

1061 **R:** Right, okay. If we move on now to a decision where you had a major influence and a
1062 decision where you didn't feel your input was taken into account as fully as you would like.

1063 **ANED:** Yeah.

1064 **R:** Can you tell me?

1065 **ANED:** Yeah. There are two areas I think are a major influence. One, I think it was difficult
1066 because it was the Managing Director's pet. We had a subsection of the business called
1067 [Division 2: MS], we used to sell machines...

1068 **R:** Right, okay.

1069 **ANED:** ... and take machines in part exchange and refurbish them and everything and to cut a
1070 long story short it was far from profitable and we had to wrest it from the Managing Director and
1071 he probably wasn't too happy about it, but I think I was never happy about it, but the weight of
1072 the Board behind me we managed to persuade him that wasn't the thing to do. He still keeps
1073 having a go at it, but I've tried to bring him back. So, I think probably I had a major influence
1074 there. The other one is that in terms of trading performance there are parts of this business that
1075 still leave a lot to be desired and I, I nag like anything now, it's a more constructive and detailed
1076 than a straight nag, but I have identified problems within these areas, [MD] who now runs the
1077 Sales meeting has been, you know, every time he takes one he's got me looking over his
1078 shoulder, saying "You really want to, you know, carry on with this business," or "Wouldn't we be
1079 better getting rid of everything and burning our boats", but between us I suppose we've decided
1080 that we'll encourage it for a while, encourage it to grow and become profitable. In other words
1081 we'll give it some medicine and see if it...

1082 **R:** Sorry, which area is this?

1083 **ANED:** This is [Division 5: NB]...

1084 **R:** Oh, right.

1085 **ANED:** ... sales and [Divisions 1: S&S] and [Division 6: SB]. We sell saw blades and we sell
1086 and we service saw blades, saw blades being, circular saws, band saws, you know, thing like,
1087 not hacksaws or anything...

1088 **R:** No, I know, I appreciate that.

1089 **ANED:** ... and...

1090 **R:** So, you no longer sell the machines, but you still sell the blades.

1091 **ANED:** We still sell blades and it's that area where I have been saying, "Come on, it's our
1092 money and if this doesn't improve you're going to have to take some nasty decisions personnel
1093 wise," but when I first came in in '95 it was a very, very poor performance on one department. I
1094 was told by, I think by the owner that it ought to be closed and I said "Well, I'll have a look it"
1095 and I came to the conclusion that it ought to be given some medicine and if it didn't cure it, it
1096 ought to be closed but there chance of curing it, we cured it. It's gone ill again and complicated
1097 market forces and prices and suppliers things, but I'm pressing for the Managing Director who
1098 runs these sales meetings and the Operations Director who's closely involved to sort this out...

1099 **R:** Right.

1100 **ANED:** ... and I'm going along with them at the moment, but I am, they know that I'm on their
1101 shoulder if you know what I mean.

1102 **R:** Right, so, if you go on to the next phase of the question I was going to asking, can you
1103 think back to any other situations where a difficult decision needed to be taken by the Board...

1104 **ANED:** And they didn't take my advice?

1105 **R:** I mean, how, what strategies will you adopt to get them to see that [Division 5] and
1106 [Division 6] isn't going to get better?

1107 **ANED:** Well, what we have, I said before we have this marvellous document produced by the
1108 famous yellow book (*Management Information & Accounts*), you've seen one have you?

1109 **R:** Well, yeah, I think [Production Director] showed me.

1110 **ANED:** It's about that thick. One of the, the two good things about this company, well, there are
 1111 more than two good things, but two of the very good things; one they have an absolutely first
 1112 class accountant, so treats the money like hers, so that we don't have an Enron, we don't have
 1113 a, you know, a doubtful area, the auditors come and go, they're full of praise and it's fine, and
 1114 [Production Director], who's computerised the thing, has turned all those money things back into
 1115 where they originated from, so we get a very detailed trading account of every section of the
 1116 business. So, it's very easy to ask questions, I mean...

1117 **R:** Right.

1118 **ANED:** ... there is so much information, you could ask questions, if you have an enquiring
 1119 mind, which I believe I still have a bit of it left, it gives me loads of opportunity to ask questions
 1120 and you just look at the bottom line and say "What are you doing about it?" and "Is it labour, is it
 1121 this?" and then you turn to suppliers "Can I come to a suppliers' meeting and find out if we're
 1122 getting the best price out", if I think we're getting the best price out of people and then it
 1123 becomes difficult because I can say "I don't like this, I don't think we're getting a good deal" but
 1124 the decision to change is somebody else's. First of all, it's the Sales Manager's, got to be
 1125 convinced that he can sell somebody else's if I walked out of the office and the Managing
 1126 Director got to take an overview on it so I have to say, "That's my opinion, but it isn't my
 1127 decision."

1128 **R:** Right.

1129 **ANED:** Right? So, I can keep, I can keep spading away in that area and we spent some money
 1130 in there, we've actually put some capital equipment in and it is looking better I'm pleased to say,
 1131 but it's a top that's got to be continuously whipped, because if you turn your back on it, it'll slow
 1132 down and stop...

1133 **R:** Right.

1134 **ANED:** ... so you've got go back and whip the top all the time and it's me that's saying "It's
 1135 slowing down, whip it." You know, so...

1136 **R:** So, if there difficult decision coming along. I mean that's one you were saying that
 1137 you've already identified could be a problem and others don't agree with you, how are you
 1138 involved in the difficult decision? Who involves you and how do you involve you when there's
 1139 something on the Agenda which...

1140 **ANED:** Well, they'll, if it's a Board, if it's at Board level rather than a sort of day-to-day thing,
 1141 they will bring the discussion to the board. I will immediately sense whether they've already had
 1142 a meeting behind closed doors and settled it before I get there or whatever and then I have to
 1143 say what I think, well, I've always said I think, thought, it gets me into a lot of trouble at times but
 1144 I always have done and I have to be careful. If I'm totally outnumbered and I can talk about this
 1145 one decision where it is advice not taken forward. I have to decide whether I'm going to throw
 1146 my rattle out of the pram, pick the ball and run home, or you know, how I'm going to behave in
 1147 that situation and it's quite interesting, that is, because it doesn't occur very often, because nine
 1148 times out of ten we don't have any arguments or problems. We have recently, these [Asian
 1149 nationality] sawing machines that we have, that we have a few of now because we're busy with
 1150 them. We were originally, before we stopped doing machine sales we were originally their
 1151 agents via, an outfit in [European country]. And we didn't sell many, we didn't sell many
 1152 because, a) we bought them ourselves and b) we didn't want anybody else to have a share of...
 1153 to do what we were doing. So, if you were the manufacturer and we were your agent, you'd
 1154 probably think this isn't right. Now, they withdrew the agency from us, which I thought was good
 1155 because from where I was sitting we were not selling machines anyway. The Managing Director
 1156 resisted that and actually brought a proposal to the Board that he was going to meet the [Asian
 1157 nationality], he was going to take, spend some money on marketing in preparation for them and
 1158 chauffeur driven cars and a number of other minor points and I said I didn't like it. I told them
 1159 why, a) because I didn't think we were in machine sales anyway, so who's fussed about it, and
 1160 b) I don't like spending money on marketing because that certain thing is that the cheque you
 1161 sign and the uncertain thing is what comes back. So I said, I'm not happy. In the end they went
 1162 along and did it, I was quite prepared for that to happen, you know, I can't stomp out over it and
 1163 it's this interesting relationship between an NED and the people running the business, you
 1164 know, they can take your advice or they can leave it and most times they, I'm a cantankerous
 1165 old bugger, but they take my advice, you know, but this time I wasn't happy. I'm happy now
 1166 because we didn't get the agency again, the [Asian nationality] said no, and the marketing
 1167 money was wasted as far I'm concerned, so the next time we come to the Board meeting I
 1168 might just sort of find it on the Agenda, on the minutes.

1169 You can see it wasn't a terribly serious situation and it wasn't a major strategic but it was detail
1170 but I think it's one of the few times where I've said I'm not too happy about that.

1171 **R:** What are the unwritten rules of the Board?

1172 **ANED:** Well, you mustn't be patronising must you, I mean you've got the owner and the
1173 workers there but you can't, you can't patronise them, although, yeah, that's interesting. This is
1174 confidential isn't it?

1175 **R:** Oh, yes, yes. Perfectly.

1176 **ANED:** The last Board meeting, [Owner] said she wanted to bring [Financial Director designate]
1177 in, I've talked about this earlier. Now I said no, and I've been leaned on since, you know, and
1178 then really, "Well, why not?" and I said "Well" and that when you think "Well why not?" If he is in
1179 here and working and he's a designate director eventually there really isn't a good reason.

1180 "I don't think he'll understand what we are talking about" which is, I suppose is only 50% true,
1181 "You haven't afforded the opportunity to others that have wanted to do it" and "isn't it a bit
1182 early?" sort of thing. We've had discussions about that since and I think he'll probably come to
1183 the next Board meeting, because, quite honestly, I don't feel that strongly about it.

1184 **R:** Right.

1185 **ANED:** I'm prepared to be talked round if you like, but there would be matters which are
1186 probably non-personnel matters or financial matters where I wouldn't be talked around.

1187 **R:** Right, okay. How did the – I mean these unwritten rules: not to patronise and to,
1188 whatever – how do you think all the Directors came to accept these rules?

1189 **ANED:** Well, we... I think it's just built up as we go along. Bear in mind that we've only had this
1190 sort of formality, this formal what I call cascade system of information in this company basically
1191 since I came. You don't, I would think many SMEs don't have such a system, this is... this is big
1192 company systems and people say to me "Oh you can't, you can't put big company methods into
1193 small companies, they don't work." But, believe me, they do, you must, you must have a
1194 structure, so that you can, you can trace the decision making and trace the communication
1195 because the biggest problem in small companies is communication...

1196 **R:** Yes.

1197 **ANED:** ... because you assume, because you're physically close to the employees that
1198 everybody knows what's going on and they don't. We've got this, what is it, IIP or something...

1199 **R:** Yes, yes.

1200 **ANED:** ... isn't it, yeah, award, we were doing most of things, we had to make it more formal
1201 and I think that's probably all we got out of it, really, in that it made us think how to put down in a
1202 formal mode what we were already doing. So, I suppose as a result of developing that system,
1203 that's where these, these rules have arisen.

1204 **R:** Right, okay.

1205 **ANED:** But there aren't any punches pulled, well, let's take, I assist [Owner] with the executive
1206 remuneration and all remuneration, so I look at the inflationary rise, if you look at surplus profits
1207 for payments of bonuses and things like that. I decide with her what the Directors get, there's
1208 never been any problem with that when I've agreed that with her and she's communicated to the
1209 Directors. Nobody has ever taken me on one side and said, "You stingy bastard," or whatever,
1210 do you know what I mean?

1211 **R:** Thanks, okay. Right, I'll... could you talk me through an example of how you try to get
1212 the Executive Directors to see your perspective on an issue, or do you feel that question has
1213 been answered by the issues we've already discussed?

1214 **ANED:** Yeah, I think because I come here twice a week and I originally had a lot of work to do,
1215 because there was so much to do in terms of all kinds of things, how we did things, in all parts
1216 of the business, from "When did you last have a fire drill?" to, you know, "What are you doing
1217 about the cash flow?" The whole spectrum, there was so much to do and as we've gone on and
1218 progressed, obviously people are doing things the way that I'm happy about, we do appraisals
1219 and we do all kinds of things and, you know, we do budgets and we have timetables for this sort
1220 of thing. Before, when it was inherited from the owner, you wouldn't have that system because
1221 the owner would go out and say, "You do that", "You do that", "You do that", without
1222 explanation, very autocratic and that's the way it was, but we discuss things, I come in a couple

1223 of times a week and we and I discuss the latest situation in the aerospace sector and what's
 1224 happening in our... we've got two other units, we've got a unit in [Engineering PLC 2] and
 1225 [Division 4: Engineering PLC 1] in [location]...

1226 **R:** Right.

1227 **ANED:** ... what's going on those and generally put my ear to the ground. So, a lot of the
 1228 background has been covered when we get to a Board meeting and many of the decisions have
 1229 as well and sometimes we can actually whistle through this quite quickly.

1230 **R:** Right. As a Non-Executive what extent does your previous experience influence your
 1231 actions?

1232 **ANED:** Oh, enormously really, because of it, as I said before, it's metals industry which I've
 1233 been in all of my life, so although I don't know any of the personnel involved in the customers
 1234 that I might have had that are customers of this place, I recognise the products and have some
 1235 background so I can talk about the background and I've been used to running meetings and
 1236 purchasing things and that sort of thing, so I would, they involve me in meetings with the bank,
 1237 they involve me with meetings with major suppliers, which really is because I've had many of
 1238 those in the past and can be helpful. Whereas they probably don't have that many or they don't
 1239 like being nasty to people, or when the bank had their money, when they had the bank's money
 1240 they were sort of "Yes sir, no sir, three bags full", but they didn't change the attitude when the
 1241 bank had their money, which I'm inclined to and they said "Can't say that to him." I said "I've just
 1242 said it." So, really if you, if I came out of confectionery I would think it would be difficult, because
 1243 unless you were in production management in confectionery and you could apply the same
 1244 principles but being in metals management is very helpful.

1245 **R:** Right. Thinking back, could you talk to me how you and [MD] came to understand the
 1246 company vision?

1247 **ANED:** Yeah, I think [Production Director] has been a great catalyst in this because he, he
 1248 came in just before me and I, he'd obviously started to identify a lot of the things that I'd
 1249 identified and then we had to talk to [MD] about them and if you say, "Well, why are you letting
 1250 this happen?" he'd probably would say "Well, I didn't really understand it, because we didn't
 1251 have the numbers before [Production Director] came in."

1252 **R:** Right.

1253 **ANED:** So, having these numbers since [Production Director] came in has enabled us to all talk
 1254 a lot more, a lot more sense and be, be accurate if you know, rather than be vague.

1255 **R:** Right.

1256 **ANED:** [MD] has an enormous experience in the industry and he has a lot of respect and he
 1257 has, other I think on machine sales and maybe just pulling his reins a couple of other times
 1258 when he's been going off tangentially, we haven't really had a problem. I think it's been, I think I
 1259 don't know, but I think it's probably been difficult for [MD] for the reasons I said earlier about
 1260 family pressures. But you got to remember that he was dropped into that job when [Owner's
 1261 spouse] was killed, he had a rough ride in that there was a number of recessions, I think they
 1262 had at least two consultants which really upset the apple cart and I think when I came in they
 1263 thought probably "Oh, not another one of these" do you know what I mean, so I had to work
 1264 hard to establish a relationship both in business and personal terms with [MD] and I think, as far
 1265 as I'm concerned, it's been quite successful.

1266 **R:** How did you establish that relationship?

1267 **ANED:** By talking to him, yeah. I mean he goes up to [UK region], for example, it's a two or
 1268 three hour car journey, so I'd go up with him and sit and talk all the way up there and all the way
 1269 back. We went to see some large customers together and talked and I talked and talked to
 1270 him...

1271 **R:** Right.

1272 **ANED:** ... and I never really, intentionally undermined his authority or denigrated it, or made
 1273 him look silly if I could something glaringly wrong I wasn't going to raise it in a Board meeting, I'd
 1274 more or less say "Well, let's have a talk about it." I also encouraged [Production Director] to get
 1275 close to [MD] in work and at times out of work, you know...

1276 **R:** Right.

1277 **ANED:** ... for them to socialise a bit, even if their husband and wives went out and had a meal,
1278 to make, because it's a full time job for them looking after this place and I think it doesn't hurt for
1279 a bit of outside interface as well. I get invited to social things as well...

1280 **R:** Yeah.

1281 **ANED:** ... to sort of dinners and dances with them, which is quite...

1282 **R:** And at what point did you think that [MD] realised that you weren't another consultant,
1283 that you were different?

1284 **ANED:** I don't know, you'd have to ask him.

1285 **R:** So, there wasn't, there wasn't a particular incident that you suddenly realised that he'd
1286 realised you weren't a consultant?

1287 **ANED:** Well, I didn't, I didn't lay down any tablets of stone within, you know, a short timescale.
1288 There was so much scope I really had to sit back and decide where, what could I do without,
1289 which would be useful and without it causing offence...

1290 **R:** Yeah.

1291 **ANED:** ... and I think, basically I took my time. [Production Director] was there as well, so he
1292 was a new brush and if we did identify areas of difficulty I think they were raised gently and
1293 sympathetically and I don't know when he would have decided that, but there was a lot of
1294 suspicion I know because, well [Accountants & Management consultants] frankly got rid of the
1295 wrong people, I only had a brief look at what they'd done and it was ridiculous...

1296 **R:** Right.

1297 **ANED:** ... and they were sent in by the bank because the company was struggling. The net
1298 result was they sold a building to restore their cash position and about a month later they sorely
1299 needed that building but that was hindsight and sod's law and things. But they had, if you say
1300 that they'd had, or [MD] had had and [Owner] had had some pretty difficult experience from at
1301 least one branch of consultants forced upon them then my coming in wasn't, although [Owner]
1302 had interviewed and had spoken to me, I'd been - a close personal friend of hers that knew me
1303 had suggested I could do the job - and she interviewed me and I started. I did, well, naturally
1304 tread carefully, I mean you just don't go into a company and start throwing the desks around, do
1305 you, some people do I know, but you've got to take it a little bit carefully.

1306 **R:** But, you did say last time that you had an interesting time, because of [Accountants &
1307 Management consultants] and you also mentioned, well specifically the shop floor and middle
1308 management, "here we go again".

1309 **ANED:** Yeah.

1310 **R:** Did that also apply to the senior managers or the Directors?

1311 **ANED:** Might have done, I don't know. I only don't know because I've forgotten the detail and
1312 the day-to-day difficulties that might have arisen. I think they treated me with awe a bit because
1313 I talk a lot and I probably expanded the Board meetings to twice the length that they used to be
1314 and I also insisted that they all knew what was going on, because if you were the Managing
1315 Director of a company, it's quite good to, you know, run it in a way that you have total control
1316 and I'm encouraging everybody to get involved, so the three Directors to make sure they know
1317 what he's doing and he knows what they're doing and sometimes people don't want to part with
1318 that information, do they, they, you know, particularly when your... we were radically changing
1319 [MD]'s method or working, radically changing, he had inherited quite understandably the
1320 autocratic style of owner and that was the only example that he'd ever been given, that's the
1321 way he was taught when he was running the works here, he ran it for, to [Owner' spouse] and it
1322 was totally autocratic and I spent a lot of time talking to him to change that system, to change it
1323 to a democratic system and that means democratic right down to the bottom and the affect on
1324 him of that change, so when I did... I sat with [Owner] and did the Directors' appraisals it's a lot
1325 of this, you know, "this is what it would be a good idea if you worked this way, but does this
1326 make you feel insecure and do you feel insecure because of the dominance of the family and
1327 me coming in and do you, you know, straight talking now do you view me with suspicion, am I a
1328 pain in the bum?" or things like that, and I suppose it took about, it probably took about two
1329 years, you know, I would think because of the way, of the change we required, I required and to
1330 do it, to do the things that I thought were good for this company. But I can't blow my own
1331 trumpet too long because [Production Director] wanted change, he'd never been in industrial
1332 management before, he's very bright and knows the company well but he would go along with

1333 all of that change and he was aware of the politics with the small 'p' of the security of the
1334 Managing Director.

1335 **R:** Right. I mean you've talked about how you got [MD] to change the way he operated and
1336 change the company. You've been here eight years now, what have you learnt and how have
1337 you changed?

1338 **ANED:** That's an interesting question. I think I've learned that in terms of Non-Executive
1339 Directorship you can express an opinion strongly, but in the end, they don't have to take any
1340 notice of it, if you know what I mean. It doesn't... we haven't got many examples, though they
1341 don't have to. So, the other thing is, is this, this vision of what's going to happen to us tomorrow
1342 and it pleased me with a feeling that I would, I want to do something like I want to go out and
1343 knock on doors and I'm not going to do it because a) I'm too old and they'll only think I'm selling
1344 brushes or something; and b) it's not in the terms that I'm employed here I don't feel it's my job,
1345 but I've got to ensure that if I, to get where I think where we going to get, if I carry the others
1346 with me, which I am doing, and we've got to get [MD] out more. That's a simple fact and in doing
1347 so we've got to retain his confidence that he isn't being, his authority isn't being undermined
1348 while he's away, hence the interface with [Production Director] and because he knows the
1349 business inside out and backwards he's the only really true person that can identify potential out
1350 there. So, the next tranche of major change is keep throwing him into [rail companies] wherever
1351 we see opportunities, however you see them, and try and find another one of these. We've got
1352 two, we've got three long-term jobs, we've got the situation in [Division 4: Engineering PLC 1]...

1353 **R:** Right.

1354 **ANED:** ... the situation in [Engineering PLC 2], well, we've got men and machines in both of
1355 those and we've got this chunk of work on these [Asian nationality] machines going through
1356 here, we could do with another two of those, another two eggs in the basket, if you know what I
1357 mean...

1358 **R:** Right.

1359 **ANED:** Yeah, and I've, I don't think it's the Sales Manager's job to identify long-term strategic
1360 potential. I think it's his job, so I shall carry on pressing for him, I shall keep throwing him out
1361 every time I see anything.

1362 **R:** You've alluded to it and you said last time you have two elements to your role, one was
1363 to mentor [Production Director] and that's...

1364 **ANED:** Yes, that's, that's done...

1365 **R:** Yes, of course, I'm sorry.

1366 **ANED:** ... No it's alright, no, I'm all right, yes.

1367 **R:** And the other one was to change the company culture away from "I shout, you jump".

1368 **ANED:** Yeah, yeah.

1369 **R:** So, have they, have both of those been met now and you're moving on to strategic, is
1370 that a fair interpretation?

1371 **ANED:** Yeah, I think, I think they have, yes. We've done some interesting things on the route.
1372 For example, we have shared part of the company profits with the employees...

1373 **R:** Right.

1374 **ANED:** ... we, I say I, but we put in a thing called a bonus system, which is basically taking a
1375 lump of money and dividing it equally, equally and equally across all employees at the end of
1376 the year and give them a lump of money. The only variation was that we didn't pay them for
1377 days they, they didn't qualify the days they didn't attend which has had a remarkable effect on
1378 the attendance and any significant amount of quality problems which cost us money, you know,
1379 where we'd spoil somebody's metal, we took that money out of the bonus and made it clear that
1380 you've made a mess of that job and it will affect your bonus, and we've paid them a few hundred
1381 pounds per employee and the end of every financial year and that's done a lot of good. It's
1382 done, I think an enormous amount of good because it's enabled us to, it's one of the major
1383 factors in getting everybody going in the same direction because that's one of the, well it's a
1384 major difficulty in any businesses.

1385 **R:** Okay.

1386 **ANED:** Yes, I think you're right, I think if I come in, there are some days I come in and think,
 1387 'What am I going to do today?' Whereas before I'd got a list of things as long as my arm, you
 1388 know.

1389 **R:** And how would you, sorry going back to, you say you've learnt things, how, over the
 1390 eight years has your relationship with [MD] developed?

1391 **ANED:** I think it's strengthened really, yes, I think it's gone from one of suspicion to one of
 1392 acceptance. May I ask you a question?

1393 **R:** Sure.

1394 **ANED:** I may have asked you before, but is this common for an NED to actually appear in the
 1395 company other than at Board meetings? Or is it distinctly unusual?

1396 **R:** Virtually every... I mean it's very difficult for me to answer questions like that, I'm not
 1397 supposed to.

1398 **ANED:** Oh, no, broadly.

1399 **R:** No, no, but all I'm saying is that when I first started going round interviewing small
 1400 companies the one sort of caveat the Non-Executives would say is that "Well, of course, I'm not
 1401 a typical Non-Executive Director". So...

1402 **ANED:** Yeah.

1403 **R:** ... you can read into that...

1404 **ANED:** Yes.

1405 **R:** ... what you like...

1406 **ANED:** Yes.

1407 **R:** ... because obviously there is no stock market...

1408 **ANED:** No.

1409 **R:** ... London Stock Exchange...

1410 **ANED:** No.

1411 **R:** ... compulsion to have Non-Executives...

1412 **ANED:** No.

1413 **R:** ... and that's the whole point of me coming back and looking at relationships...

1414 **ANED:** Yes.

1415 **R:** ... because I'm trying to tease out how Non-Executives are used.

1416 **ANED:** Yes.

1417 **R:** I'm... if I get to this PhD...

1418 **ANED:** I'm sure you will, doctor.

1419 **R:** ... I'd be quite happy to come and talk to you about

1420 **ANED:** Yeah.

1421 **R:** ... different ways...

1422 **ANED:** Yeah.

1423 **R:** ... in which Non-Executives are used...

1424 **ANED:** Yeah.

1425 **R:** ... in small business, in the companies I've looked at...

1426 **ANED:** Yes.

1427 **R:** ... but I'm doing social science research, I'm not doing a valid statistical sample...

1428 **ANED:** No.

1429 **R:** ... I'm finding out in depth how certain companies use their individual...

1430 **ANED:** Yes, yes.

1431 **R:** ... and you can appreciate that's...

1432 **ANED:** Yes, it's a wide range.

1433 **R:** Yes, and you say yourself, your role is different. Right, I won't say any more,
1434 conscious... shareholder views I'm trying to find out now. How would you perceive your role as
1435 Non-Executive, vis-à-vis the [Owner] family as shareholders?

1436 **ANED:** Well, I'm on an annual contract and they keep renewing it, so presumably they still think
1437 there's a role for me. I always [Production Director] when I come in and, but I don't coincide my
1438 visits for when [Owner] comes in...

1439 **R:** Right.

1440 **ANED:** ... so, I'm, you know, I'm not looking for, looking for contact and communication but, I
1441 would hope, I would think they're probably getting to the stage of saying "Do we really need
1442 him?"

1443 **R:** Right.

1444 **ANED:** But I don't know. The other point which I volunteered was that if we, if we bump into,
1445 you know, somebody torpedoed us, then I'll go first.

1446 **R:** Right.

1447 **ANED:** So, I'm quite prepared for a variety of reasons to relinquish the post but mainly if they, if
1448 they can't afford to pay me, sort of thing.

1449 **R:** Right, okay.

1450 **ANED:** And [Production Director] knows that because one of things he has to have in his
1451 drawer is a, you know, an envelope saying "Do this when the holocaust comes."

1452 **R:** Right.

1453 **ANED:** Times are so uncertain aren't they, in terms of manufacturing industry.

1454 **R:** You say you have an annual contract with the shareholders, sorry with the major
1455 shareholder...

1456 **ANED:** Yes. She employs me.

1457 **R:** Yeah, she employs you, so has that ever affected decision making on the Board?

1458 **ANED:** No, I don't think so, no. I think [Owner] is very rarely isolated in terms of any decision
1459 making and is quite happy for the people running the business with a day-to-day experience or
1460 even my week-to-week experience to, you know, to contribute to a decision. I've absolutely no
1461 doubt that she keeps a fairly detailed knowledge of what's going on via her son, or sons now,
1462 but I know [Production Director] said "Well, I don't bother her," and I said "[Production Director],
1463 you shouldn't, she shouldn't have the detail. She shouldn't know that we're, you know, we're
1464 concerned about this such and such or Joe Blogg's missus has done this or that, you know, she
1465 shouldn't have that to worry about. She's employing you and I and everybody else to do that"
1466 and we said, you know, "Don't worry, go away, buzz off" sort of thing. But she has appeared
1467 more frequently bringing [Financial Director designate] in and I think that probably she'll just
1468 worries herself out about a bit.

1469 **R:** You mentioned last time, when I asked about appraisals, you said, "Oh, good point", the
1470 nearest thing you had had to an appraisal was [Owner] perhaps when she's talking about
1471 extending your contract, whatever, saying, you might have, because you weren't aware of the
1472 history, you might have been steering the company in a particular direction and she rather you
1473 didn't, or...

1474 **ANED:** Yeah.

1475 **R:** ... I mean, I'm paraphrasing you...

1476 **ANED:** Yes, I remember, yes.

1477 **R:** ... whether that's a fair assumption.

1478 **ANED:** Yeah.

1479 **R:** Have you ever had to deal with a situation where you've been asked to steer the Board
1480 in a particular, or the company in particular direction, but you know [MD] would have a difficulty
1481 with?

1482 **ANED:** Asked by the shareholder?

1483 **R:** Yes.

1484 **ANED:** No. I know that [Owner] was with us in influencing [MD] not, to drop this Machine Sales
1485 department, she wasn't happy about it, but I would expect that would come from [Production
1486 Director] anyway, because [Production Director] wasn't happy and it probably came from
1487 mother/son contact. No, I haven't been asked to.

1488 **R:** What would you say was the similarities between you and [MD]?

1489 **ANED:** Well, only that we're both, we're very keen for the business to succeed. But we're very
1490 different people

1491 **R:** I was about to say, but what are the differences?

1492 **ANED:** I don't know, but we are (*chuckle and long pause*). I suppose the major difference is my
1493 background experience is so much broader than his...

1494 **R:** Right.

1495 **ANED:** ... because he's... I can argue that I've, I've worked for two companies in my time, but
1496 basically they were plcs and you do a lot of roles in them, you know, so I've seen an awful lot of
1497 angles, where as [MD] has worked here all the time, but only in an operational management
1498 capacity, so my appreciation of broader issues, of personnel, of accounting, of man
1499 management I think, I think we're very different in that respect...

1500 **R:** Right.

1501 **ANED:** and maybe we are in what we want out of life. I don't, other than formal occasions, sort
1502 of the Christmas dinner and any system that the [Owner] might set up I don't have any social
1503 contact with [MD], you know, I don't play golf with him or whatever, well, or go to dinner with him
1504 and his wife and that sort of thing.

1505 **R:** Does he contact you at all outside the days you're in?

1506 **ANED:** Yes, he does.

1507 **R:** He does.

1508 **ANED:** Yes. Yeah. I've got a fax...

1509 **R:** Right.

1510 **ANED:** ... and I've got a phone available and yes we do talk.

1511 **R:** Right. This is a very simple little chart (*lifespan of NED appointment*). I wondered if you
1512 think that's sort of early '95...

1513 **ANED:** Yeah.

1514 **R:** ... where do you think you are on that, on that time span?

1515 **ANED:** Well, I'm 66 now. I don't know whether I ought to inflict myself upon anybody at the
1516 maximum after the age of 70.

1517 **R:** Right, okay. So that would be what, twelve years from when you started?

1518 **ANED:** When did I start? Ninety-five, which I would have been 59 wouldn't I? Fifty-nine to
1519 seventy, what, eleven years.

1520 **R:** Eleven years.

1521 **ANED:** Yeah. But it might be earlier than that depending on, you know, I might go, I might go
1522 even worse.

1523 **R:** Well, you mentioned last time that, again in confidence, that [Owner] had obviously
1524 wanted a continuing NED presence...

1525 **A ND:** Yes.

1526 R: ... and she'd asked you that if and when you packed up, would you recommend
1527 somebody to take over...

1528 ANED: Yeah.

1529 R: ... and you were saying you'd find it difficult to think of someone...

1530 ANED: Yes, I do.

1531 R: ... has anything happened about that?

1532 ANED: No, I'm working on her on that. I don't think she needs anybody and the reason I don't
1533 think she needs anybody is that she's got... [Production Director] is superb. He's as bright as a
1534 button, he's quite capable of running this, he's quite capable of running it on his own...

1535 R: Right.

1536 ANED: ... now, he wasn't obviously earlier, but and he is, he works, thank goodness, he works
1537 well with [MD] or else I think he would have, you know, muscled him out of the way. I don't think
1538 and this isn't out of laziness or anything, I don't think they need anybody looking over their
1539 shoulder now that it's all in place. They probably need somebody occasionally to take a second
1540 opinion on and, well, I'm prepared to do that till I'm totally senile, but there are people, you
1541 know, that they know and probably I could, there are people that you could have for short-term
1542 consultancy. For example, this business of going out and finding work, one of the ways to do it
1543 is knock doors or you can go and employ somebody that knows that sector of the industry and
1544 will sell you the information. So, I would think that within, within the confines of running this
1545 business there ought to be either lawyers or accountants or whoever that you could ask for an
1546 opinion and pay for it, because I think the people running the business now are totally
1547 competent.

1548 R: Right. Has there been, we're getting to the end now...

1549 ANED: No, it's all right.

1550 R: ... has there been a particular incident that put your relationship with [MD] under strain?

1551 ANED: It may be this, it didn't show, I mean we're, it hasn't been difficult but I know he didn't
1552 want to relinquish [Division 2: MS].

1553 R: Right.

1554 ANED: It suited him, he knew a lot about it, it got him outside, it was a wheeler dealer sort of
1555 thing, you know, he went to people's works and sold people things, he was good at it, he's
1556 always done it, he loved it but it wasn't profitable and I wasn't for it and [Production Director]
1557 wasn't for it in the end and the rest of the Board followed along and he probably felt that I, well,
1558 I'm sure he felt that I had spearheaded that attack against him and I'd removed, well, for
1559 example, it involved going to Italy quite frequently and he doesn't do that any more and he
1560 probably would like to do it as we all would, wouldn't we. So, I think probably that's the one
1561 area.

1562 R: I'm just going to check, the beauty about these second interviews is that I don't have to
1563 follow a particular set...

1564 ANED: Yeah.

1565 R: ... I have ideas that I want to tease out...

1566 ANED: Yes, yes.

1567 R: ... but, actually if there is anything else that I wish I had asked would it be all right to
1568 contact you?

1569 ANED: Yes, yes.

1570 R: And would you like a copy of the tape at all?

1571 ANED: No, it's all right.

1572 R: Okay.

1573 ANED: I read your report with interest.

1574 R: Oh, right.

1575 ANED: Yeah, got that in there.

- 1576 **R:** I'm hoping that very soon they'll be another one on it's way to you...
- 1577 **ANED:** Yeah.
- 1578 **R:** ... about the...
- 1579 **ANED:** Yes. I expected to see it in the FT or something.
- 1580 **R:** Ah, well, it did get, it was in The Telegraph, there was a big piece in The Telegraph
1581 about it. Really, because it's an ACCA report...
- 1582 **ANED:** Yeah.
- 1583 **R:** ... it's up to the ACCA to promote it.
- 1584 **ANED:** I think I saw something in The Telegraph but I can't understand why I haven't cut it out
1585 and put it into this file.
- 1586 **R:** But we're hoping that when the next stage for the report of the interviews, the in depth
1587 interviews, obviously goes through ACCA and they'll be more, especially in the current climate.
- 1588 **ANED:** Absolutely.
- 1589 **R:** It's your opportunity, I mean I know you asked me earlier about Non-Executives and
1590 small businesses.
- 1591 **ANED:** Yeah.
- 1592 **R:** Is there anything that you'd like to say about Non-Execs that you don't think I've
1593 covered in either interview?
- 1594 **ANED:** No, I don't think so. I think you've been very thorough. I don't know any other Non-
1595 Execs, I don't have, I don't bump into Non-Execs...
- 1596 **R:** Right.
- 1597 **ANED:** ... so, I, surprising isn't it really, so I can't say "How do you do it in your company?" and
1598 "What," you know "What do you do in your company?"
- 1599 **R:** I mean is that something that you would have found useful at all?
- 1600 **ANED:** Well, I suppose in the early days I probably would, because I didn't quite understand
1601 what they did, and I've developed it the way I've developed it and they've accepted it that way,
1602 you know...
- 1603 **R:** What...
- 1604 **ANED:** ... but, I'm nosy, I go into everything sort of thing and they accepted that.
- 1605 **R:** What made you decide to adopt that approach?
- 1606 **ANED:** Well, a) I could see there was enormous potential here for change and b) I think I have
1607 a, I have an enquiring mind, my wife tells me.
- 1608 **R:** What was it that made you see that there was potential for change?
- 1609 **ANED:** Well, basically, my looking at the trading results and looking at companies that I'd been
1610 in before them were not doing well and what did I do about it and what could I do about it? And I
1611 could see that I could do something about it, with the help of the people here.
- 1612 **R:** Has the company, this company ever reacted or done something that you didn't expect,
1613 because you haven't met that before?
- 1614 **ANED:** No, I don't think so. The difference between my operational days and now is that they
1615 are absolutely stuffed with, with, I'll be careful, with red tape that the, you know, the health and
1616 safety requirements, the quality control requirements, the employee relationship requirements
1617 are frighteningly difficult and complex, which slow everything down. I'm just at a lose to see why
1618 British industry have actually accepted all this European rubbish and things and that's to do with
1619 my age and the way, the freedom I had when running companies. So, I think that's the only area
1620 where I find it difficult.
- 1621 **R:** Well, thank you very much for your time and I'm afraid we've run over the hour...
- 1622 **ANED:** That's all right... As long as I can get to my dentist.

KEY: A: role element present in transcript

B: initial role element

C: role element developed over time

D: role element in later stages

| Relationship Development | Managing Director | | | | Non-Executive Director | | | |
|--|-------------------|------------|-------|------------|------------------------|------|----------|--------|
| | A | B | C | D | A | B | C | D |
| independence of mind/independent view (internal & external reassurance) | 1039 (-ve) | | | 1046 (-ve) | 1143 | | | |
| (long term) commitment to company | 892 | | | | 325 | | 1287 | |
| build quality personal relationships/ personal chemistry/trust | 405 | | 1031 | | 386 | 1264 | | |
| reducing (family) conflict/fostering positive board dynamics/director balance/maintaining board balance (between | 905 | | 1109 | | 1274 | 1274 | | |
| discussing problems/sharing information/stimulate open debate/dialogue/bring out best ideas | 233 | | | | 1223 | | | |
| information acquisition &/or conduit | 344-356 | | 1034 | 1028 | 236 | | 1253 | |
| challenge information supplied & seek supplementary sources | X | | | | X | | | |
| courage to dissent | 732 | | | | 789 | | | 1148 |
| change initiator - for management style/organisation culture | 304 | | 1074 | | | 65 | | |
| change initiator - for board to act as a team | X | | | | | 927 | | |
| investor discussions/shareholder communications | 255 | | | | 552 | | | |
| New codes | | | | | | | | |
| <i>Learning to play each other's piano</i> : director socialisation processes | | 207 962 | | | 1268 | | | |
| Communication structures beyond the boardroom | | | (304) | | | | 198/1190 | |
| | | | | | | | | |
| Knowledge Transfer/Director Development | | | | | | | | |
| mentor/coach/wise counsellor | 115 | 927 | | 1187 | | 64 | | (1386) |
| CEO or MD sounding board/confidant | 232 | | | | 422 | | 1391 | |
| informal social interaction with TMT & other directors/accessible for informal discussions | 232 | 207-210 | | | 1223 | 1267 | | |
| exec emotional support/sounding board/confidant/ease execs' isolation | 381 | | | | 430 | | | |

| Knowledge Transfer/Director Development (<i>continued</i>) | Managing Director | | | | Non-Executive Director | | | |
|---|-------------------|---|------|------|------------------------|--------------|-----|-------|
| | A | B | C | D | A | B | C | D |
| personal knowledge & skills (other than contacts) | 922 | | | | 161 | | | |
| NED knowledge & skills - large company/City experience | 908 | | | | 357 | | | |
| NED knowledge & skills - SME experience | X | | | | 488 | | | |
| NED knowledge & skills - same sector/locality experience | 178 | | | | 24 | | | |
| NED knowledge & skills - specialist experience | 178 | | | | 32 | | | |
| NED knowledge & skills - general business experience | 180 | | | | 1495 | | | |
| give advice/sharing & transfer of knowledge /import good practice | 405 | | | | 397 | | | |
| accept/learn from advice not taken | X | | | | | | | 1163 |
| help deal with unusual events/ crises/respond to new challenges/effective problem solving/alternative solutions based on NED experience | | | 930 | | 1018 | | | 1018? |
| process (interpret) information | 1155 | | | | X | | | |
| challenge/ask awkward questions/test/probe/constructive criticism/critique | X | | | | 1002 | | | 1002? |
| implementation of vision | | | 935 | 914 | 421 | | | |
| developing TMT/encouraging reflection ability to learn & coping with change | 175 | | | 1074 | | | 523 | |
| special projects/contribute outside board meetings/direct & involved | 152 | | | | | 63-72 749 | | |
| New codes | | | | | | | | |
| Experience of other NED-style advisors informing 'diligent directors' recipes | 81 | | | | 1594 | | | |
| NED professional & personal development | 1041 | | | | 1338 | | | |
| | | | | | | | | |
| Boundary Spanning | | | | | | | | |
| fresh perspective/innovatory ideas/business opportunities/new markets | (191/761) | | | | | | | 1349 |
| wider vision/outside perspective/ benchmarking | 153 | | | | 85 | | | |
| exec director elsewhere | X | | | | 743 (X) | | | |
| role model/track record/credibility | | | 1012 | | X | | | |
| 'project' company (image) externally/ build credibility/external confidence | X | | | | X | | | |

| Boundary Spanning (<i>continued</i>) | Managing Director | | | | Non-Executive Director | | | |
|---|-------------------|-----|------|------|------------------------|--------|-----|---------|
| | A | B | C | D | A | B | C | D |
| (use of) contacts & networks (external information acquisition) | | | 399 | | | | 396 | |
| maintaining board balance (between executives & shareholders) | | | 1109 | | | 1274 | | |
| shareholder/exec liaison | X | | | | X | | | |
| exec ally/champion when dealing with shareholders/stakeholders | X | | | | | | | 861 |
| shareholder investor nominee/eyes & ears/safety net/ally | 147 | | 400 | | 164 | | 853 | |
| equal status with key stakeholders/prestigious name on board | (493) | | | | 1236 | | | |
| regulator reassurance/confidence to financiers | X | | | | X | | | |
| raising capital/acquisitions/flotation advice | X | | | | X | | | |
| New codes | | | | | | | | |
| <i>Foot in other families</i> : NED experience elsewhere &/or multiple NED appointments | X | | | | (80) Absent | | | |
| | | | | | | | | |
| Creative NED Role-making | | | | | | | | |
| add value/deliver perceived benefits | 363 | | | 363? | | | | 562 |
| negotiating role/flexibility | (207?) | | | | 80-88 | | | |
| understanding company/induction/ 'getting a feel' | | 959 | | | | 159 | | |
| chairman of board/company | 215 | | | | 74 | 188? | | |
| involvement in board sub-committees | X | | | | X | | | |
| complement other directors' skills/ missing exec (operational) expertise | | 162 | | | | | 85 | (1386?) |
| ally of other NEDs/3rd party 'gang'/coalition formation | (190) | | | | | | | 1141 |
| increasing focus on compliance | X | | | | | (1614) | | |
| shareholder | No | | | | | No | | |
| New codes | | | | | | | | |
| <i>Abdication</i> | X | | | | X | | | |
| <i>Add value</i> to NEDs' self worth | X | | | | 562 | | | |
| Establishing role expectations (part of role flexibility?) | (152) | | | | 159 | | | |
| Using other advisors as part of a NED validation &/or moderation process | 489 | | | | 694 | 109 | 426 | |

| Risk Management - The People | Managing Director | | | | Non-Executive Director | | | |
|--|-------------------|--------|-----|------|------------------------|-------|------|----------|
| | A | B | C | D | A | B | C | D |
| TMT recruitment/remuneration/removal (inc CEO) | X | | | | 1205 | | | |
| monitor exec competence/TMT appraisal performance review/identifying & addressing poor TMT performance | | | 402 | 1186 | 87 | 1324 | 170 | |
| succession planning (TMT, company) | | 111 | | | | 73 | 558 | 1532 |
| influence execs | 405 | | 865 | | | 1070 | | |
| focus exec ideas on objectives/exec discipline | | 161 | 175 | 914/ | 198 | | | |
| brake on exec enthusiasm/focus on stakeholder responsibilities | (191) | | | | 1003 | | | |
| stakeholder interests/social responsibility | X | | | | X | | | |
| New codes | | | | | | | | |
| Sucession planning: NEDs | | | | 1176 | (1386) | | | 1515 |
| Risk Management - The Processes | | | | | | | | |
| financial scrutiny | 182 | | | | 1115 | | | |
| managing performance indicators | 183 | | | | ?X | | | |
| strategic/business plan formulation/implementation of vision | | | 935 | 914 | 422 | | | 776 |
| transition facilitation | | 98/111 | 836 | | | 49/60 | 768 | 791/1539 |
| formalising/changing procedures - financial & audit | | 417 | 942 | | 224/958 | | 1374 | |
| formalising/changing procedures - strategic decisions/ business planning/(improved business/strategic planning | 658 | | | | (67) | 575 | | |
| formalising/changing procedures - risk assessment & management | | | 777 | | | | 782 | |
| duty of care/risk assessment & management/litigation support | 1001 | | | | 1186 | 954 | | |
| watchdog/policeman (compliance)/ contractual monitoring (VC)/ representative (funding requirement) | X | | | | X | | | |
| limit influence of major shareholders/ represent minor shareholders | X | | | | 798 | | | 810? |
| New codes | | | | | | | | |
| NED transition facilitation | X | | | | 756 | | | |

KEY: A: role element present in transcript

B: initial role element

C: role element developed over time

D: role element in later stages

| Relationship Development | Managing Director | | | | Non-Executive Director | | | |
|--|---------------------------|------------------|----------------|-----|------------------------|-----------|------------------|--------|
| | A | B | C | D | A | B | C | D |
| independence of mind/independent view (internal & external reassurance) | B C E F G H I | | | A | A B C F G H I J | | E | |
| (long term) commitment to company | A F H I J | C D | B G | E | A B D F H I J | C E G | A | (C-) G |
| build quality personal relationships/ personal chemistry/trust | A C D H | B D F G H I J | A B E F I J | B G | A D E G H | A B F I J | B D F I J | B |
| reducing (family) conflict/fostering positive board dynamics/director balance | A B D F G H J | B | A | | A B E F H J | | B | |
| stimulate & contribute to open debate | A B F (G-) H I | | E F | | A B D E F H J | | | |
| discussing problems/sharing information/open debate/dialogue/bring out best ideas | A B C D E F (G-) H I J | | | | A D E F G H I J | C | B | |
| information acquisition &/or conduit | A B C D E F G H | I J | A B I | A I | A B C D E F G H I J | F (I-) | A B I | A |
| challenge information supplied & seek supplementary sources | B F (G-) | | | | B E H | | | |
| courage to dissent | A B C E F G | | J | | A B C D H F | (J) | J | A |
| change initiator/prompt (general) | B D I J | G | A | | A C D F (G-) H I | B E G J | B | |
| change initiator/prompt - for management style/organisation culture | A B H I | (E) G | A | | C (G-) H | A (E) | B I | |
| change initiator/prompt - for board to act as a team | (H) | B | B G | | | AB | B (F) | |
| investor discussions/shareholder communications | B H | B | | | A F H | B | | |
| New codes | | | | | | | | |
| <i>Learning to play each other's piano</i> : director socialisation processes | B C (D) E | A G H I | F H I J | G | A B (C) D E F G | G H | A C (G) H I J | C H |
| Communication structures beyond the boardroom | | B | (A) (E) H | | (E) (H) | | A (B) C (H) | (H) |
| | | | | | | | | |
| Knowledge Transfer/Director Development | | | | | | | | |
| mentor/coach/wise counsellor | A B D G (J) | A | B | A | F G (I) | A E | | |
| CEO or MD sounding board/confidant | A B C D E F G H J | I | | | A B D E F G H I J | | A | F |
| informal social interaction with TMT & other directors/accessible for informal discussions | A B (C?) D E F G H J | A I | | | A B C D E F G H J | A E | I | |

| Knowledge Transfer/Director Development (continued) | Managing Director | | | | Non-Executive Director | | | |
|---|--------------------------|-----|-----|-------|------------------------------|-----|---------|--------|
| | A | B | C | D | A | B | C | D |
| exec emotional support/sounding board/confidant/ease execs' isolation | A B C D E F G H J | I | I | D | A E F G I J | B | B | |
| personal knowledge & skills (other than contacts) | A B (C) D E F G H I J | | | | A B D E F G H I J | C | | |
| - large company/City experience | A E F H I | B C | | | A B D E F H I J | (B) | C | |
| - SME experience | F G H J | | | | A C D E F G H I J | | | |
| - same sector experience | A C F G H | | | | A C F G H I | | | |
| - specialist experience | C D E F H I J | | | | (A?) C D E G I J | | | |
| - general business experience | A B C G H I J | | | E | A B (C) D F H I J | | E | |
| give advice/sharing & transfer of knowledge /import good practice | A B C D E F G (H) I J | | | | A B C D F G (H) I J | | E | |
| accept/learn from advice not taken | B F I | | | | B (E) G H I | | (A-) | |
| help deal with unusual events/ crises/respond to new challenges | F G H J | D E | | D | A (B) C D F H J | E G | | (A?) G |
| process (interpret) information | A F G | | | | I | | | |
| challenge/ask awkward questions/test/ probe | C F (G-) H J | B | | G | A C E H I J | B F | | (A?) F |
| constructive criticism/critique | B F H | | | | A B I | E | | |
| implementation of vision | B C D F G H J | I | A | A | A B C F G H J | I | | F |
| effective problem solving/alternative solutions based on NED experience | D F G I | | A | I | A B C F G H J | | | I |
| developing TMT/encouraging reflection ability to learn & coping with change | A | G | F I | A G | B F G | E | A I | |
| special projects/contribute outside board meetings/direct & involved | A B G H I (J?) | F | D | E F G | B C G H I J | A F | D | F G |
| New codes | | | | | | | | |
| Experience of other NED-style advisors informing 'diligent directors' recipes | A B C (D) E F G H I J | | | H | A B C (D) E F (G) H I (J) | (C) | B | |
| NEDprofessional & personal development | A B (E) (F) H I (J) | | | | A B E F G H I (J) | | C F (I) | |

| Boundary Spanning | Managing Director | | | | Non-Executive Director | | | |
|---|--------------------------|-----------|-----|-------|----------------------------|-----------|-------|-----|
| | A | B | C | D | A | B | C | D |
| fresh perspective/innovatory ideas | E (F) G I | | | | H I J | | (G) | |
| wider vision/outside perspective/ benchmarking | A B C D E (F) G H I J | F | | | A B (C) D E (F) G H I J | | | F |
| exec director elsewhere | F (HMD) | B | | | (A) C D (E) G I J | B H | F | E H |
| role model/track record/credibility | B F | | A | | (F) | | | |
| 'project' company (image) externally/ build credibility/external confidence | D E | C | | C | H I J | | | F |
| contacts & networks | B F G | C I | A | C | C F I | | A | |
| maintaining board balance (between executives & shareholders) | B F G H J | | A | | B H J | A | | |
| shareholder/exec liaison | B | | | | B D H | | | |
| exec ally/champion when dealing with shareholders/stakeholders | G | | | F (H) | D H | | | A F |
| shareholder investor nominee/'eyes & ears'/safety net/ally | A B G | H | A B | D | A B G H | | A | F |
| equality of status with key stakeholders /prestigious name on board | A B C D E F G | | | | A C D G H I J | | | |
| regulator reassurance/confidence to financiers | D F H | | | | D E H I | | | |
| raising capital/acquisitions/flotation advice | E F | I | | | (D) F H | I | | |
| New codes | | | | | | | | |
| <i>Foot in other families</i> : NED experience elsewhere &/or multiple NED appointments | (D) F G H | B | | | (A-) B C D E F G H I J | | | |
| | | | | | | | | |
| Creative NED Role-making | | | | | | | | |
| add value/deliver perceived benefits | B C E F G H I J | A D | | A F | B C D E F G H I J | | A F | |
| negotiating role/flexibility | C E F G H I | B D | | | A B C D E F G H I J | | | |
| understanding company/induction/ 'getting a feel' | B C E G J | A D F H I | | | B C E G J | A D F H I | | |
| chairman of board/company | A (G) (H) | B D | B | | A (G) J | A B (H) | B | |
| involvement in board sub-committees | G H | | (B) | F | H | | | |
| complement other directors' skills/ missing exec (operational) expertise | (B) C D F G I J | A E | H | E I | C D F G H J | E I | A C E | I |
| ally of other NEDs/3rd party 'gang'/ coalition formation | (A) D G H | (B) H | | F G | F H | C | | A C |
| (increasing focus on compliance) | H | | | | (A) (D) H (E) | | | |

| Creative Role Making (<i>continued</i>) | Managing Director | | | | Non-Executive Director | | | |
|--|------------------------------|---------|-----|-------------|------------------------|---------------|---------------|---------|
| | A | B | C | D | A | B | C | D |
| New codes | | | | | | | | |
| <i>Abdication</i> | B C D | | | | C D E (J) | | | |
| <i>Add value</i> to NEDs' self worth | (J) | | | | A B C D E F G H I J | | | F G (H) |
| Establishing role expectations (part of role flexibility?) | (A) B C D (E) G (H) I (J) | (B) F J | | | A B (C) D E F H I J | C (E) F G (H) | (E) F | |
| Using other advisors as part of a NED validation &/or moderation process | A B (C) (D) E F G | | H | (H) | A (C) (D) E F (G) I | B | C | |
| | | | | | | | | |
| Risk Management - The People | | | | | | | | |
| shareholder | F | | | | F H | (I) | | |
| monitoring/appraisal performance review of TMT | B G | | A | | A B F G H | A | A | |
| identifying & addressing poor TMT performance/monitor execs | G | B | | A | B D F (G-) H | A E | | I |
| succession planning (TMT, company) | C D G J | A | | (B) J | C (G-) H J | A D | | (B) J |
| TMT removal (inc CEO) | (H) | | | | H | | | |
| influence execs | E F G J | | A I | | C G H I J | A B D E | | (F) |
| focus exec ideas on objectives/exec discipline | E G H I J | A B | A | A | A C D E F G H I J | B | | |
| brake on exec enthusiasm/focus on stakeholder responsibilities | (A) B E F J | | | | A E F H J | | | |
| stakeholder interests/social responsibility | G | | | | B C (F) G | | | |
| New codes | | | | | | | | |
| Succession planning: NEDs | I J | F | | A B D F G H | (E) (F) I J | | A B (C) F G H | |
| | | | | | | | | |
| Risk Management - The Processes | | | | | | | | |
| financial scrutiny | A D G H J | B E | | E | A C D F G H J | B E | | E |
| managing performance indicators | A B H J | | | | B C F G H I J | | | |
| (improved) business/strategic planning | B D E H | I | | | A B G | I | | |

| Risk Management - The Processes <i>(continued)</i> | Managing Director | | | | Non-Executive Director | | | |
|--|-------------------|--------------|----|-------|------------------------|--------|----|------|
| | A | B | C | D | A | B | C | D |
| strategic/business plan formulation | | I | | | BCJ | I | | AF |
| business opportunities/new markets | (A) EGI | | | | C (G-) | | I | (A) |
| transition facilitation | DG | ABCEFH IJ | AB | EFHI | BDG | ACEHIJ | AH | AEFI |
| formalising/changing procedures | AIJ | D | | | ACDEHI | | AB | F |
| - financial & audit | DG | AJ | AB | E (F) | ABCGIJ | E | AH | (C-) |
| - strategic decisions/business planning | AEGHI | | BJ | | CDFGIJ | AB | B | |
| - risk assessment & management | BDEGHI | | AJ | F | BCDFG IJ | | A | AH |
| duty of care/risk assessment & management/litigation support | A FH (I) | | | | ABCDE GHIJ | | | F |
| watchdog/policeman (compliance)/ contractual monitoring (VC)/ representative (funding requirement) | H | | | | (F) H | E | | |
| limit influence of major shareholders/ represent minor shareholders | B (F) J | | | | AFJ (H?) | | | (A?) |
| New codes | | | | | | | | |
| NED transition facilitation | E (H) | BCDEIJ | | F | ACDEJ | BFHIJ | | (G) |

| Director Relationships | Literature (1996-2008) | | Dyad Practice Data |
|---|------------------------|----------|---|
| | SME (18) | PLC (13) | |
| build quality personal relationships/personal chemistry/ trust | Major | Major | Prevalent |
| reducing (family) conflict/fostering positive board dynamics/director balance/maintaining board balance between executives & shareholders | Major | ✓ | Prevalent |
| independence of mind/independent view (internal & external reassurance) | ✓ | Major | Prevalent |
| (long term) commitment to company | ✓ | Minor | Prevalent |
| discussing problems/sharing information/stimulate open debate/dialogue/bring out best ideas | ✓ | ✓ | Prevalent |
| courage to dissent | Minor | ✓ | Prevalent |
| challenge information supplied & seek supplementary sources | Absent | ✓ | More Prevalent than SME literature |
| change initiator/prompt- for management style/organisation culture | Minor | Minor | More Prevalent than literature |
| change initiator/prompt - for board to act as a team | Minor | Minor | Less Prevalent |
| investor discussions/shareholder communications | Minor | Minor | Less Prevalent |
| <i>Learning to play each other's piano</i> : director socialisation processes | | | Prevalent in practice |
| Communication structures beyond the boardroom | | | Not explicit in literature |
| Knowledge Transfer/Director Development | | | |
| personal knowledge & skills (other than contacts) | Major | Major | Prevalent |
| help deal with unusual events/crises /respond to new challenges/ effective problem solving/alternative solutions based on NED experience | Major | Major | Prevalent: dyad mismatch |
| CEO or MD sounding board/confidant | Major | Minor | Prevalent |
| exec emotional support/sounding board/confidant/ease execs' isolation | Major | Minor | Prevalent: dyad mismatch |
| give advice/sharing & transfer of knowledge/import good practice | Major | ✓ | Prevalent |
| challenge/ask awkward questions/test/ probe (internal information acquisition) /constructive criticism/critique | ✓ | Major | More Prevalent than SME literature: dyad mismatch |
| informal social interaction with TMT & other directors/accessible for informal discussions | Minor | ✓ | Prevalent |
| NED knowledge - large company/City experience | Minor | ✓ | Prevalent |
| NED knowledge - SME experience | ✓ | Absent | Prevalent |

| Knowledge Transfer/Director Development (continued) | Literature (1996-2008) | | Dyad Practice Data |
|---|------------------------|---------------------|--------------------------------|
| | SME (18) | PLC (13) | |
| NED knowledge - specialist experience | ✓ | ✓ | Prevalent |
| NED knowledge - general business experience | ✓ | ✓ | Prevalent |
| accept/learn from advice not taken | Absent | <i>Minor</i> | More Prevalent than literature |
| mentor/coach/wise counsellor | ✓ | ✓ | <i>Less Prevalent</i> |
| NED knowledge - same sector/locality experience | ✓ | <i>Minor</i> | <i>Less Prevalent</i> |
| special projects/contribute outside board meetings/direct & involved | ✓ | ✓ | Prevalent |
| process (interpret) information | <i>Minor</i> | <i>Minor</i> | <i>Less Prevalent</i> |
| developing TMT/encouraging reflection ability to learn & coping with change | ✓ | ✓ | <i>Less Prevalent</i> |
| Experience of other NED-style advisors informing 'diligent director' recipes | | | Prevalent in practice |
| NED professional & personal development | | | Prevalent in practice |
| Boundary Spanning | | | |
| wider vision/outside perspective/ benchmarking | Major | Major | Prevalent |
| exec director elsewhere (NED elsewhere) | Absent <i>Minor</i> | ✓ <i>(Minor)</i> | NED elsewhere Prevalent |
| equal status with key stakeholders /prestigious name on board | ✓ | <i>Minor</i> | Equal status Prevalent |
| (use of) contacts & networks (external information acquisition) | Major | ✓ | <i>Less Prevalent</i> |
| fresh perspective/innovatory ideas/business opportunities/new markets | ✓ | <i>Minor</i> | <i>Less Prevalent</i> |
| role model/track record/credibility | <i>Minor</i> | Absent | <i>Less Prevalent</i> |
| 'project' company image externally/ build credibility/external confidence | <i>Minor</i> | <i>Minor</i> | <i>Less Prevalent</i> |
| shareholder/exec liaison | <i>Minor</i> | ✓ | <i>Less Prevalent</i> |
| exec ally/champion when dealing with shareholders/ stakeholders | ✓ | <i>Minor</i> | <i>Less Prevalent</i> |
| shareholder investor nominee/'eyes & ears'/safety net/ally | ✓ | ✓ | <i>Less Prevalent</i> |
| regulator reassurance/confidence to financiers | ✓ | <i>Minor</i> | <i>Less Prevalent</i> |
| raising capital/acquisitions/flotation advice | ✓ | <i>Minor</i> | <i>Less Prevalent</i> |
| <i>Foot in other families</i> : NED experience elsewhere &/or multiple NED appointments | | 2 | Prevalent in practice |

| Creative NED Role-making | Literature (1996-2008) | | Dyad Practice Data |
|---|------------------------|----------|--------------------------------------|
| | SME (18) | PLC (13) | |
| add value/deliver perceived benefits | Major | ✓ | Prevalent |
| complement other directors' skills/ missing exec (operational) expertise | Major | Minor | Prevalent |
| negotiating role/flexibility | ✓ | ✓ | Prevalent |
| understanding company/induction/ 'getting a feel' (process of socialisation) | Minor | ✓ | Prevalent |
| ally of other NEDs/3rd party 'gang'/ coalition formation (execs) | Absent (Minor) | ✓ | Prevalent |
| chairman of board/company | Minor | ✓ | Less Prevalent |
| involvement in board sub-committees | Minor | ✓ | Less Prevalent |
| increasing focus on compliance | Minor | ✓ | Less Prevalent |
| shareholder | Minor | ✓ | Less Prevalent |
| Establishing role expectations (part of negotiating flexibility?) | | | Prevalent in practice |
| Using other advisors as part of NED validation &/or moderation processes | | | Prevalent in practice |
| Add value to NED's self worth | | | Prevalent in practice: dyad mismatch |
| Abdication | | | Not explicit in literature |
| Risk Management - the people | | | |
| monitoring exec competence/ TMT appraisal performance review/ identifying & addressing poor TMT performance | Minor | Major | Prevalent: dyad mismatch |
| focus exec ideas on objectives/exec discipline | ✓ | ✓ | Prevalent |
| influence execs | Minor | ✓ | Prevalent |
| succession planning (TMT, company) | ✓ | ✓ | Less Prevalent |
| brake on exec enthusiasm/focus on stakeholder responsibilities | ✓ | ✓ | Less Prevalent |
| TMT recruitment/remuneration/removal (inc CEO) | Minor | ✓ | Less Prevalent |
| stakeholder interests/social responsibility | Minor | ✓ | Less Prevalent |
| succession planning: NEDs | | 1 | Prevalent in practice |

| Risk Management - The Processes | Literature (1996-2008) | | Dyad Practice Data |
|--|------------------------|----------|---|
| | SME (18) | PLC (13) | |
| formalising/changing procedures - strategic decisions/business planning/ (improved) business/strategic planning | Major | Major | Prevalent |
| duty of care/risk assessment & management/litigation support | Minor | Major | Prevalent: dyad mismatch |
| formalising/changing procedures - financial & audit | Minor | ✓ | Prevalent |
| financial scrutiny | ✓ | ✓ | Prevalent: redefined as UK NED core role element |
| managing performance indicators | ✓ | ✓ | Prevalent |
| formalising/changing procedures - risk assessment & management | ✓ | ✓ | Prevalent |
| strategic/business plan formulation/implementation of vision | ✓ | Minor | Prevalent |
| transition facilitation | ✓ | Minor | Prevalent |
| watchdog/policeman (compliance)/ contractual monitoring (VC)/ representative (funding requirement) | ✓ | Minor | Less Prevalent: redefined as minor UK NED role element |
| limit influence of major shareholders/ represent minor shareholders | Minor | Absent | Less Prevalent |
| NED transition facilitation | | | Prevalent in practice |

Dyad B Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|---|----------------|
| BMD | | |
| 1m | Founder invites BNED to join board in middle of first meeting | BMD:189 |
| 2m | BNED acts as advisor until joins board on retirement from f/t employment | BMD:195 |
| 3m | BNED also chairman of former employer SME subsidiary with similar issues & problems as Company B | BMD:260-264 |
| 4m | Takes 18 months to adapt to BNED probing style as different from previous NEDs | BMD:210-217 |
| 5m | BNED confuses PLC chairman role vis-à-vis shareholders with 'alien culture' of private company owner motivations | BMD:1529-1538 |
| 6m | BNED keeps 'watching brief' over Company B subsidiary close to BNED home to help BMD focus on managing Company B group | BMD:278-287 |
| 7m | BNED challenges accounts & BFD competency; BMD reported action taken in both interviews | BMD:363-368 |
| 8m | BFD & BNED both raise accounts issue with BMD & Founder; BNED asked to 'mellow' behaviour & BFD asked 'to sharpen up a bit' | BMD:1466-1477 |
| 9m | BNED accepts that his share option triggers are not appropriate to a private company | BMD:773-790 |
| 10m | relationship working | BMD:210 |
| 11m | BMD assumes BNED will stay (another) 3 - 5 years (Year 3 response) | BMD:431-434 |
| 12m | BMD wishes to become ned chairman & appoint consultant friend as next NED when BNED goes in 'a few years' (Year 6 response) | BMD:1062-1088 |
| BNED | | |
| 1n | Founder invites BNED to join board; BNED says he & Founder already knew each other | BNED:76 |
| 2n | formal NED training | BNED:125 |
| 3n | Asked to chair another company by former employers (By Year 6 this appointment had ceased) | BNED:76-79 |
| 4n | Board meetings formalised with agenda, minutes and papers prepared & read in advance | BNED:192-195 |
| 5n | BNED misunderstands shareholders' objectives; Founder has no wish to sell company | BNED:370-374 |
| 6n | BNED admits to adjusting his view of company mission & his own role as chairman | BNED:1441-1444 |
| 7n | Management accounts always scrutinised; now more accurate as a result | BNED:743-751 |
| 8n | BFD offended with level of financial scrutiny; changes to accounts were negotiated | BNED:1228-1240 |
| 9n | Although improved accounts still scrutinised by BNED at home prior to meetings | BNED:1269-1273 |
| 10n | Relationship working well; would 'sense' if it wasn't | BNED:391-394 |
| 11n | Already approached a possible replacement without being asked by or telling the other directors (Year 6 response) | BNED:1490-1513 |
| 12n | Need for a supportive & not too critical approach to role | BNED:221-225 |
| 13n | NED appointments should be time bound to a 10 year maximum; 3 - 5 year spells to avoid 'embarrassment at the end' (Year 3 response) | BNED:160-168 |

Table A9: Relationship Incidents Dyad B

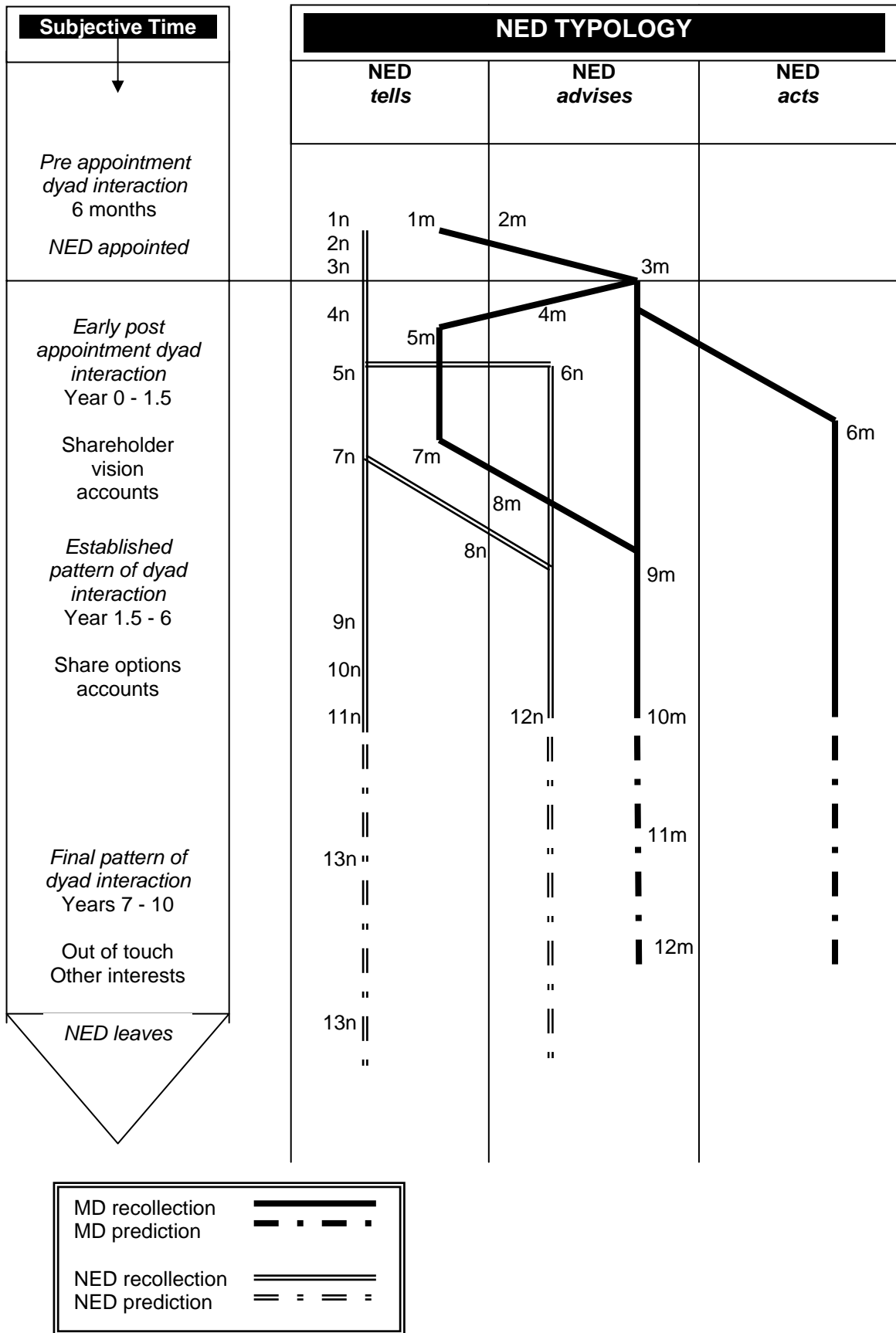


Figure A9: NED Typology Dyad B

Dyad C Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|---|--------------------|
| CMD | | |
| 1m | CNED connections & sales instinct were appointment prompt; telephone invitation after meeting arranged by 1st NED | CMD:82-85 |
| 2m | After 1 year CNED moved overseas for a year; maintained daily phone contact with CMD | CMD:87-92 |
| 3m | Additional help from CNED PLC senior management experience | CMD:96-99 |
| 4m | Example of 'agreeing to disagree' - how to approach a client, minor issues only | CMD:223-227 |
| 5m | CMD perceives he & CNED 'actually help each other'; relationship is 'amazing' as only meet at Board meetings but talk/'relate' to each other 'day-to-day' | CMD:227-233 |
| 6m | CMD happy for CNED to represent Company C in sector | CMD:123 |
| CNED | | |
| 1n | 1st NED 'persuaded' CNED to join Company C board; role to provide contacts & overseas trading advice | CNED:602-605 & 644 |
| 1n/2 | NED role to keep CMD 'on the rails' (Year 10 response) | CNED:1210-1211 |
| 2n | CNED moved abroad for 1st year of official 'retirement' working for former employer | CNED:523-527 |
| 3n | CNED finds CMD lack of action after given advice frustrating | CNED:455 |
| 4n | CNED finds CMD poor debtor management skills annoying, especially his not asking for CNED's or 1st NED's help with client contacts | CNED:998-1014 |
| 5n | CNED believes that CMD constant ignoring financial advice prompted 1st NED to resign in frustration | CNED:1268-1272 |
| 6n | CNED resigned all directorships 5 months prior to Year 10 interview | CNED:534-538 |

Table A10: Relationship Incidents Dyad C

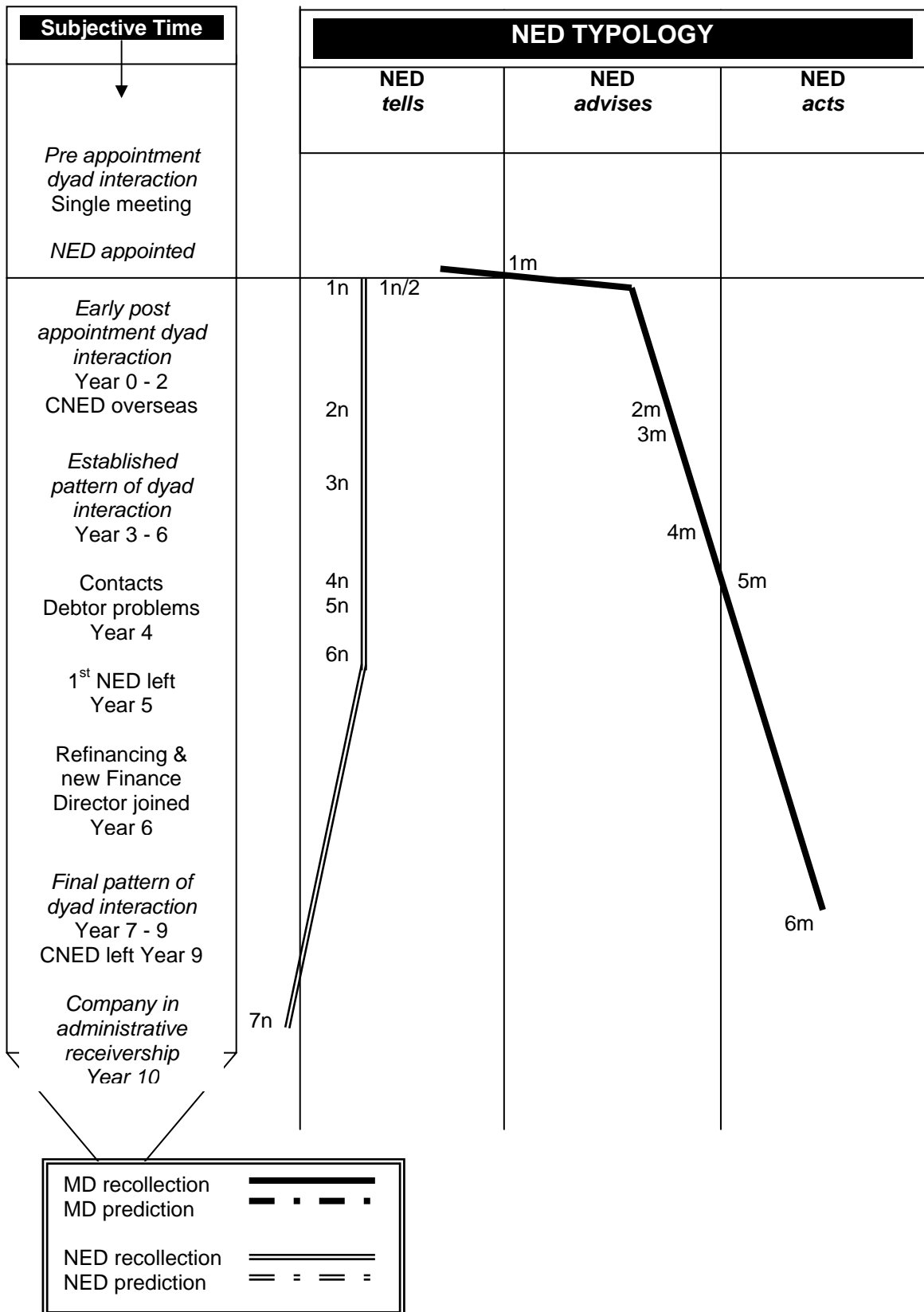


Figure A10: NED Typology Template Dyad C

Dyad D Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|--|--------------|
| DMD | | |
| 1m | DNED is former auditor | DMD:38-42 |
| 2m | DNED retired as auditor but DMD wanted the relationship to continue | DMD:38-39 |
| 3m | Six months ago formally appointed as NED | DMD:37 |
| 4m | Monthly meetings of directors have been a benefit | DMD:109-110 |
| 5m | DNED is <i>de facto</i> FD with external agencies such as banks | DMD:259-261 |
| 6m | Company restructured by Year 2 | DMD:182-185 |
| 7m | DMD hopes other director will retain DNED when he takes over the business on DMD's retirement | DMD:304-307 |
| 8m | DMD predicts that DNED may retire on DMD's retirement | |
| DNED | | |
| 1n | DMD former client when owned accountancy practice | DNED:85-86 |
| 2n | Auditors of SME clients 'de facto' executive financial directors | DNED:121-125 |
| 3n | Acting as NED since retirement 2 years ago | DNED:148 |
| 4n | Format of DMD meetings gives insight into DNED role; financial management control & sounding board | DNED:143-148 |
| 5n | Negotiates with external (financial) agencies on DMD behalf | DNED:135-136 |
| 6n | Is <i>de facto</i> FD when negotiating internally for company restructuring | DNED:242-247 |
| 7n | DNED still does not trust DMD's financial acumen | DNED:322-324 |
| 8n | Retirement plans | DNED:200-201 |

Table A11: Relationship Incidents Dyad D

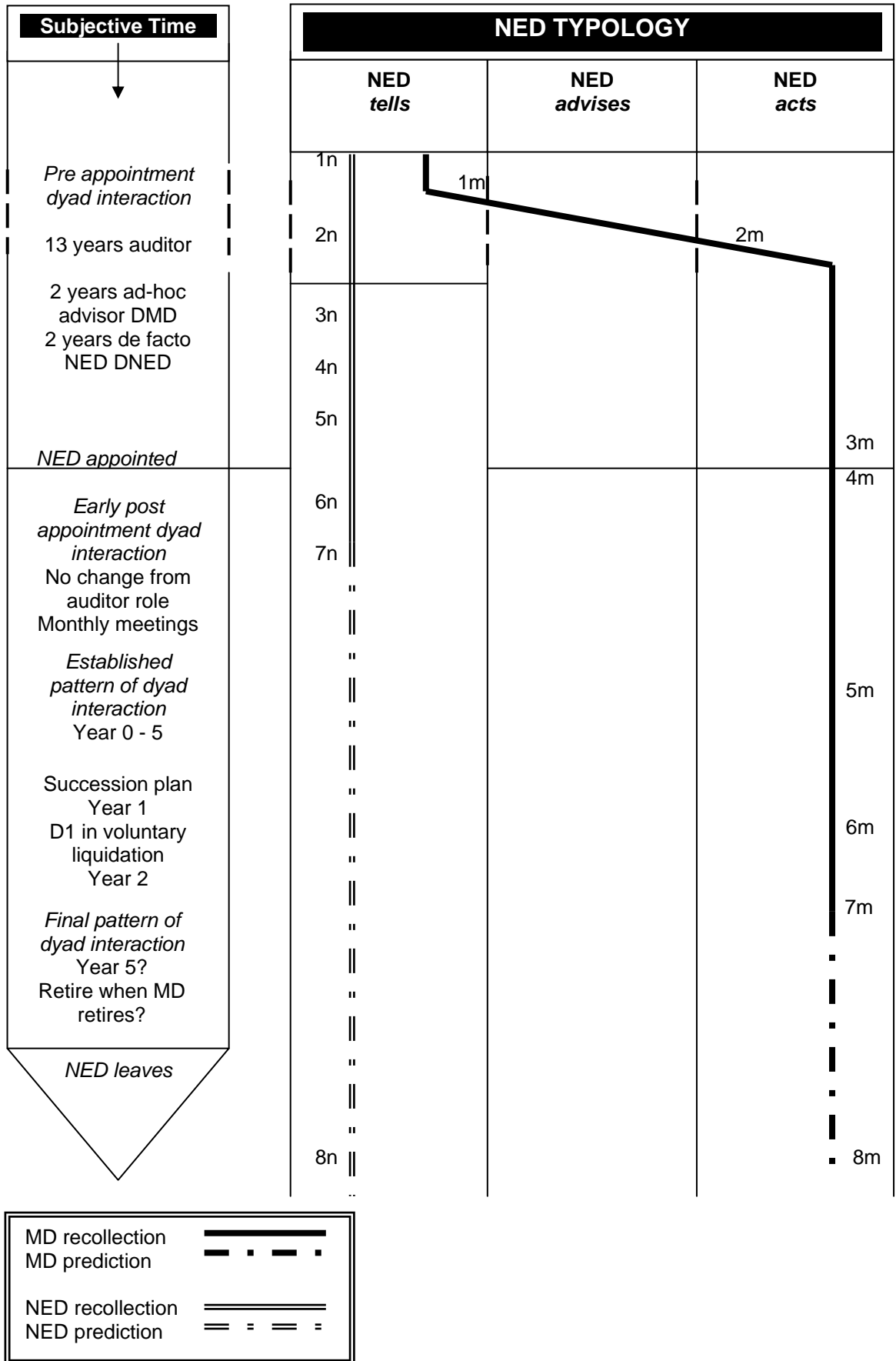


Figure A11: NED Typology Dyad D

Dyad E Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|--|-----------------------|
| EMD | | |
| 1m | Original prompt to appoint ENED as consultant to replace fired Financial Director | EMD:285-291 |
| 2m | Prompt to appoint ENED as non-executive to retain 'experience [which] was valuable to us' | EMD:143-151 |
| 3m | Acting on Company E behalf with banks is part of ENED role | EMD:134-136 |
| 4m | EMD & board took ENED advice to diversify | EMD:336-337 |
| 5m | ENED describes as their only NED; no mention of ENED's recent resignation as still acting as advisor | EMD:79 |
| ENED | | |
| 1n | Original role part-time FD and mentor to Company E owners: Chair & EMD | ENED:189-191 |
| 2n | Original prompt - bank threatening to foreclose | ENED:76-79 |
| 3n | Relationship grown to one of friendship; conflict with ENED perception of NED role 'too chummy' with Company E | ENED:272-273; 298-300 |
| 4n | Withdrew from FD executive role | ENED:196-200 |
| 5n | Perceives role as more of a business advisor than a NED | ENED:21 |
| 6n | ENED still acting as FD based on his history with Company E | ENED:227-229; 300-302 |
| 7n | Resigned 4 - 6 weeks prior to ACCA research interviews (member of ACCA) | ENED:15-20 |
| 8n | Accepts acting as a shadow director | ENED:235 |
| 9n | <i>telephone confirmation by Chairman's PA that ENED still advising company</i> | |
| 10n | <i>letter declining any further participation in NED research as ENED no longer a NED</i> | |

Figure A12: Relationship Incidents Dyad E

In Figure A12 the dashed line representing time beyond the date of the interviews is different to the other Case Dyad NED Typology Templates and represents ENED shadow director action after his resignation, that is, incidents (9n) and (10n).

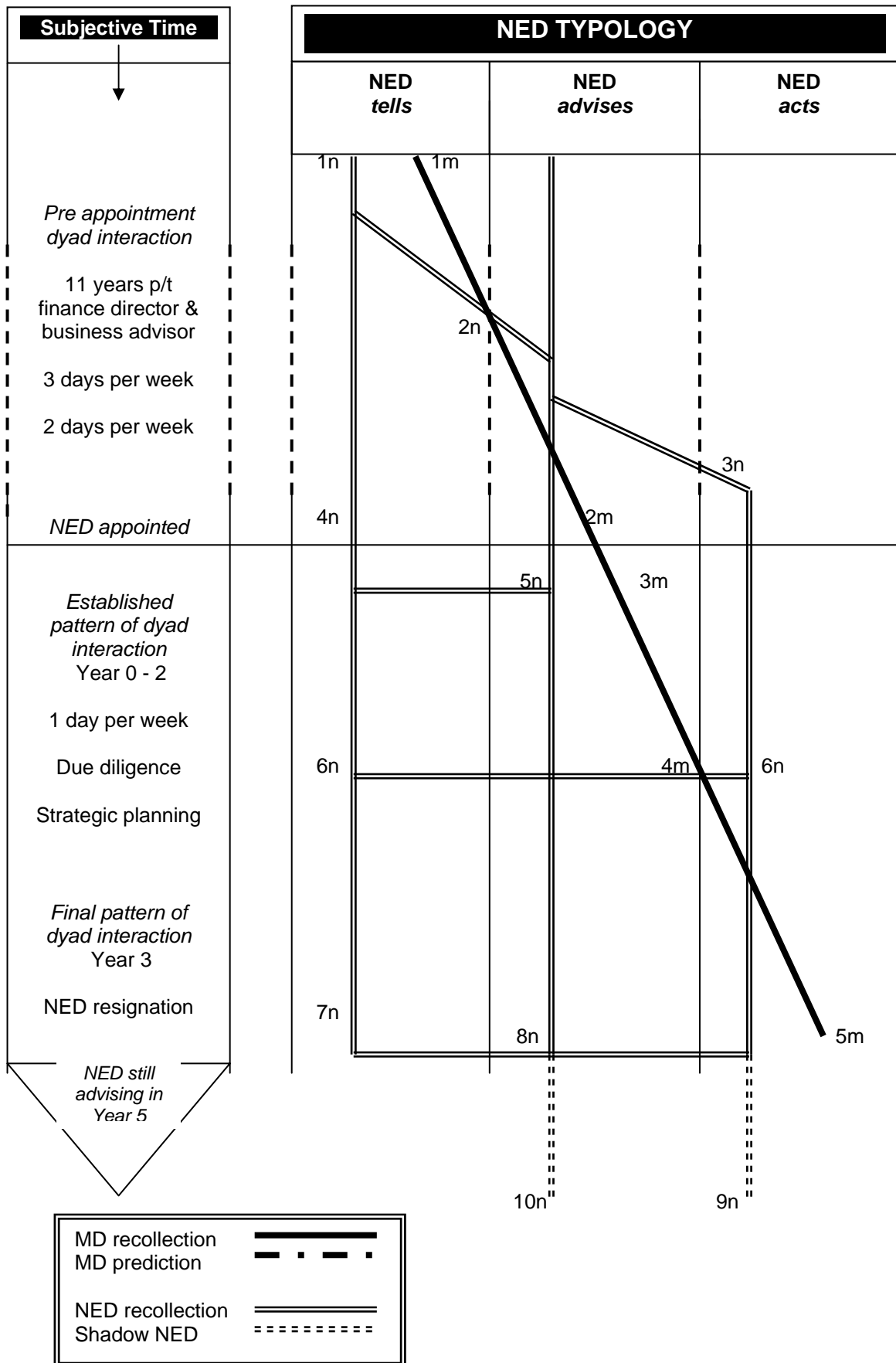


Figure A12: NED Typology Template Dyad E

Dyad F Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|---|--------------------------|
| FMD | | |
| 1m | pre-appointment contact; FMD emails FNED and then meet up in London; VC directors meet with FNED also | FMD:261-265 |
| 2m | Original role discussions held prior to appointment when FNED visits Company F | FMD:302-306 |
| 3m | After 2 board meetings FMD observed FNED's increased investment in time & involvement by coming 'in at other times' | FMD:279-283 |
| 4m | FNED influenced the early big decision to change the manufacturing subcontractor; helped steer board to make right decision | FMD:626-641 |
| 5m | Directors make time to meet off-site | FMD:384-388 |
| 6m | Light touch control: instigate weekly conference calls for as long as issue needs addressing; recorded into paperwork to cover directors' liability | FMD:1131-1146 |
| 7m | FMD perceives FNED as role model for himself & his former employer's success as template for Company F | FMD:1260-1284;1400-1403; |
| 8m | FNED asked by internal directors to act as Company F consultant at an external meeting with client & report back to the VC directors | FMD:1160-1193 |
| 9m | Perceives FNED role as finite | FMD:1406-1407 |
| FNED | | |
| 1n | Pre appointment contact; FNED identifies FMD as potential protégé | FNED:338-352 |
| 2n | Prompt to take role: 'they've got some interesting challenges' | |
| 3n | Initial temporary role de facto CEO | FNED:391-397 |
| 4n | CEO now appointed so role more 'traditional ... of considering things in general' | FNED:394-395 |
| 5n | Perceives part of role as FMD mentor & 'sounding board' as 'very lonely job when you're at the top' | FNED:517-519 |
| 6n | Considerable time & effort invested in NED relationships with other directors | FNED:402-406 |
| 7n | Perceives weekly conference calls as 'tactical' and temporary to resolve specific issues | FNED:926-928 |
| 8n | Involved on assessing sales engagement & sales training at request of internal directors; likely to put CEO under pressure to address identified weaknesses | FNED:1252-1255 |
| 9n | Resignation prompts: illegal/immoral conduct; lack of opportunity to contribute, lack of time, lack of company ambition | FNED:947-950 |
| 10n | Perceives role as finite: 5 years or 'significant event' such as company sale or going public. Previous PLC experience not enjoyable | FNED:1215-1219 |

Table A13: Relationship Incidents Dyad F

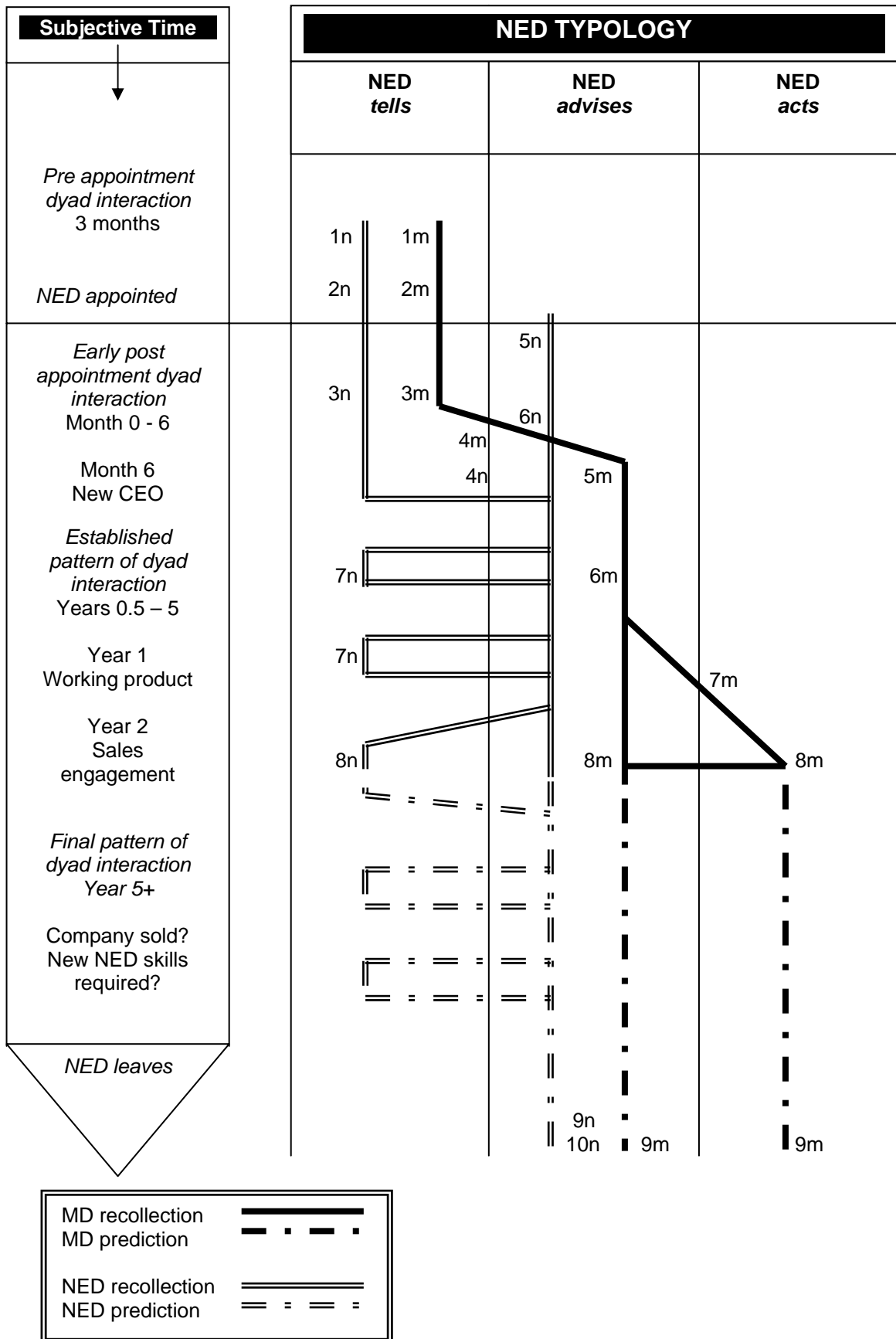


Figure A13: NED Typology Template Dyad F

Dyad G Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|--|-----------------------|
| GMD | | |
| 1m | pre-appointment association with GNED: training & HR consultant | GMD:121-123 |
| 2m | Relationship developed and so invited to join board | |
| 3m | GNED role: training & HR advice, uses extensive local contacts | GMD:125-132 |
| 4m | Board sub-committee role in taking 'a particular interest' in 'new initiatives' | GMD:153-154 |
| 5m | GNED 'batting for us'; gives sound advice & has good personal qualities | GMD:207-211 |
| 6m | GNED influential in board adopting a 'contingency plan' including redundancies if sales figures continued to fall | GMD:859-864 |
| 7m | GNED influenced need for separate sales function rather than GMD 'cold calling' potential clients | GMD:705-713 |
| 8m | GMD concerned that board/company 'missing out' through a lack of disagreement & debate; too much 'general agreement' | GMD:805-807 |
| 9m | GMD perceived past 'slight disillusionment' for her & GNED 'now repaired'; back to 'recognising each other's strengths and contributions' | GMD:1117-1121 |
| 10m | GMD perceived GNED's lack of time affected whether she was helping with Company G's problems or 'sounding off on some idea of her own' | GMD:610-613 |
| 11m | GMD perceived GNED role finite for 5 years in total | GMD:1164 |
| GNED | | |
| 1n | Original association was to provide company training as a consultant | GNED:626 |
| 2n | GNED contributed her business background and her personal experience as a client of similar services | GNED:510-512 |
| 3n | Original prompt and process adopted to appoint the 2 NEDs a surprise; unusual in a SME; 'they looked for people with expertise to fill the gaps' | GNED:158-162 |
| 4n | GNED perceived equal, 'friendly but professional' relationship with GMD | GNED:125-126 |
| 5n | GNED influenced strategic decision to put in 'contingency plan ... to create redundancy if their figures fall any further' | GNED:390-393 |
| 6n | GNED also suggested the appointment of a 'Sales & Marketing person' | GNED:406-408 |
| 7n | Equal opportunities clashes between staff & clients: GMD involving GNED in staff discussions; tricky to resolve as involved beliefs & emotions | GNED:543-545 |
| 8n | GNED tries to read all information sent to her prior to meetings but mainly she provides her 'brain & experience'. Execs appear too 'afraid' to take her repeated specialist advice to move into 'other avenues' | GNED:364-366; 398-400 |
| 9n | In Year 1 GNED predicted a NED role span of 8 years if the company grew by which time her expertise could move in-house | GNED:223-224 |
| 10n | The continued lack of take up of her advice to diversify was causing some of the company's problems 'we wouldn't be struggling' | GNED:399-403 |
| 11n | Consequently she was close to resigning as she was 'only there to make a difference'; she was also close to retiring from f/t employment | GNED:436-437 |
| 12n | Believed best NEDs for SMEs were 'busy people working elsewhere in industry or in commerce' rather than semi-retired or retired people | GNED:704-705 |
| 13n | Did not trust that 'the voices of the staff are heard very strongly before any decision is made'; doubted any 'good commercial practice behind it' | GNED:446-453 |

Table A14: Relationship Incidents Dyad G

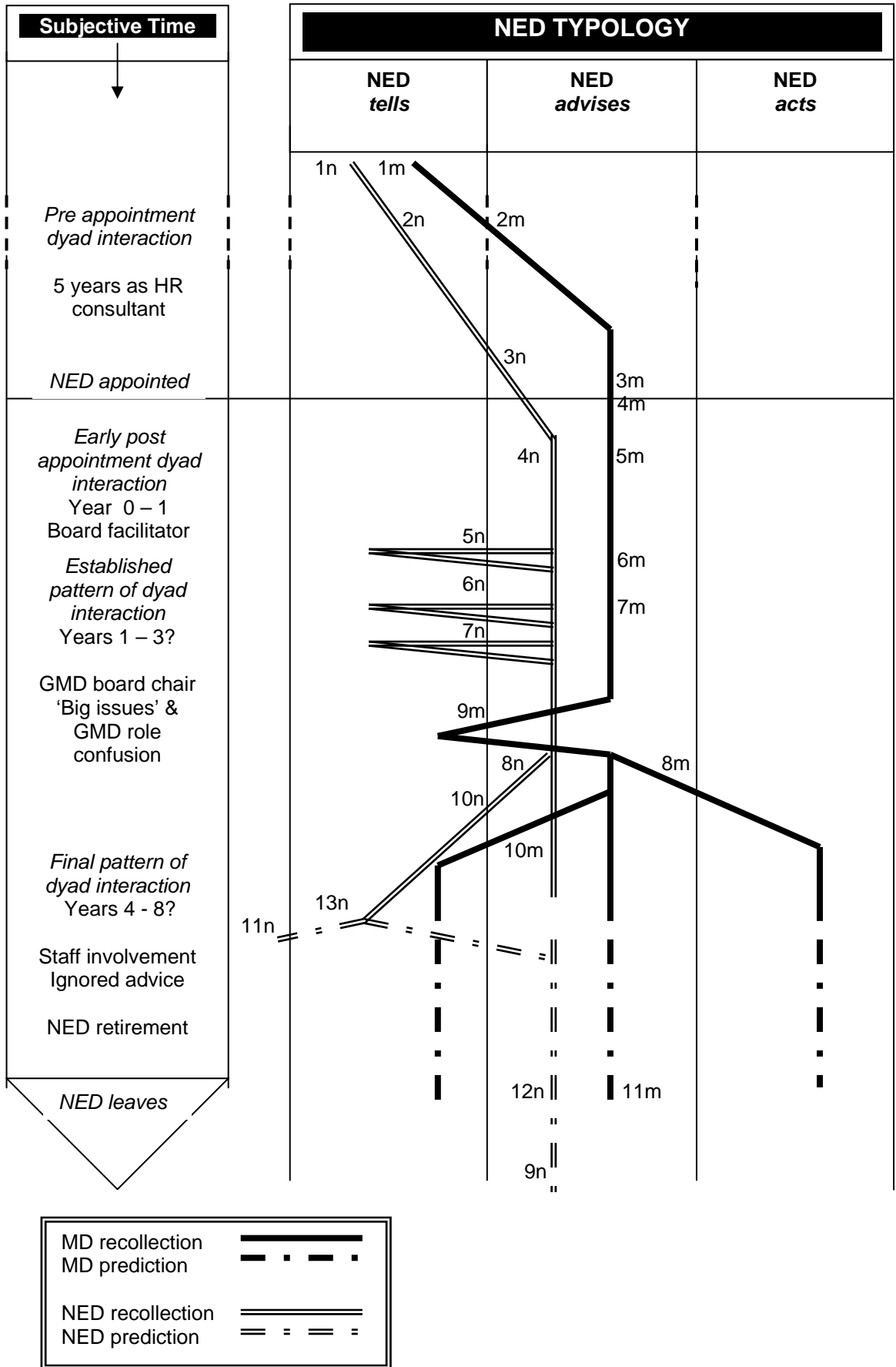


Figure A14: NED Typology Template Dyad G

Dyad H Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|--|------------------------|
| HMD | | |
| 1m | HMD had 'known [HNED] a long time' from 'a number of different relationships'; selected as 'I knew what his work experience had been' | HMD:120-122 |
| 2m | Appointed HNED to counter HMD weaknesses as a serial entrepreneur: 'HNED knows that people like me are highly optimistic' | HMD:459-469 |
| 3m | HMD offered HNED as a nominee director of VC 1 a couple of years after they invested in his company | HMD:223-232 |
| 4m | HNED became too involved in Company H similar to p/t consultant; they 'openly discussed the need' for more independence or 'go too native' | HMD:1205-1215 |
| 5m | On-going tension with HNED about share options. After 4 rounds of VC funding HMD personal investment was now down from 100% to 13% | HMD:1515-1520 |
| 6m | HMD perceived HNED lack of movement on HMD share options due to 'jealousy' or 'being a bit mean'; unsuccessfully used others to persuade HNED of start-up culture | HMD:1083-1087 |
| 7m 8m | HNED VC 1 discussions did not give HMD expected resolution to share option debate; HMD perceived HNED 'ability to sell it of course didn't exist'; will be resolved when investors need HMD co-operation in future | HMD:1564-1571 |
| 9m | HMD perceives he & HNED 'professionally able to put a box around a dispute and not let it in anyway taint all the other things we're doing' | HMD:1556-1558 |
| 10m | HNED up for re-appointment in 18 months; question of board renewal or continuity; doubts HNED won't be re-elected unless 'he's gone stale' | HMD:1493-1498 |
| HNED | | |
| 1n | Pre-appointment contact between HNED & HMD: 20 years ago and just prior to joining board of Company H | HNED:119-122 |
| 2n | When consulted over the start-up of Company H HNED did not know HMD would invite him to join as a NED | HNED:1319 - 1321 |
| 3n | HNED joined after Company H had been operating for about 3 years | HNED:125-131 |
| 4n/1 | In Year 3 recounts how he became nominee director for VC 1; 'principal investor asked me if I would become their nominee' | HNED:267-269 |
| 4n/2 | In Year 6 recounts how he was already working for VC 1 in another role; when Company H mentioned he suggested that he be their nominee | HNED:776-780 |
| 5n 6n | HNED perceived that part of his role was to stand up to HMD rather than the other NEDs 'because he and I go back as long as we do' | HMD:1572-1588 |
| 7n | In Year 2/3 HNED was appointed chairman of Remuneration Committee 'as part of the evolution of the company'; also on the audit committee | HNED:164-165 & 295-296 |
| 8n | Perceived more involved in the share option scheme set up 'than I should have done, simply because there was not the expertise' in house | HNED:1163-1168 |
| 9n | Recognised that in his role as Rem Cttee chair he had 'prickly' talks with HMD 'because he never thinks he's paid as much as he should be' | HNED:1584-1586 |
| 10n | HNED believed he had a 'good professional working relationship' with HMD where they could talk through their differences | HNED:337-344 |
| 11n | HNED would resign if the work and/or increasing role regulation conflicted with his & his wife's extensive travel plans | HNED:845-860 |
| 12n | Recognised HMD treating Company H as his 'own personal domain' and this was 'both good & bad'; 'good' as HMD driven to be 'enormously successful'; 'bad' as HMD 'not very receptive to suggestions on some things [to be done] slightly differently' | HNED:364-369 |

Table A15: Relationship Incidents Dyad H

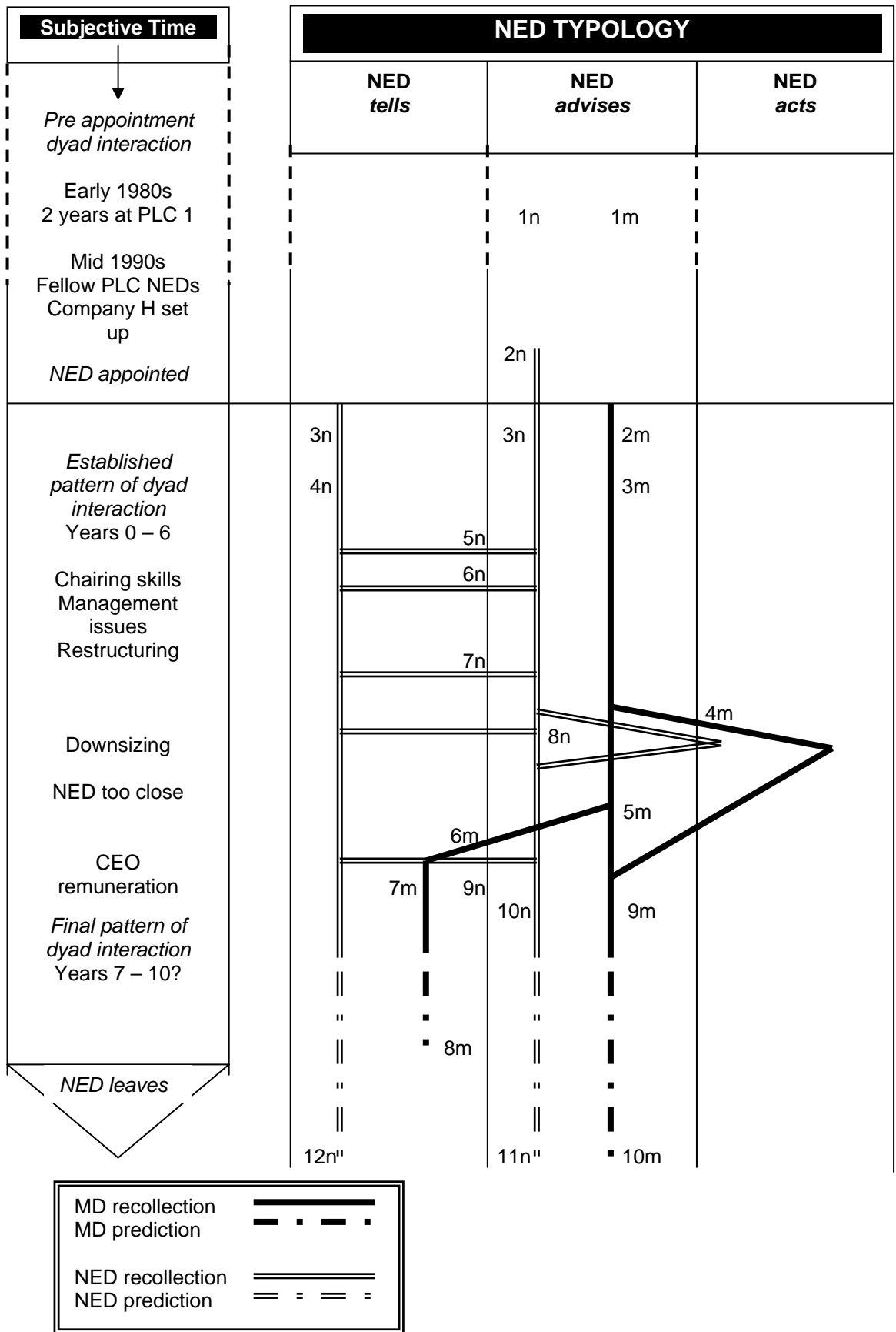


Figure A15: NED Typology Template Dyad H

Dyad I Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|---|----------------------------|
| IMD | | |
| 1m | pre appointment contact; Company I a potential supplier to INED former employer | IMD:277-279 |
| 2m | original prompt for IMD to consider appointing INED; thought INED would have useful sales contacts/leads | IMD:281-284 |
| 3m | actual prompt to appoint INED after a discussion of INED's experience as consultant; exec directors needed help in running their MBO business; INED help avoid or make holes they fall into 'not so deep' | IMD:285-292 |
| 4m | initial INED role: business plan development | IMD:293-304 |
| 5m | initial 90 day contract not renewed for financial reasons | IMD:661-673 |
| 6m | originally met off-site once a week, now try to meet once a month | IMD:829 |
| 7m | premises move a difficult decision; INED helped by negotiating with the landlords for a better deal | IMD:554-558 |
| 8m | INED helped with execs long term commitment to the business; linked move to vision | IMD:579-593 |
| 9m 10m | emerging tension: recent decision by IMD to appoint f/t sales post - INED 'not sure we were ready but I went and did it anyway' | IMD:504-514 |
| 11m | IMD perceived INED value in emotional detachment guiding debate like an 'agent provocateur' & his 'objective, unbiased opinion' | IMD:530-532; 598-600 |
| 12m | IMD perceives INED role finite: assumes INED will retire in 'couple of years' | IMD:879-882 |
| INED | | |
| 1n | pre appointment contact; Company I a potential 'really good' supplier to INED former employer | INED:96-99 |
| 2n | Prompt for IMD to consider appointing INED 'he was needing some commercialism' | INED:223-224 |
| 3n | INED initial action signing confidentiality agreement to establish trust in relationship | INED:213-217 |
| 4n | original focus for INED role 'they needed a business plan' | INED:275 |
| 5n | INED meeting agenda style too formal at start; revised way of working to match IMD's style | INED:558-561 |
| 6n | contract suspended during cash flow crisis: INED perceived that IMD was very upset by this | INED:669-670; 1002-1005 |
| 7n | INED committed to Company I 'long term' but rejected 'sweat equity' shareholding offer in lieu of cash remuneration | INED:906-908 |
| 8n | frequency of contact: INED in constant contact with Company staff advising on specific tasks | INED:347 & 510-513 |
| 9n | INED negotiated a better deal for the new premises, linking it to business plan & vision statements | INED:327-329 |
| 10n | INED helped execs overcome psychological barriers of commitment to new premises, business vision & plan | INED:583-600 |
| 11n | INED role changes & possible tension: INED perceived he may have to take over the sales function | INED:278-286 |
| 12n | emerging tension: INED perceived salesman hasty appointment & person not competent; may have to be 'firer conscious' for IMD | INED:656-657; 987-990 |
| 13n | INED can't retire until pension matures at 65 in 3 years; hopes to work until he's 70, if only for charities | INED:155-158 |

Table A16: Relationship Incidents Dyad I

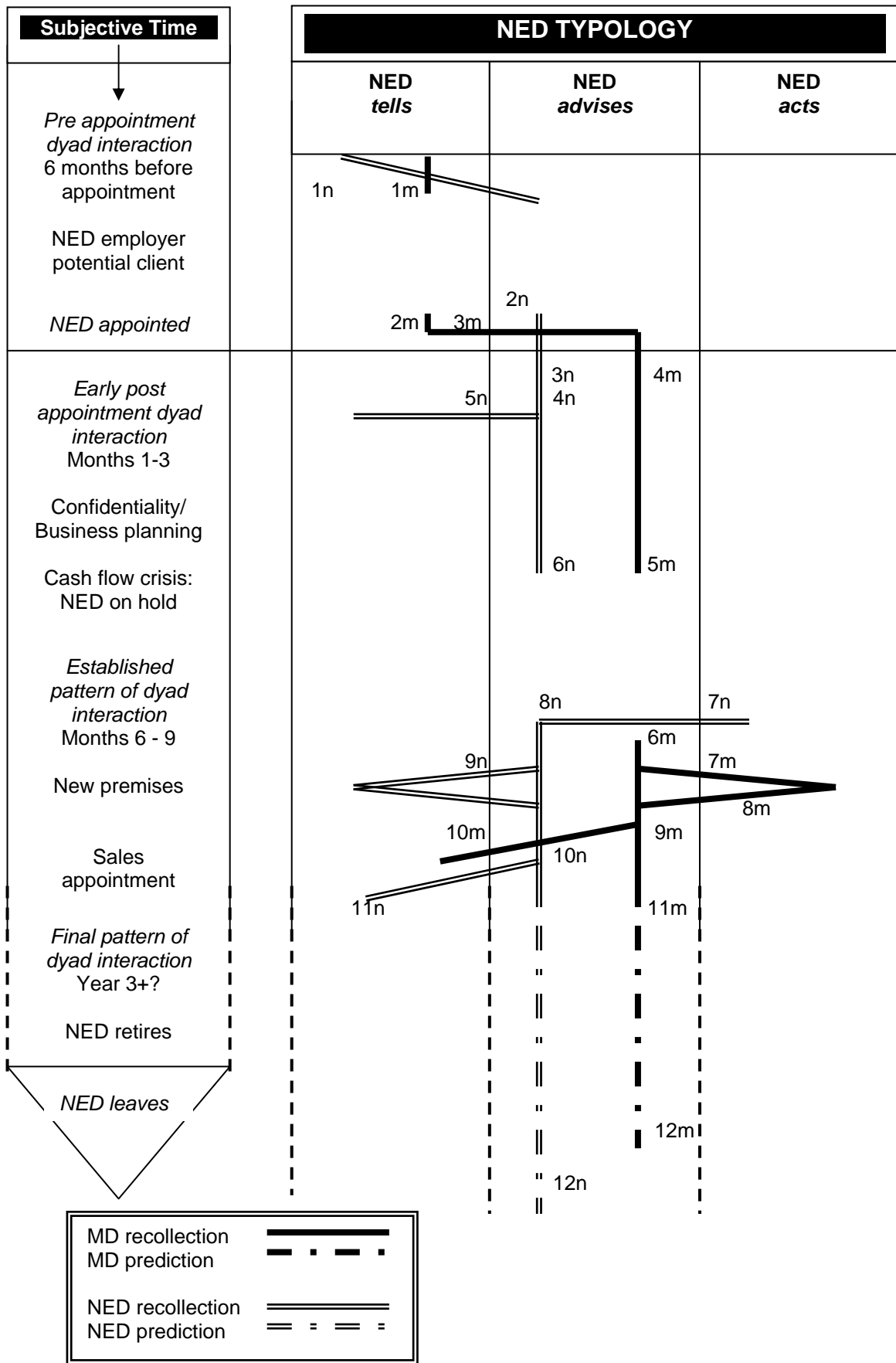


Figure A16: NED Typology Template Dyad I

Dyad J Relationship Incidents and NED Trust Typology

| Ref. | Descriptor | Audit trail |
|-------------|---|----------------|
| JMD | | |
| 1m | Pre-appointment contact: JNED was JMD's bank manager and 'showed me personally a lot of respect' when JMD was in financial difficulties | JMD:187-188 |
| 2m | In JNED 'mundane job' of bookkeeper; in Company J once a week but JMD does not always see him | JMD:69-70 |
| 3m | JNED & JMD meet monthly for dinner to discuss issues rather than have formal meetings | JMD:498 |
| 4m | JNED role to make JMD 'run the company properly'. JNED provides 'financial monthly management figures' which JMD uses to support marketing spend ideas & plans | JMD:470-474 |
| 5m | JNED acts as JMD 'brake' to guard against over ambitious marketing ideas | JMD:693-694 |
| 6m | JNED role is also to provide balance between JMD and his family business partners when they don't agree on a decision | JMD:263-268 |
| 7m | JNED may have to resign if his own company causes a conflict of time with Company J | JMD:1001-1002 |
| 8m | JMD perceives JNED's role to be infinite, apart from any conflict with JNED's own company JMD sees them working together 'all the way' | JMD:997-1000 |
| JNED | | |
| 1n | Pre-appointment history: JNED 'a part of the [Company J] folklore' for having turned JMD down for a loan | JNED:388-389 |
| 2n | JNED turned down the loan as he felt JMD 'was pushing too hard' and would just be back in 5 years for more money; JMD needed 'to put in some control' | JNED:391-397 |
| 3n | JNED selected his clients 'because there is a complication'. JMD's 'ambition & the relationship he has with his 2 fellow partners' was Company J's 'something of note' | JNED:350-356 |
| 4n | JNED perceived that the previous bookkeeper was 'simply providing information' and let JMD do whatever he wanted | JNED:386-387 |
| 5n | JNED perceived his role 'to be a counter-balance to [JMD]... if [JMD] really wants it [JMD] will get it' | JNED:402-404 |
| 6n | JNED's role 'was primarily accounts with the production of management information and something else' | JNED:491-496 |
| 7n | JNED and JMD meet once a month for dinner describing these discussions '80% is work related' | JNED:359-360 |
| 8n | Perceives his role for JMD's current plan to acquire another business 'is not to say yes or no, I'm not forming a judgement'. He stressed the need for JMD to prepare a 'proper business plan presentation' | JNED:1056-1071 |
| 9n | Perceived he was an equal in Company J business 'family'; although the partners' business if advised against an action didn't 'think they would' | JNED:767-771 |
| 10n | JMD was setting his 'sights so high so many times that eventually' it will get him down as 'you can't achieve those types of ambition all the time' | JNED:694-696 |
| 11n | JNED perceived that he would be working with Company J for all of JMD's 'working life' - 20 years. | JNED:1036-1039 |

Table A17: Relationship Incidents for Dyad J

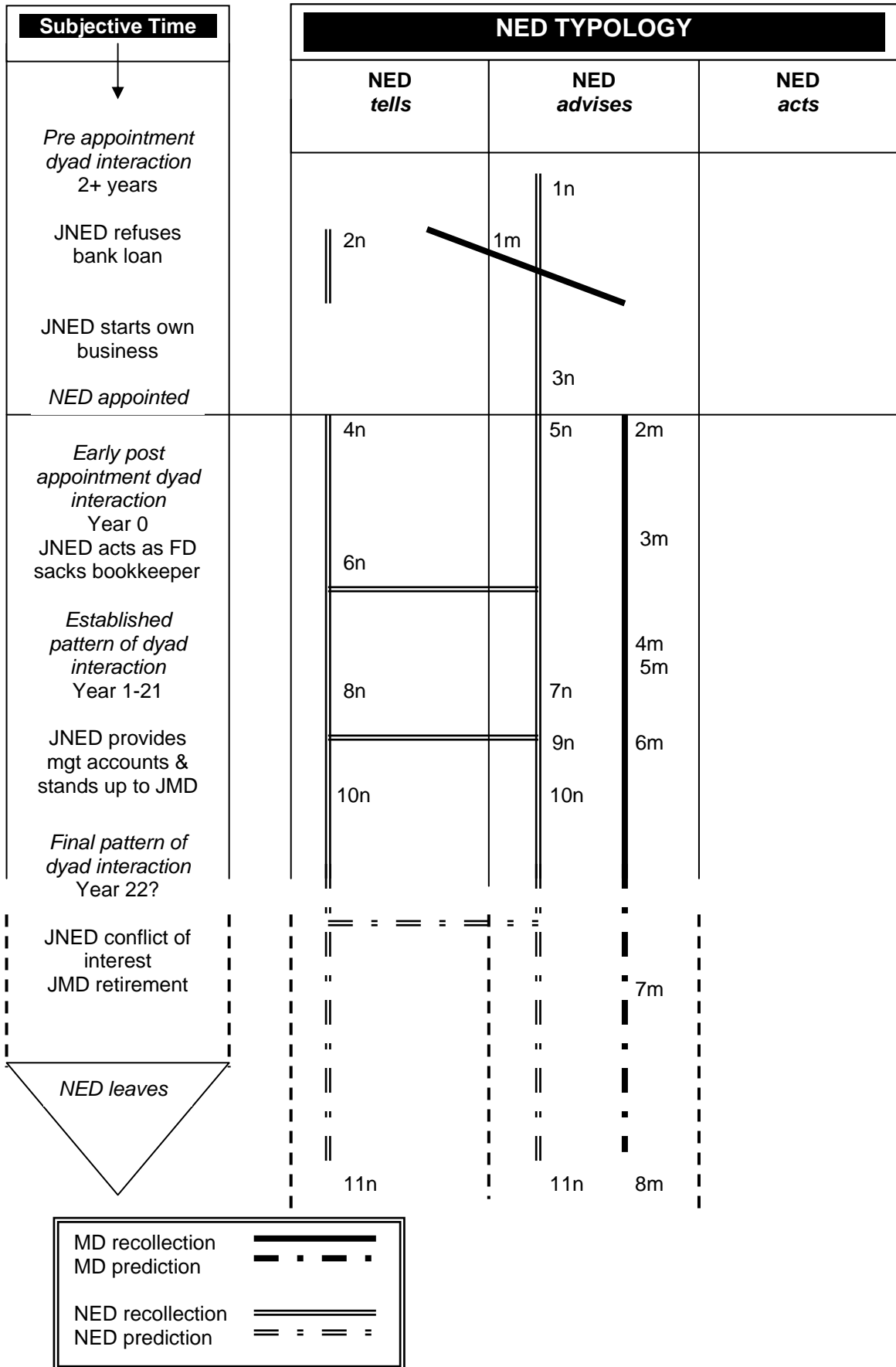


Figure A17: NED Typology Template Dyad J