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***Boardroom Cultural Governance: An Examination of the Beliefs and Values of Board Directors and Executive Management in U.S. Based Multinational Corporations (MNCs)***

BY

Marianne Graeme Fortuna

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree

Of

Executive Doctorate in Business

In the Robinson College of Business

Of

Georgia State University

GEORGIA STATE UNIVERSITY  
ROBINSON COLLEGE OF BUSINESS  
2012

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2012

## ACCEPTANCE

This dissertation was prepared under the direction of the *Marianne Fortuna's* Dissertation Committee. It has been approved and accepted by all members of that committee, and it has been accepted in partial fulfillment of the requirements for the degree of Executive Doctorate in Business in the J. Mack Robinson College of Business of Georgia State University.

H. Fenwick Huss, Dean

## DISSERTATION COMMITTEE

Dr. Karen Loch, Chair

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## ABSTRACT

### ***Boardroom Cultural Governance: An Examination of the Beliefs and Values of Board Directors and Executive Management in U.S. Based Multinational Corporations (MNCs)***

BY

*Marianne Graeme Fortuna*

*July 31, 2012*

Committee Chair: *Dr. Karen Loch*

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In the evolving global economy, boardroom governance has forged an increasing influence on what transpires in corporations today. Within the boardroom, expectations of board directors and executive management (key actors) have shifted dramatically due to the financial failures (i.e., Enron and WorldCom, etc.) and the ensuing global financial crisis in the 2000s. The belief is that these directors and managers contributed greatly to these crises (Boerner, 2011). Consequently, there is a growing appeal to study boardroom governance and the roles of board directors and executive managers, not from a structural description, but rather from a behavioral perspective. In the literature, corporate governance structural framework is well informed while the behavioral framework is lacking. Often referred to as a black box, board behavior is not well understood because board processes are not easily observed nor are researchers readily invited to do so (Barratt & Korac-Kakabadse, 2002). There is therefore a clear call for studies to examine the black box of boardroom governance (Erakovic & Overall, 2010; Lockhart, 2010; Huse et al, 2011). Recognizing this demand, an examination of the beliefs and values of the board directors and executive managers in their boardroom culture, was undertaken as the starting point to open the black box of boardroom governance.

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**I. Abstract**

In the evolving global economy, boardroom governance has forged an increasing influence on what transpires in corporations today. Within the boardroom, expectations of board directors and executive management (key actors) have shifted dramatically due to the financial failures (i.e., Enron and WorldCom, etc.) and the ensuing global financial crisis in the 2000s. The belief is that these directors and managers contributed greatly to these crises (Boerner, 2011). Consequently, there is a growing appeal to study boardroom governance and the roles of board directors and executive managers, not from a structural description, but rather from a behavioral perspective. In the literature, corporate governance structural framework is well informed while the behavioral framework is lacking. Often referred to as a black box, board behavior is not well understood because board processes are not easily observed nor are researchers readily invited to do so (Barratt & Korac-Kakabadse, 2002). There is therefore a clear call for studies to examine the black box of boardroom governance (Erakovic & Overall, 2010; Lockhart, 2010; Huse et al, 2011). Recognizing this demand, an examination of the beliefs and values of the board directors and executive managers in their boardroom culture, was undertaken as the starting point to open the black box of boardroom governance.

## **II. Introduction**

In 2000 Keohane and Nye defined governance in the general sense as “the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group” (Keohane and Nye, 2000, p. 12). Corporate governance is the mechanisms or manner by which a corporation is influenced or controlled (Tricker, 2000). In recent history, corporate governance has been the focus of publications examining the structural existence of the board and its relationship to its executive management and shareholders (Boerner, 2011). Beginning with Enron’s collapse in 2001, this boardroom governance and its key actors have been under fire for not preventing the financial failures of major corporations and the subsequent financial crises and economic downturn in the global economy. Both board directors and executive managers were scrutinized and asked to explain their part in these failures. The highest executive managers were sentenced to prison for their illegal actions borne out of their avarice and unethical behavior (Boerner, 2011). This evidence of the board’s inability to avert these crises and to perceive the illegal and unethical behavior of their executive management demonstrated a need for reform in board governance rules and regulations. The Sarbanes-Oxley Act of 2002 (SOX) introduced new governance reforms into law, emphasizing accountability through board directors’ and executive managers’ signatures on the SEC reports validating the accuracy of the financial statements as well as protocols and procedures for more rigorous auditing requirements. Realization that SOX alone would not solve all governance dilemmas occurred in 2008 with the collapse of the housing market and the ensuing financial crises which led to the economic downturn. In 2010 Congress passed a new piece of legislation, The Dodd-Frank Wall Street Reform and Consumer Protection Act to ensure that the financial crises would never happen again (Boerner, 2011). This brief summary of board governance history confirms the need to

take a more encompassing examination of not just the what of board governance, but the why and how it is accomplished. This study will delve into the literature to understand where board governance research has been focused, how the studies on organizational culture apply to board governance and finally what is in the black box of board governance using beliefs, values and inferred behaviors of the key actors to focus on a holistic view of boardroom governance.

Corporate governance and its applicable theories have provided the foundation for understanding the corporate relationships between boards, executive management and their shareholders. Berle and Means first introduced the separation of ownership and control in the largest American corporations in 1932. With the onset of shareholders in these organizations, they predicted that there would be no dominant owners and control would be retained outside of this ownership (Berle and Means, 1932). This is thought to be the first work on corporate governance although the authors never used the specific phrase. There was tremendous growth in public companies and shareholders in the early twentieth century, but it was not until forty years after Berle and Means' book that writings began to emerge addressing corporate governance (Tricker, 2000).

Corporate governance literature focuses on four structural foundations to explain the relationships of the key participants – agency theory, management theory, stakeholder theory and stewardship theory. Agency theory is the separation of corporate ownership and control defined through a principal/agent perspective (Jensen and Meckling, 1976; Fama and Jensen, 1983; Tricker, 2000). Management theory was based on executive management being the key driver in corporate operations while board directors and stakeholders were secondary to the firm success (Drucker, 1954; Byrne and Gerdes, 2005). To encourage the success of corporations long-term, stakeholder theory was developed focusing on communications with all parties holding a stake in

the business (Freeman, 1984). Donaldson and Davis (1991) proposed stewardship theory in an effort to address combining the CEO and chairman of the board role and the subsequent gained benefits. Corporate governance theories have been extensively researched for decades, but have merely provided a structural description of board governance in most publications (LeBlanc, 2003).

With the failure of board governance to prevent the financial crises of the 2000s and the subsequent call for more research into boards and their governance (Daily et al, 2003; Erakovic & Overall, 2010; Lockhart, 2010; Huse et al, 2011; and Boerner, 2011), this study will seek to construct a holistic view by researching what is in the black box of governance, citing the existing disparate literature on this subject and beginning to define the beliefs, values and inferred behaviors inside and outside of the boardroom. The goal is to give the reader a clearer, comprehensive view through the lens of board governance (see Figure 1).

**Figure 1**  
**The Present State of the Lens of Board Governance**



In contrast to the left lens of corporate governance – structure, the right lens of the black box of board governance is where the understanding of how and why the key actors inside and outside the boardroom perform the way they do will be examined. To accomplish this objective, the research question for this study asks:

**RQ: What are the defining characteristics of effective boardroom cultural governance?**

The black box of governance has its foundation in the corporate governance literature and the social science definitions of organizational culture because the boardroom and its key actors comprise their own culture. A qualitative narrative method will be used to gather the data and interpret the twenty-four interviews with twelve board directors and twelve executive managers – CEOs and CFOs who relate both positive and negative boardroom experiences.

### **III. Literature Review**

To fully understand the need for a holistic view of board governance, it is necessary to start the literature discussion at the onset of the corporate governance focus in scholarly books and articles. Berle and Means in 1932 wrote one of the earliest works introducing the concept of what would eventually be defined as corporate governance. More than seventy years later this original work was reviewed by Mizruchi who wrote that Berle and Means warned of potentially serious consequences for the democratic character of the U.S. if the rise of management control resulted in unchecked corporate power (Mizruchi, 2004) – was this a foretelling of the most recent history in the global corporate world? Social scientists disagreed with Berle and Means and wrote that the rise of management control and separation of the ownership led to a higher level of democratization of society (Mizruchi, 2004). Cheffins and Bank noted that Berle and Means original premise of separation of control (board directors and executive managers) and ownership (shareholders) in large U.S. corporations remains a good reference foundation for analyzing U.S. corporate governance today (Cheffins and Bank, 2009).

In researching corporate governance the establishment of the separate board of directors was difficult to ascertain. Research indicated that it evolved incrementally and undefined in the early 1900s. One notable decision on corporate governance was made soon after Berle and Means' book and it was the UK legal decision made in *John Shaw & Sons (Salford) Limited v Peter Shaw and John Shaw*. "A company is an entity distinct alike from its shareholders and its directors. Directors may according to its articles, exercise some of its powers; certain other powers may be reserved for the shareholders in general meeting. If powers of management are vested in the directors, they and they alone can exercise these powers. The only way in which the general body of the shareholders can control the exercise of the powers vested by the articles in

the directors is by altering their articles, or, if opportunity arises under the articles, by refusing to re-elect the directors of whose actions they disapprove. They cannot themselves usurp the powers which by the articles are vested in the directors any more than the directors can usurp the powers vested by the articles in the general body of shareholders” (Shaw & Sons, 1935, p.14). This piece of literature was the first validation of the board directors, management and shareholders relationships and their ability to influence or control a company.

In 1971 Mace asked what did directors really do, as he was unable to find any research on the role of board directors and their relationship to top management in their companies. This was the beginning of research into corporate governance thinking and what was needed to ensure shareholders’ interests were protected. Protection of shareholders’ interests is the de facto responsibility and objective of board directors and executive management. Mace continued by illustrating the early expectations of the relationship between board directors and the executive managers via an analysis of myth vs. reality extracted from interviews with boardroom directors and executive managers conducted over two and a half years. In this period board directors were believed to select the chief executive officer (CEO), determine strategy and policy for the organization and ask judicious questions at the board meetings. Mace wrote that he found these expectations to be a myth and reality was that their predecessor whom the board would then approve usually selected CEOs. Strategy was the responsibility of the executive management and not the board and discerning questions were not asked at board meetings, but rather in private outside of the board meetings (Mace, 1971).

In answer to a growing litigious society in the U.S. and the concern that board directors and other stakeholders in the firm might be held liable, the Securities and Exchange Commission (SEC) in 1972 required that directors come from outside with no relationship to the corporation



and also establish a standing audit committee (Tricker, 2000). Theoretical ideas and the framing of corporate governance began to emerge with Jensen and Meckling's work, which questioned whether the corporate concept could survive. It was also the beginning of the development of agency governance theory (Jensen and Meckling, 1976). In delving further to understand the evolution of corporate governance, Freeman and Reed in 1983 revealed that effective director behavior is preferential to legislative structural change. Corporations have obligations to the shareholders and stakeholders that are sacred and inviolable and management's actions must further the interest of the corporation and the shareholders (Freeman and Reed, 1983). During these early decades of developing theory under corporate governance, management analysis had so many differing views of what management was that researchers named it "the management theory jungle" (Koontz, 1961; 1962 and 1980).

The following decade, researchers produced seminal literature on agency and stakeholder corporate governance and addressed the relationships between the board directors, executive management and the shareholders. Fama and Jensen (1983) defined agency governance as the ability to separate management decision making from residual risk bearing control through the separation of control of decisions and management. Stakeholder corporate governance was then defined requiring managers to develop and implement processes satisfying all those who have a stake in the business. This research incorporated managing and communicating with shareholders, customers, suppliers, communities and other groups to encourage the success of the organization long-term (Freeman, 1984).

The 1990s brought an increasing interest in studies of corporate governance and the introduction of stewardship literature. Early definitions of stewardship theory were presented in Donaldson and Davis' research, which introduced the idea that the roles of CEO and chair be one

in the same to provide beneficial returns to shareholders. Empirical evidence showed an improvement in shareholder returns when this combination of roles occurred (Donaldson and Davis, 1991).

This retrospective study of corporate governance then moved to the 2000s where organizations experienced dramatic changes. Boardroom governance had been thrust to the forefront to understand what created the Enron bankruptcy in 2001 followed by large corporate scandals that defined the failure of this corporate governance (Zika, 2006). Additional influences, which impacted board and executive management roles and responsibilities, were the 2008 economic downturn and the 2011 Sony cyberspace failure. Attempts had been made to understand the board directors-executive management-shareholders relationships prior to the 2000s, but these events showed the flaws in this literature. Publications noted that early board directors were considered weak while executive management was in control and the shareholders were dispersed. Under-performing organizations created investor pressure, which in turn strengthened the boards at the expense of the management (Cadbury, 2004). Examples of these articles emphasized the composition of the board and its relation to the financial results of the corporation. Millstein and MacAvoy (1998) reported that while their results didn't prove a cause and effect relationship, they did find reinforcement for the argument that board performance in the 1990s was much better in corporations that had independent and active boards than in corporations that had non-independent and passive boards. Subsequent work (Zhang, 2007) provided a framework for board directors' and executive management changes to establish better monitoring of the corporations in order to prevent catastrophic financial failure. It was argued that close scrutiny and rigorous review by the board directors with a system of checks and balances on executive management should help the shareholders they represent avoid surprises

and alter the previous board's rubber stamping of management's recommendations (Sharpe, 2010).

In response to the concern over the state of failed corporations, gathering regulatory legislation resulted in passage of Sarbanes-Oxley Act (SOX) in 2002. In the same year Arthur Andersen, one of the big five public accounting firms and auditor for Enron closed their doors as well as the giant telecom leader MCI WorldCom, who like Enron, filed for bankruptcy due to improper corporate governance (Boerner, 2011). As SOX was being implemented, another major economic event occurred, the financial crisis of 2008-2009. In spite of the progress SOX had made in creating stringent rules and regulations over corporations and board operations, the financial services industry created events around the housing and mortgage sector that would result in the worst case of corporate governance failure in decades. This was happening simultaneous with the implementation of SOX. In January 2010 Congress passed new regulations, The Dodd-Frank Wall Street Reform and Consumer Protection Act, designed to prevent the financial crisis from ever happening again. In addition to the financial rules and regulations a new area of concern for the key players in a corporation occurred in early 2011 when Sony's cyberspace debacle happened. This presented another challenging expectation for corporations and thus far, only requires mandatory reporting compliance to prevent further incidents transpiring (Hill and Allnutt, 2011). This cyberspace risk is another piece of corporate governance that must be addressed as the roles and responsibilities of board directors and executive management expand in the coming years. An examination of extant corporate governance literature gives a structural illustration of how a corporation can define its roles and responsibilities relative to board directors, executive management and shareholders, but does not really answer what actually happens inside and outside of the boardroom.

The structural framework of boardroom governance has been adequately covered and understood in the corporate governance literature (Daily et al, 2003; Huse, 2005; Roberts et al, 2005; Lockhart, 2006; Leblanc and Schwartz, 2007; Erakovic and Overall, 2010, Huse et al, 2011), but informing the black box – what really transpires in the corporate boardroom - through behavioral studies, or the more well known theories such as agency theory and stakeholder and shareholder theories, have not delivered. To answer the question “how to prevent these financial crises”, this work focuses on what actually transpires within the boardroom culture in order to understand how and why decisions are made. Two details were immediately realized. First, behavioral elements in the success of corporate governance and its actors had been noted in past publications (Daily et al, 2003; Huse, 2005; Roberts et al, 2005; Lockhart, 2006; Leblanc and Schwartz, 2007; Erakovic and Overall, 2010, Huse et al, 2011), but limited empirical studies addressing this phenomenon exist (Gabrielsson and Huse, 2004). Boardrooms with their key actors’ beliefs, values and inferred behaviors have their own discrete organizational culture.

Culture and most notably organizational culture have been studied for years by leading social science academics like Pettigrew and Schein. Schein (1983), in one of his seminal articles, wrote that organizational culture is based on expectations that a given group of people has created, discovered, or developed in order to manage problems both internally and externally. These effective patterns of expectations are taught to new members as the appropriate way to perceive, think, and feel in relation to those problems.

More than ten years after this seminal piece on organizational culture, Schein (1996) referred to culture as the missing concept. He noted that culture with its shared assumptions, values and beliefs needs to be observed not measured. In order to advance in the study of organizational culture, Schein felt that research must be based on real behavior in real

organizations that can be linked to concerns of practitioners who are resolving real organization problems.

Denison and Mishra (1995) presented a theoretical model of organizational culture traits to demonstrate the complexity of an organizational culture. See Table 1:

**Table 1**  
**Theoretical Model of Culture Traits**

<b>External Orientation</b>	<b>Adaptability</b>	<b>Mission</b>
<b>Internal Integration</b>	<b>Involvement</b>	<b>Consistency</b>
	<b>Change &amp; Flexibility</b>	<b>Stability &amp; Direction</b>

**(Denison and Mishra, 1995)**

The four different cultural traits were incorporated in this framework developed by Denison and his colleagues (Denison, 1984, 1990; Denison and Mishra, 1995). Reviews of the four quadrants (Denison, 1996; Denison and Mishra, 1998; Denison and Neale, 1996; and Denison et al, 2002) in Table 1 provide insight into combinations of these traits contrasting and competing to provide results. For example, corporate profitability is indicated when research results are high in mission and consistency in contrast to innovation found when research results are high in adaptability and mission. Schein’s beliefs and assumptions in his organizational culture definition provide the qualitative center of Denison et al’s model of organizational culture. Fey and Dennison (2003) noted that this center is difficult to generalize and hard to measure, however the beliefs and assumptions can be observed in organizational culture practices and are core to the key traits in Table 1. This empirical study begins at the center of the model of organizational culture with the underlying belief that the boardroom has its own

culture.

With Schein's cultural definitions in the literature, Denison's organizational culture model and the well-defined and understood corporate governance structure, the study now shifts to what already exists in the literature regarding the black box of governance. Within the scholarly community there is an outcry for development of theories based on culture, process and behavior around corporate governance (Daily et al, 2003). Many articles addressed the lack of research in this area and proposed possible approaches to communicate the message that studies are needed to advance the knowledge of the black box of corporate governance (Daily et al, 2003; Leblanc and Gillies, 2003; Huse, 2005; Erakovic and Overall, 2010; Lockhart, 2010; and Huse et al, 2011). Daily et al (2003) called for new models of corporate governance and theoretical perspectives to steer researchers into beneficial areas of study. Daily et al (2003) noted that there was a reason why researchers encounter barriers to process-oriented corporate governance data. Accessibility to the board directors and executive management is extremely difficult due to the need for cooperation from these key actors who are not comfortable openly on the record for fear of law suits from shareholders. Leblanc and Schwartz (2007) devoted an entire article on how to gain access to the boardroom to study the black box of board process. Daily et al (2003) emphasized this idea by noting that researchers in corporate governance have a unique opportunity to influence the practice of boardroom governance through literature published integrating theory with empirical studies they hoped to entice researchers to embrace the corporate governance body of work - board oversight, shareholder activism, and governing firms in crisis.

Gabrielsson and Huse (2004) reviewed 127 empirical studies about boards found in six main scientific journals. The results are represented in Table 2 below:

**Table 2**  
**Clusters of Empirical Board Research Based**  
**on Issues, Theories and Method**

<b>Focus on</b> <b>Context</b>  <b>↑</b>	<b>Contextual Studies</b> 10% of empirical studies Accountability and the identity of board members	<b>Evolutionary Dynamics</b> 2% of empirical studies Power and dynamics outside and inside the boardroom
	<b>Input-Output Studies</b> 78% of empirical studies "Away from what we already know"	<b>Behavioral Studies</b> 10% of empirical studies Board leadership and the board as a team
	<b>→</b>	<b>Focus on Behavior</b>

(Huse et al, 2011)

*Input-output studies* in the lower left quadrant are described as black box studies that utilize easily available data and standardized methods. In 2003 Finkelstein and Mooney described this input–output model as a way to examine the relationships between the ‘usual suspects’ and the financial performance of a corporation. The ‘usual suspects’ were defined as corporate governance demographic characteristics such as the insider/outsider ratio, size and composition of the board, and CEO duality, etc. (Finkelstein and Mooney, 2003). Ease of accessibility to archival data and its quantitative validation has made these studies the preferred choice of researchers (Huse, 2005). This research represented 78% of the empirical studies from six prominent U.S. and European academic journals from 1990-2002. The *contextual studies* focused on the influence of the organization’s surrounding context and its impact on the relative power of the board and governance. Data was collected from analyses of archival data, content analysis of media sources, surveys and interviews. Conclusions from these studies were that corporate governance decisions are influenced by the organization’s internal and external context. *Behavioral studies* in the lower right quadrant made up 10% of the empirical studies.

These studies explored relationships inside and outside of the boardroom along with the actors, processes and decision-making. The majority of the data collection was done through survey questionnaires that focused on internal relationships within the boardroom, board composition and firm performance. The final *evolutionary dynamic studies* group represented only 2% of empirical studies. Overarching theory used in all these studies was agency theory (54%), resource dependency theory (17%), social network theory (13%) and for the remainder no clearly articulated theory (Gabrielsson and Huse, 2004). The conclusion reached was that most of the empirical studies treat the actual work of the board as a black box. A second finding is that board of director's behaviors can be inferred from their demographic characteristics according to these studies. Future research should focus on relationships, abilities and motivations of the key actors and not just rely on proxies of actual board behavior and standard statistical techniques. The black box of boardroom governance is still relatively unexplored. However, findings in these empirical studies with the right approach would add significantly to our knowledge of effective boards and governance (Gabrielsson and Huse, 2004).

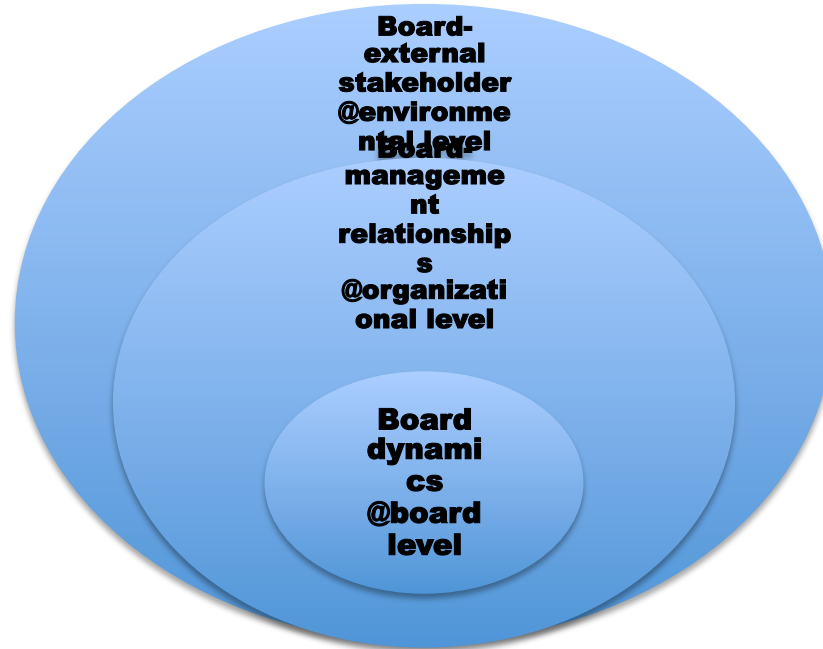
In 2005, Huse asserted, "The consistent use of a terminology, the accumulation of knowledge and an accepted research agenda among a core group of scholars are some of the first steps in developing a promising research field with considerable potential to create actionable knowledge. The framework can help us sort some of the research, concepts and anecdotes that have been presented in efforts to open the black box of board research" (Huse, 2005, p. S65).

Gabrielsson and Huse's insights supported the concept of a qualitative narrative study utilizing open-ended, directed conversations with the actual board directors and executive managers to ascertain their first-hand relationship experiences as well as their motivations and abilities that influence and control their board- and firm- outcomes. Huse et al (2011) repeated



the call for black box research by stating that these clusters are not producing the studies reflecting the importance of the boardroom processes, the boardroom research agenda needs to be challenged and “venturesome tools” may be required. These tools could include workshops, symposiums and doctoral courses to stimulate research in this area; new journals and special issues to inspire research; and conferences or meetings to encourage researchers to continue to explore this area.

As noted in Gabrielsson’s and Huse’s (2004), agency theory has served as a common theory base for research on corporate governance. The related empirical studies using agency theory yielded ambiguous and confusing results, which inspired calls for new alternatives to board and corporate governance research (Daily et al, 2003; Gabrielsson and Huse, 2004; Davis, 2005; Hambrick et al, 2008; van Ees et al, 2009). These appeals have generated numerous articles expressing the necessity for studies that define behavioral processes and dynamics inside and outside the boardroom for clearer understanding of what is effective governance (e.g., Huse, 1998; Zajac and Westphal, 1998; Forbes and Milliken, 1999; McNulty and Pettigrew, 1999; Westphal 1999; Westphal, Seidel and Stewart, 2001; Huse, 2005; Leblanc and Schwartz, 2007). One notable attempt to open the black box and answer these calls for boardroom behavioral process research was a study of three New Zealand companies (Erakovic & Overall, 2010). In this study, Erakovic & Overall argued that there are three distinct relationships that to good governance practice. These relationships and their levels are: board dynamics at the board level; board-management relationships at the organizational level, and board-external stakeholder at the environmental level (see Figure 2). Erakovic and Overall (2010) not only demonstrated a strong conformance to a contingency approach in strategy-making processes based on the board-management relationship, but helped contribute to behavioral board research.



**Figure 2**  
**Three Major Groups of Governance Relationships**  
 (Erakovic & Overall, 2010)

In 2005, Roberts et al presented a framework to address behavioral processes and board of director effects through accountability, which Huse supported as a way to accumulate knowledge and promote a behavioral perspective research agenda on corporate governance (Roberts et al, 2005; Huse, 2005). Pye and Pettigrew in 2005 stated that there is a need to understand real board dynamics within the frameworks of context, process and time (Pye and Pettigrew, 2005). Hambrick et al (2008) complemented the aforementioned articles with new directions to take in corporate governance research. They provided a matrix to address what has been accomplished to date and what still needs to be researched in the future. See the replica of their matrix in Table 3.

**Table 3**  
**Perspectives on Corporate Governance**

	<b>Formal Structure</b>	<b>Behavioral Structure</b>	<b>Behavioral Process</b>
<b>Organization</b> ↓ <b>Inward</b>	<b>Economics</b> Designing optimal incentive and monitoring structures	<b>Power</b> Showing how positions affect power/politics within organizations	<b>Social Psychology</b> Revealing how decision-making processes may be biased
<b>Organization</b> ↓ <b>Outward</b>	<b>Legal</b> Creating an enforcing governance rules and regulations for societal benefits	<b>Social Networks</b> Showing how power & information flow in interorganizational networks	<b>Symbolic Management</b> Understanding how symbols & language can address normative compliance with societal norms & values

(Hambrick et al, 2008)

Hambrick et al (2008) suggest that the formal structure quadrants have been sufficiently researched especially by legal and economic scholars and it is the remaining four quadrants that could benefit from a similar level of research. Providing a cohesive research framework and consistent use of terminology (Huse, 2005) as well as revealing what happens in the black box of governance would land squarely in the four right quadrants as they are defined.

Further literature review validated the idea that the time has come to examine the boardroom cultures and their key actors under a cohesive research framework to complement and organize this diverse body of work. The need for this research is made clear by Huse et al as they noted that research tradition has focused on the independence of the board as the main criteria while the actual culture of the board has lacked meaningful focus and in fact is thought to be this black box (Daily et al, 2003; Gabrielsson and Huse, 2004; Hambrick et al, 2008; Huse et al, 2011). This research includes some empirical studies that enter the boardroom or examine boardroom decision-making with a predominant focus on failures. Some of these failures mentioned included Air New Zealand's bailout by Singapore Airlines and its regional subsidiary Ansett Airlines' financial collapse, but more germane to this study was the examination of the

Enron collapse (Ghoshal, 2005; Lockhart and Taitoko, 2005; Lockhart, 2010). What they all had in common was the belief that their boardroom governance failed due to lack of performance by their board directors and executive management in protecting their primary focus – safeguarding shareholders interests. Very few large qualitative studies exist, but those that do have been well received by both academics and practitioners (Lockhart, 2010). This qualitative research will focus on the role of these key actors inside and outside the boardroom and their experiences, both positive and negative to begin to understand the contents of what has been heretofore referred to as black box of corporate governance (Erakovic & Overall, 2010; Lockhart, 2010; Huse et al, 2011).

## **IV. Theories as Background for the Study**

### **Corporate Governance Theories**

There are a number of theories that have dealt with the issue of corporate governance. We will cover these not so much as a framework for theory-testing but holistically, as a means of indicating how previous research has viewed the role of governance and the key players within it. The theory discussion will begin as the literature review began with the historical perspective of boardroom governance - corporate governance theories. Corporate governance is defined as: “a set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities, or the system by which companies are directed and controlled” (Cadbury Committee, 1992). There are four well-known theories that have served as the theoretical base for research on corporate governance: agency, management, stakeholder and stewardship. Each brings a different structural approach to governance explaining how and why a corporation should be managed.

The most popular, agency theory is defined by the agency relationship in which the agent has certain obligations to be completed for the principal in their economic relationship (Fama and Jensen, 1983). There is a contract between the principal and the agent and the corporation is the holder of the contracts between principals and agents (Shankman, 1999). When visualizing agency theory for business with the shareholders being the principals and the executive management the agents, the board directors are the intermediaries who direct and control how resources will be allocated. Figure 3 is a visual representation of agency theory that presents the relationship between each of the actors in this theory.

**Figure 3**  
**Agency Theory**

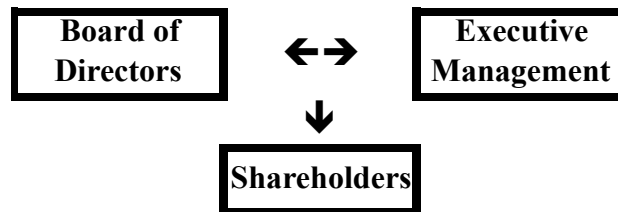


Selection of the right governance mechanisms between the principal and the agents to warrant an effective alignment of principal and agent interests is the main focus of agency theory. The objective of these mechanisms is to ensure that the agents will serve the principals' interests and in turn minimizes agency costs (Shankman, 1999). Agency costs depend on legislative rules and regulations as well as human ingenuity in devising contracts. The historical process as well as the sophistication of contracts relevant to the modern corporation includes material incentives to minimize agency costs coming to the conclusion that agency theory has its shortcomings (Jensen and Meckling, 1976). "Overall, the domain of agency theory are relationships that mirror the basic agency structure of a principal and an agent who are engaged in cooperative behaviour, but have differing goals and attitudes toward risk" (Eisenhardt, 1989, p. 59). These articles that included the need to study the behavioral processes led to the 54% of empirical studies performed from 1990-2002 citing agency theory as the basis of their research (Gabrielsson and Huse, 2004). These agency theory based studies (see Table 2) had encountered heavy criticism due to the constructs used because they had been unable to provide conclusive evidence to support hypotheses and in fact, some studies actually contained contradictory findings (Daily et al, 2003). They went on to raise the question why agency theory continues to be the dominant corporate governance theory in academic research despite the lack of both face validity and empirical support. Ghoshal (2005) emphasized his incredulity that regulators and corporations

that had conformed to the corporate governance agency practice found in Enron continue to rely on this agency framework to define boardroom governance. He noted that Enron had a board loaded with high-profile independent directors who also chaired their most important committees, separated the chairman and chief executive roles, awarded substantial stock options to its executive managers, and operated in the U.S. economy with the most advanced market for corporate control yet their boardroom governance failed. His belief is that the honest answer is that the math does not exist and therefore alternative theories to agency theory cannot be elegantly modeled. Without these scientific, testable hypotheses or simple, reductionist instructions, epistemology could not be protected (Ghoshal, 2005). This inconclusive body of theoretical research left practitioners uninspired and researchers unmotivated. These perceptive academics believed that the status quo was not seizing the full potential of board governance as a field of research (Erakovic & Overall, 2010).

Management theory (Drucker, 1954) has been frequently used as well when studying corporate governance. Almost thirty years later Koontz (1980) noted that the distinct approaches to management theory had gone from six theories in 1961 to eleven theories in 1980 concluding that there may be movement toward a unified and practical theory of management. Over time, there have been numerous approaches to what constitutes management theory (Drucker, 1954, 1998; Koontz, 1961, 1962; Donaldson, 1990; and Letza et al, 2008). The definition represented here in Figure 4 was extracted from Koontz (1980), Donaldson (1990), and Letza et al (2008).

**Figure 4  
Management Theory**

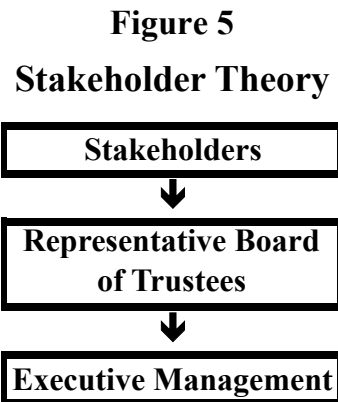


Executive management is the accountable group because of their daily knowledge and expertise within the firm. Shareholders and board directors are not able to garner this experience and expertise because they do not participate on a regular basis. For the most effective firm performance, management theory relies on executive management sharing their organizational knowledge and expertise with board directors and shareholders in a balanced corporate board governance structure. This theory was popular before the 2000s' scandals that made corporations aware that this structure allows unethical executive managers to go unchecked and as a result defraud all the stakeholders. Hunt (2010) summarized the impact of the unethical managers in her article praising Drucker as a leader teaching and demonstrating the power of ethical leadership. She continued by saying that the world needs these type of leaders who transcend individual materialism, corporate selfishness, and the seduction of power. In 1998 Drucker foresaw this eventuality when he wrote in an essay that management theory had outlived their time and put the teaching and practices at odds with what was actually happening rendering it counterproductive. From this comment, Drucker in 1998 had an insight into what the future would hold.

A third theory frequently used in corporate governance studies is stakeholder theory. Stakeholder theory defines stakeholders as key actors essential to the very existence of an organization through their support. These stakeholders have the ability to withdraw at any point, which could cause the organization to fail (Freeman and Reed, 1983). Stakeholder theory



explains that different stakeholders are involved in corporate decisions, including the board, and that managers must trade these off for maximum effectiveness. After all, these different constituencies have differing goals. Figure 5 is a visual picture of this theory:

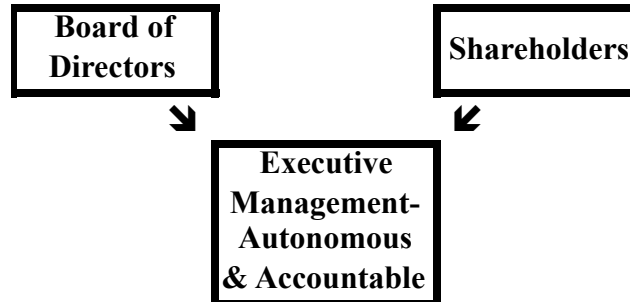


In 1983, Freeman and Reed introduced the idea of a stakeholder into corporate governance. A stakeholder was defined as a group that was essential to the corporation's very existence. Without these stakeholders the corporation would cease to exist. They created a list of stakeholders, which included equity owners, economic partners and influencers (Freeman and Reed, 1983). In 1984, Freeman introduced stakeholder theory as a counterpoint to corporations managing only to shareholders' interests. He felt that shareholders were too limited in its definition of the groups impacted and stakeholders were more inclusive (Freeman, 2010). Yet Stieb (2009) wrote that the difficulties with stakeholder theory are how to define who is a stakeholder and how to make decisions when so many stakeholders are represented.

The final corporate governance structural theory is stewardship theory. Man is a steward in this theory whose behavior reflects a collaborative rather than individualistic performance. Given opportunities to indulge a self-serving approach, the steward will choose to not depart from the interests of his or her organization. Stewards will not substitute or trade individualistic behaviors for cooperative behaviors (Davis et al, 1997). In Figure 6 the illustration of this theory shows this sense of cooperation between the board directors and

executive management – here they govern as a collaborative team.

**Figure 6**  
**Stewardship Theory**



Donaldson & Davis advocated stewardship theory to define relationships based upon other behavioral premises (Donaldson & Davis, 1989, 1991). They believed that stewardship theory includes situations in which executive managers are not motivated by self-interest, but serve as stewards whose motives are in line with the objectives of their shareholders. This theoretical approach was introduced as an alternative model to agency theory and was derived from sociological and psychological traditions (Davis et al, 1997).

### **Organizational Culture Theories**

In shifting from the corporate governance literature and beginning the research into the boardroom organizational culture, the social sciences and their extensive studies of culture and especially organizational culture theory are also of import. Pettigrew (1979) first introduced the concept of organizational culture in very basic terms stating that culture is a system for a given group at a given time of publicly and collectively accepted meanings. He went on to explain that organizational culture has at its core a variety of concepts that inform this phenomenon: symbols, language, ideology, beliefs, rituals and myths. For boardroom cultures, one might expect the same where the board directors and executive managers within this context would bring their ideology and beliefs from their own experiences and through symbols, ideology, beliefs, and

language, as example, share and develop their combined culture. Language would be a key component according to Pettigrew because it can characterize, stabilize and integrate experiences in a meaningful way in creating the combined culture. Language can also create certain effects both positive and negative – for example, differing ideologies and beliefs can encourage action through words which in turn impact the organizational culture (Pettigrew, 1979). Schein (1983), in his seminal work, continued the definition of organizational culture thanking Pettigrew for his input. His article emphasized the role of the founder of the organization and his impact on the culture that is created. Relevant to this boardroom governance study is not the role of the founder, but Schein's exacting definition of what comprises an organizational culture. Schein (1983) wrote that culture is not what we observe on a visit to the office like décor and overt behavior, but instead is the underlying values and behavior patterns.

In 1984 Denison began to explore theories based on organizational corporate culture and its impact to the bottom line. His work evolved into a model of organizational culture that can be measured through survey questions encapsulating cultural managerial styles from different organizations and Standard & Poor's financial ratios indicating their respective performance. Denison noted that some scholars believe that culture must be sensed rather than measured, but relied on an established research technique – the survey index. His results showed that the cultural and behavioral characteristics of organizations have a performance effect that can be measured (Denison, 1984). This research also gave a well-defined visualization of the potential that is present for monitoring and assessing cultural and behavioral aspects of organizations. As mentioned in the literature review section, Denison and Mishra selected an inductive, theory building approach combined with deductive, quantitative research to test and validate an organizational culture and effectiveness theory. Grounded theory and exploratory tests revealed

their theoretical model of culture traits, which included adaptability, involvement, mission and consistency (see Table 1). Culture researchers' basic premise that an organization's culture has a valuable influence on financial performance was validated in their research (Denison and Mishra, 1995).

In the past attempting to explain the behavioral side of governance using corporate governance structure as the foundational theory had been unsuccessful in moving the black box of board governance research forward. It was time to define this concept drawing on organizational culture and governance literature.

The purpose of this study is to therefore shift the emphasis of boardroom governance research and studies from a structural approach to corporate governance in contrast to a behavioral or relational, cultural approach (see Figure 7).

**Figure 7**  
**The Holistic View through Board Governance Lens**



For the purposes of this study, boardroom cultural governance is defined as the beliefs, values and inferred behaviors of the key actors both inside and outside of the boardroom that influence and control the organization. This meaning finds its roots in the fusion of the definitions of culture (Pettigrew, 1979; Schein, 1983) and governance (Keohane and Nye, 2000; Tricker, 2000) in order to embrace the entire contents of the black box of governance. This

definition will provide the cohesive research framework needed to label the body of knowledge that has been and will be written on what happens within the board culture and the ultimate effect it has on the performance of the organization. These board directors and executive managers will bring their ideology and beliefs from their own experiences and through language share and develop their combined culture, which allows them to influence and control their organization. These documented intrinsic beliefs, values and inferred behaviors from the interviews will reside squarely in the evolutionary dynamics quadrant of Gabrielsson and Huse's empirical studies chart (see Table 2). Like corporate governance's structural theories – agency, management, stakeholder and stewardship, boardroom cultural governance could begin to generate its own theories based on beliefs, values and inferred behaviors of the key actors inside and outside of the boardroom that influence and control the organization. Schein (1996) wrote that his insights into a phenomenon are gained only over extended time immersed in the subject in order to understand what is really there. He continued that theories are weak because they have not practiced the phenomenon enough. The literature review revealed how long boardroom cultural governance (the black box) studies have been researched and practiced. More empirical studies and practice will be needed to validate findings in order to provide a sustainable boardroom cultural governance theoretical framework. The research around behavioral beliefs, values and inferred behaviors in boardroom cultural governance studies may be challenging and difficult to attain due to empirical data accessibility constraints, cooperation disincentives and conflicting alliances to corporate governance, but this theoretical framing has substantial implications for the academic community as well as the practical global corporate community. The participants' expertise and experience are grounded in the practitioner concerns and their growth-oriented narrations help solve real boardroom challenges. So much knowledge will be

gained by researching at the source of the beliefs, values and inferred behaviors of the key actors inside and outside of the boardroom that influence and control the organizations (Daily et al, 2003; Huse, 2005; Roberts et al, 2005; Lockhart, 2006; Leblanc and Schwartz, 2007; Erakovic and Overall, 2010, Huse et al, 2011).

## **V. Research Methodology**

In order to make sense of the boardroom governance historical sequence and give meaning to the current boardroom culture, a qualitative, narrative research method was used (Myers, 2009). As indicated in the literature review and theoretical background material, past research has not been unified in how to conceptualize the most effective roles and relationships among board members. Nor has this work adequately captured the characteristics of effective board members. This study seeks to remedy this research gap by using a qualitative, exploratory approach. Narratives are described as a way to relate experiences that give meaning to lives in the past, present and future (McKenna, 2007). Narratives illustrate significant events in the life of an organization. These stories can provide a common way of presenting data about organizational cultures and making sense of what happens within the organization (Myers, 2009). In order to establish the narrative, steps from Golden-Biddle and Locke were used to define the storyline:

1. Articulate the significance of the study – The black box of boardroom governance will be researched to examine the beliefs and values of board directors and executive management inside and outside the boardroom and their reported behaviors and to being to establish a theoretical framing for boardroom cultural governance.
2. Situate study in literature – Research was completed in the business corporate governance literature as well as the social sciences organizational culture literature. An historical retrospective of what has been written established the need to focus on the boardroom cultural governance body of work in order to begin to understand how and why events occur (Erakovic and Overall, 2010; Boerner, 2011).
3. Problematize literature in order to make space for the contribution from the study –

The boardroom governance literature had focused predominantly on corporate governance and its applicable theories from the 1970s to 2000, but this body of knowledge did not contribute to the prevention of the financial failures and crises of the 2000s. Therefore a need exists for the boardroom cultural governance studies to explain the how and why these failures occurred through definitions of the beliefs, values and inferred behaviors of key actors involved in the boardroom (Boerner, 2011). “If the primary role of governance is to ensure that management continuously strives for exemplary performance, then it is time the research community contributed more effectively to that debate. Remaining silent, or supporting the dominant board structure and form recommendation through the promulgation of weak or bad theory, is a pursuit of little real value” (Lockhart, 2010). Room for the introduction and framing of the theoretical construct – boardroom cultural governance exists.

4. Predict how the present study will address this problematization – This study will add to the boardroom governance literature by establishing and defining boardroom cultural governance as a cohesive research framework to be examined and reexamined to add knowledge to this field. It will embrace the how and why events occur in boardrooms and organizations by understanding what beliefs, values and inferred behaviors of these key actors divulge and describe in their historical experiences. These actors that are the final decision makers will inform the behaviors found in boardrooms (Golden-Biddle and Locke, 2007).

To inform the narrative storyline, interviews were conducted to obtain open-ended, directed conversation that explored the participant’s first-hand in-depth knowledge and experience in the boardroom. Three sampling strategies from qualitative inquiry were used to select interview



candidates – theory based, stratified purposeful followed by snowball or chain sampling (Miles and Huberman, 1994). Theory based sampling is defined as introducing a theory based construct which is boardroom cultural governance and elaborating and framing this construct through inquiry. Stratified purposeful sampling is selection of subgroups, which are board directors and executive managers in this study. These subgroups will allow for comparisons of their beliefs, values and inferred behaviors in their experiences. Once the process of sampling began with theory based and stratified purposeful sampling it was necessary to also include snowball or chain sampling. This strategy uses the people who know people method which helps produce the growth in numbers of participants based on identifying other excellent interviewees who are aware of their colleagues and counterparts that will bring relevant, rich information to the study (Patton, 1990; Kuzel, 1992). With thirty years of corporate experience a network of colleagues had been fostered that provided access to exceptional interviewees at the highest levels in U.S. based MNCs. These participants were given an explanation of the research and what they could bring to the richness of the data. They immediately agreed and often offered names of others who would add to this richness. The sampling strategies used in selection of the participants' yielded representative research for their industries and corporations through the board directors' and executive management's expertise and experience. Twenty-four participants were interviewed including twelve board directors and twelve executive managers (CEOs and CFOs predominantly) from top tier U.S. based MNCs. The selection of the CEOs and CFOs was due to the fact that they hold the majority of the corporate information, interact regularly with board directors and are required to sign off on the financial statements (Boerner, 2011). The

participants represent sixty-one corporations in cross multiple industries. Tables 4 and 5 present the participant demographics and the corporate demographics of the sample interviewed (Appendix B for more detail):

**Table 4**  
**Participant Demographics**

	Men	Women
<b>Total</b>	17	7
<b>Directors</b>	8	4
<b>Executive Management</b>	9	3
<b>Age Range</b>	47-77	52-63

**Table 5**  
**Corporate Demographics**  
(in billions)

Corporations	Number	Average Net Income	Average Total Assets
<b>Fortune 500</b>	31	\$3.10	\$72.00
<b>Fortune 1000</b>	12	\$0.30	\$7.80
<b>Other</b>	18	\$0.02	\$1.80
<b>Total</b>	61		
<b>Industries Represented</b>	22		
<b>Report to the SEC</b>	61		

In order to examine the beliefs and values of the board directors and executive managers in their U.S. based MNCs, each participant was asked to relate growth-oriented experiences to draw on their historical perspective of what occurred during the decision process inside and outside the boardroom. The reasoning behind the growth-oriented experiences was to understand not only what occurred in the process of making such a strategic profit-enhancing decision for their organization, but also how and why this idea was initiated, ruminated and approved or rejected. To the participants, positive growth-oriented experiences usually included

mergers and acquisitions, new product launches, new strategic directions, etc. while negative growth-oriented experiences included the failures of the positive experiences as well as bankruptcies, unethical behavior injurious to the corporation, purposeful stalemates in major strategic decisions, etc. These examples of positive and negative scenarios were extracted from actual narratives given by the participants.

Included in the interview script (Appendix D and E) were the following requests:

1. Tell me about a growth-oriented decision that was made by your board starting at the beginning with the proposal through the disposition (approval or rejection) and how the decision was made.
2. Now tell me about another experience with a growth-oriented decision that had a different outcome from your first story. Again start from the beginning through the conclusion and how the decision was made.

Participants were given the opportunity to first choose a positive or negative experience followed in the second request with the opposite of what they described in their first narrative. Most participants began with positive experiences, however several started with negative experiences because they were freshest in their memory.

Times permitting potential scenarios within the same context of the questions above were presented to elicit boardroom cultural governance stories for additional growth-oriented decisions. Suggested scenarios presented were:

1. A presentation has been made to your board of directors by the executive management introducing a new potential product with a very low gross profit margin. You feel it does not make good business sense, but the majority of the board feels it should be adopted. What would you do in this situation?

2. A major strategic change in direction for your company was discussed at the last board of directors' meeting. A vote will be taken at the next board meeting. You receive a phone call from one of your board members prior to the second meeting wanting you to vote their way with which you disagree. What would you do in this situation?
3. Your CEO or Chairman of the Board are responsible for declining profits and in turn share price. There is a need to change directions and replace the CEO or the Chairman of the Board. How would your board handle this situation?

The interview results were a description of what had happened in their positive or negative growth-oriented scenarios as they experienced them including financial implications. During the summation questions, each participant was asked to describe boardroom cultural governance in their own words.

The interviews were conducted by phone and Skype and lasted forty-five minutes to a one-hour. Skype provides a recording device that created an electronic file that was immediately submitted to a transcriber and upon its return the transcript was coded. A coding schematic (Appendix F) was prepared in NVivo and all interviews were coded into the system. "Codes are tags or labels for assigning the units of meaning to the descriptive or inferential information compiled during a study" (Miles & Huberman, 1994, p. 56). The coding system for this study used both descriptive and interpretive codes to identify words and text at varying levels of complexity. Analysis of the coding was done in a two-step process described as descriptive to inferential. The descriptive and interpretive codes were tabulated followed later in the process by inferential coding documented through notes in the margins of the transcripts (Miles & Huberman, 1994). The analysis of this two-step process coding is found in the results section of this study. The coding tabulation and interpretation are presented in Table 6:

**Table 6**  
**Tabulation of Coded Responses**

<b>Codes</b>	<b>Individual Beliefs, Values &amp; Inferred Behaviors</b>	<b>Responses</b>	<b>Codes</b>	<b>Group Beliefs, Values &amp; Inferred Behaviors</b>	<b>Responses</b>
1.1	Gender	3	3.11	Cosmetic Diversity	7
1.2	Experience	11	3.12	Cognitive Diversity	15
1.3	Character	8	3.13	Good Ole Boys Network	5
1.31	Value Proposition	6	3.14	"Yes" Men/Women	4
1.32	Moral Courage	4	3.21	Bullying	8
1.33	Ethical/Unethical	5	3.22	Groupthink	2
1.41	Contributor	1	3.23	Proactive Participation	2
1.42	Mediator	0	3.24	Non-participating	6
1.43	Arbitrator	0	3.25	Cohesive/Collegial	12
1.44	Mentor	0	4.1	Collaborative	16
1.45	Incapable of Contributing	1	4.2	Combative	8
1.5	Accountability	9	4.3	Dysfunctional	6
2.1	Gender	0	4.4	Respectful/Disrespectful	5
2.2	Experience	10			
2.3	Character	7			
2.31	Value Proposition	7			
2.32	Moral Courage	6			
2.33	Ethical/Unethical	6			
2.41	Contributor	2			
2.42	Mediator	0			
2.43	Arbitrator	0			
2.44	Mentor	0			
2.45	Incapable of Contributing	0			
2.5	Accountability	11			

In this data coding of the interviews, there exists a reliability concern. "...reliability is an issue of measurement *within* a construct. The concern is that instrument items selected for a given construct could be, taken together, error-prone operationalizations of that construct" (Straub et al, 2004, p. 399). In 1994 Miles and Huberman explained that reliability of the data might be influenced by bias. Three typical bias concerns were listed:

- “1. *The holistic fallacy*: interpreting events as more patterned and congruent than they really are, lopping off the many loose ends of which social life is made
2. *elite bias*: overweighting data from articulate, well-informed, usually high-status

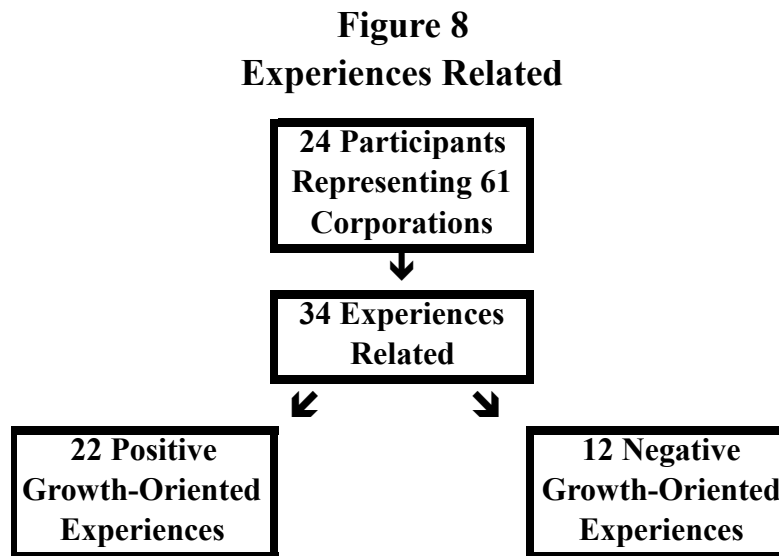
informants and underrepresenting data from less articulate, lower-status ones

3. *going native*: losing your perspective or your “bracketing” ability, being co-opted into the perceptions and explanations of local informants” (Miles and Huberman, 1994, p. 263).

The applicable test for confirmation of reliability is described as inter-rater or inter-coder reliability and uses Cohen’s coefficient Kappa as the most widely used measure (Straub et al, 2004). In this study to ensure inter-rater reliability, two academic raters were chosen and trained how to code using the coding schematic. These academics were then given two interview transcriptions and asked to code them accordingly. Their coding results were tabulated and placed into SPSS predictive analytics software resulting in a .838 value (Appendix C) which exceeds the mandatory validity of coefficient Kappa  $> .70$  (Landis and Koch, 1977; Miles and Huberman, 1994; and Straub et al, 2004). The conclusive Cohen’s coefficient Kappa value confirmed the measure of agreement and reliability of the interview coding and landed in the almost perfect category in the strength of agreement standards (Appendix C) (Landis and Koch, 1977).

## **VI. Results**

Results from the twenty-four interviews with board directors and executive managers generated twenty-two positive and twelve negative growth-oriented experiences. Not all of these key actors reported positive and negative experiences – in fact, half did not have any negative experiences and only two had negative experiences to relate. Many of the interviewees also provided insights into the boardroom cultural governance impacts on the corporation’s performance. See Figure 8 below for a summary of experiences shared:



First, to understand the findings around boardroom cultural governance, it is beneficial to hear the board directors’ and executive managers’ explanation of their job descriptions, responsibilities and interpretations of what others expect of them. Remembering that boardroom cultural governance is defined as the beliefs, values and inferred behaviors of the key actors both inside and outside of the boardroom that influence and control the organization, these job descriptions set the foundations on which the key actors can begin to define their beliefs, values and inferred behaviors. They also provide an inside view of what drives these board directors and executive managers in their roles in the organization. Examples of what the board directors’

believe are their job descriptions are to speak for the shareholders and to enhance shareholder value; to do the right thing; to provide oversight of the management team while not micromanaging them; to have confidence enough to express their point of view in spite of disagreement with that view; to be accountable for the results of the company; and in spite of personal liability risk to help drive the organization in the right direction. The general understanding of these board directors is that their main objective is to protect and enhance shareholder value (Mace, 1971) by doing the right thing. In their interviews the directors emphasized how important it is to be accountable and answerable for all their decisions made as a board or as a partner to executive management.

Next are the job descriptions, responsibilities and interpretations of what others expect from them as revealed by executive managers themselves. Examples of what the executive managers believe are their job descriptions are to never forget the board is his or her boss; to create the plan and have the board approve the plan as the CEO is the head of the company and not of the board; to head company operations and put controls in place; to develop strategic ideas and manage strategic issues; and to be part of a complete management team that includes the board. The executive manager's personal insight reinforced the importance of working together as partners who challenge and support each other in the pursuit of enhancing shareholder value.

After learning what the board directors and executive managers expressed as their personal assessment of their objectives and responsibilities, they were asked to recount actual incidents from which their beliefs, values and inferred behaviors were derived. The first question asked was: "Tell me about a growth-oriented decision that was made by your board starting at the beginning with the proposal through the disposition (approval or rejection) and how the decision was made." The job descriptions set expectations that each participant sensed was necessary to



do his/her role appropriately, but it was the interview answers that informed what boardroom experiences between board directors and executive management are and should be.

Boardroom cultural governance begins with the beliefs, values and inferred behaviors of the key actors so the first interview question posed to the board directors and executive managers in this study produced the definition of the beliefs and values from their personal experiences. See Table 7 for the compilation of results.

**Table 7**  
**Beliefs, Values and Inferred Behaviors for**  
**Key Actors in Boardroom Cultural Governance**

	<b>Positive</b>	<b>% Total</b>	<b>Negative</b>	<b>% Total</b>
<b>Group</b>	<b>Collaborative</b>	<b>67%</b>	<b>Combative</b>	<b>33%</b>
	<b>Cognitive Diversity</b>	<b>54%</b>	<b>Cosmetic Diversity</b>	<b>29%</b>
	<b>Collegial</b>	<b>50%</b>	<b>Dysfunctional</b>	<b>25%</b>
	<b>Respectful</b>	<b>42%</b>	<b>Disrespectful</b>	<b>25%</b>
<b>Individual</b>	<b>Accountable</b>	<b>83%</b>	<b>Non-Participant</b>	<b>29%</b>
	<b>Experience</b>	<b>71%</b>	<b>Inexperienced</b>	<b>17%</b>
	<b>Character</b>	<b>50%</b>	<b>Ego</b>	<b>13%</b>
	<b>Value Proposition</b>	<b>50%</b>	<b>No Value Proposition</b>	<b>29%</b>
	<b>Moral Courage</b>	<b>42%</b>	<b>Bully</b>	<b>33%</b>
	<b>Ethical</b>	<b>33%</b>	<b>Unethical</b>	<b>13%</b>

**Note: %s based on 24 participants mentioning the belief, value or inferred behavior**

This table accumulates the 24 participants' answers by group or individual beliefs and values they offered in their interviews. It then divides the descriptors further by desirable (positive) and undesirable (negative) and a % calculation based on i.e. total collaborative comments to total positive comments and total combative comments to total negative comments. This % ranking shows which beliefs and values are the most critical in desirability or undesirability to the 24 participants. The table also ranks the positive in descending order and places the contrasting negative belief and value on the same line so that the negative beliefs and values are not ranked in order.

Most of these positive experience findings had the general theme of board directors and executive management working in concert as partners would in a collaborative manner. The boardroom cultural governance beliefs and values conveyed in these positive experiences were collaborative, cognitive diversity, collegial, and respectful among the key actors. In contrast negative experiences included combative, cosmetic diversity, dysfunctional and disrespectful beliefs, values and inferred behaviors among the key actors. Although not all the participants had negative experiences to share, those that did had vivid recollection of what occurred no matter the timeline. These negative experiences shared by the key actors began with the intent of a positive growth-oriented experience and at some point in the timeline of the narrative converted to a negative occurrence. To validate and define these group beliefs, values and inferred behaviors as they occurred, sample quotes from the participants are offered. The comments will alternate between positive and negative experiences revealing the contrasts in the behavioral beliefs and values essential to the boardroom cultural governance definition.

#### **Group Belief and Value – Collaborative vs. Combative**

Collaboration involves the entire board and executive management to be truly effective according to the key actors. The openness and transparency they described was a common theme in many of the interviews, which they described as enabling very positive experiences.

Producing positive growth-oriented results requires open lines of communication and challenging each other to generate the best results for the shareholders.

The first negative group belief and value in contrast to collaborative is combative which the interviewees also referred to as argumentative. Combative behaviors on a board create havoc in the decision making process.

**Collaborative:**

1. “When we talk about the culture it is also the CEO and how he sets the tone...If they set the tone the board is here to help me and I want to utilize the knowledge and experience to make this business better and each board member believes that and comes in with that attitude and then has the mutual respect and collegiality and understands that oversight rule - then you will have the best possible situation.”
2. “There has to be a real openness and transparency between the board and management and the CEO.”

**Vs. Combative:**

1. “I think everybody was very cohesive about the strategy. There was a lot of investigation - we had a consultant involved and we had a lot of discussion with the other potential companies that we were working with to come up with right solution for this. That part was okay. The board member that did not care for the consultant...I have never seen anything like that - never seen anything like that within a board. He obviously - he sued the board and we sued him - it went both ways once we started going.”
2. “...this impasse was at the board level - the management had to make decisions about the companies, about capacity, about things they want to do and so you force a company to make decisions that are tactically driven and not strategy driven and this will not maximize the final results. Usually the management will tend to move closer to who ever is closer to them.”

**Group Belief and Value – Cognitive Diversity vs. Cosmetic Diversity**

The second group belief and value explores the composition of the boards and executive management with the positive group belief and value being cognitive diversity. The negative is

cosmetic diversity, which is defined as diversity for the sake of the photograph in the annual report or compliance with the organization's missions not necessarily for the right reasons you want diversity according to the participants. Cosmetic diversity focuses on the board directors' and executive managers' gender, age, race, ethnicity, etc. Cognitive diversity as opposed to cosmetic diversity describes the many internal characteristics such as intelligence, experience, moral courage, etc. the key actors bring to the table. Participants indicated that prior to Enron (2001) board members and even executive management composition were often selected through good ole boys' networking. With the SOX accountability and EEOC requirements the board composition has changed significant since the early 2000s, which is discussed in cognitive vs. cosmetic diversity. Other findings of note on the composition of the boards and executive management were the debates on the executive recruiting search firms and their value to corporations, who should or should not be a board member and whether you should have representation from all your material global properties.

**Cognitive Diversity:**

1. "It clearly could be an advantage as long as that individual has cognitive diversity and brings value to the board and the person has to bring something to the table... You bring a person with cognitive diversity and add value they could have an impact and do a lot of good and break up the old boys network."
2. "Diversity of opinion is very important."
3. "That is why it is important to get the right board member on there...that is why I go back to the issue of cognitive diversity and value."

4. “Right diversity I mentioned this earlier if someone wants diversity on the boards you are not talking about really issues of race, religion ethnicity you are talking about cognitive diversity.”
5. “And really there are two aspects - there needs to be cognitive diversity and there needs to be a value proposition. This person needs to bring real value to the board - real value not just cosmetic value.”
6. “We have someone on our board who does not come from a business background – he comes from an academic background and his role has always been to look at the human side of questions and issues we are looking at.”
7. “– I think the background of every director influences their decision-making. That background includes their geography.”

**Vs. Cosmetic Diversity:**

1. “Diversity of opinion is very important. I am all in favor of cosmetic diversity - I do not have a problem with that. But you have to have diversity of opinion.”
2. “We created a skill set that we needed so we did not rely on cosmetic diversity...if we got that skill set with cosmetic diversity so much the better.”
3. “Let me preface this - a lot of academics who have spent their careers in academia are not good board members...If they had a career as an executive then got into academics or the other way around, they could be good board members.”
4. “...search firms look at the resume and if it is a nice resume - they check all the boxes - and then they present the candidates, the nominating committee does not spend enough time - that is not why they hire a search firm - is this person going to add value and diversity and thought to the board or are they just going to be rubber stamped...a lot of companies have put academics on the board and most of them are not successful.”

### **Group Belief and Value – Collegial vs. Dysfunctional**

Collegiality is a group belief and value that many participants wanted to define to ensure that it was understood to be an asset for the board directors and executive management. It produces lively discussions and debates on what is in the best interest for the corporation and shareholders. The third negative group belief and value is described as dysfunctional because as the participant related no positive results come when the structure and relationship of the key actors are not operating as expected. Whether the dysfunctional group belief and value is found between the groups of key actors or within their respective groups, performing efficiently and effectively does not happen according to the interviewees.

#### **Collegiality:**

1. “It is mutual respect and collegiality and the willingness to dialogue with each other and with management. And that is what - someone who kind of serves the board and sits in - that is what I hope for them. I want them to challenge us but it is important that they retain that understanding of what their role is in terms of oversight versus management because I do not want them to get too much in details. I think they will get lost in it and it will not help.”

#### **Vs. Dysfunctional:**

1. “We also agreed that the board had to be restructured because it was nonfunctioning...that is an occasion where the board became dysfunctional and we had to basically rebuild the company board structure and senior management.”

2. “Prior to the bankruptcy they were industry knowledgeable people very much so - represented companies that had money invested in this entity. Afterwards they were representatives of the debtors and also people who had money invested but it was a

different perspective - let me tell you this was the most hands on board I have ever been on - we met weekly.”

### **Group Belief and Value – Respectful vs. Disrespectful**

Respect is demonstrated in many different thoughtful forms inside and outside the boardroom between the key actors and within their respective groups. The relationships built on respect will provide collaborative results that the key actors will support according to the interviews. According to the participants a respectful environment produces the ability to discuss key growth strategies and ease in decision-making. These relationships are extremely important to final results. Key actors who were pushed too hard to create results also created negative experiences according to the participants’ experiences. This group belief and value is defined by a lack of respect between and within the groups because this behavior produces an untenable situation for the key actor being pushed.

#### **Respectful:**

1. “Before the meeting you would have gone to each of them individually and briefed them on and answered all their questions and so when you leave their offices you would feel pretty confident that they would support your ideas. If they had major concerns you might not move forward until you were able to resolve their concerns.”
2. “The expertise and the commitment of the board is extremely important and what I have observed over my career of watching a board is the relationship within the board is extremely important.”

#### **Disrespectful:**

1. “The CEO wanted to move the headquarters to a different city – he felt like it would create a competitive advantage to the company if they were not one of many of their

industry companies based in the same city... We had so many important things to do that we did not think relocating the headquarters was a good idea and there was a lot of tension among directors and between directors and chairman, CEO over that decision.”

2. “What was missing in the whole proposition - I will jump to the end, this was the worst acquisition known to man - it went into bankruptcy within two years... My biggest lesson learned is you can push as a board member and boards can be overly aggressive pushing the CEO in a corner. The board pushed too hard to say to this person you have to come up with something and he came up with something - we said do you believe it; and he said yes and my guess is we pushed too hard.”

Qualities possessed by board directors and executive management also inform individual’s boardroom cultural governance beliefs and values that can define positive and negative outcomes. Significant behavior beliefs and values that emerged from the interviews included: positive – accountable, experienced, character, brings a value proposition, moral courage, and ethical persona; and negative – non-participator (a ‘yes’ man/woman), inexperienced, ego, no value proposition, bully and unethical. As with the group beliefs, values and inferred behaviors, these individual beliefs and values of the key actors contributed to the respective boardroom cultural governance in which they participated. The following quotes from the interviews best illustrate their values and beliefs. The comments will alternate between positive and negative experiences revealing the behavioral beliefs and values essential to a functioning boardroom cultural governance.

#### **Individual Beliefs and Values – Accountable vs. Non-Participator**

Accountability is the first and predominant individual belief and value that the participants described as the responsibility of all the key actors. A participant whose definition is



included below believes that the board has the ultimate accountability for the corporation's performance. All participants do not share this opinion for they revealed accountability is a joint responsibility of the key actors. The non-participant or the key actor who is considered a 'yes-man/woman' is a board director or executive manager who does not contribute to the decision-making process. Excerpts from respondents' comments regarding accountability versus non-participation follow.

**Accountable:**

1. "The number one issue to me first of all - the board is responsible and accountable not the senior management. They have an important role to play but at the end of the day the ultimate accountability for the performance of the company lies with the board."
2. "They should not come to the meetings and listen and not participate - not ask the tough questions - it needs to be a board that challenges ideas, questions results, and keeps the management team accountable for what they are doing."

**Vs. Non-participator:**

1. "...over time we all noticed he was not contributing...we had a meeting and we decided it was time for him to move on and we talked to him and I was the guy who talked to him. He did not like it - he was mad but it was the right thing for the company."
2. "My bias says that you cannot have someone in the boardroom that is not fully engaged in the process...Bring someone on the board that is bringing little contribution to the board, which is where you get in trouble."

The second individual belief and value contrast is experienced vs. inexperienced. The participants search for board directors and executive managers with experience in their corporate industry, the financial sector or leadership in different industries. These key actors want a full

complement of experiences in each acumen that will benefit the organization. The negative individual belief and value in this area was inexperience defined as the wrong experience or lack of experience for a growth-oriented decision to be made. Sampling of the participants' comments on these concepts is included here.

### **Individual Beliefs and Values – Experienced vs. Inexperienced**

#### **Experience:**

1. “We looked for people who had industry experience in our industry - we looked for people with financial services experience because we need financial acumen - we tried to make sure we had diversity by regions of the globe - like Europe, North America and South America and other locations.”
2. “The people that are engaged and are interested and want to help out and have experience and knowledge in either an area of expertise either in finance or the industry that the CEO respects and can talk to about strategic issues...those are positive aspects.”
3. “...you do need the diversity of experiences even if it is not in the same industry I think it is helpful to have people with different business experiences.”
4. “I think that diversity of experience at the corporate - intelligence system board we have people who have been chairman they have much more senior business experience than our company needs in many respects they have been chairman of much bigger public companies it is an interesting to have their perspective on this little company like ours and that is good they know what is important and what isn't.”

#### **Vs. Inexperienced:**

1. “...in retrospect it was not a good decision and it destroyed a lot of shareholder value. It just did not get the challenge it probably should have from the board...I was not

experienced in the (acquisition) industry and I did not have the confidence to try and buck anyone.”

The next positive belief and value is character, which the participants revealed is a positive quality, which is preferential to competence in most experiences. Character to the participants is equal to integrity and honor. When ego is defined as an inflated opinion of oneself, the interviewees shared that it can detract from the work to be done and create a negative experience.

### **Individual Beliefs and Values – Character vs. Ego**

#### **Character:**

1. “But at the end of the day you have to have people with character who do the right thing... there is no way you can develop a system to force this to happen.”
2. “...it is the character of the CEO on what kind of board do they want - a board with governance or do they just want yes men?”

#### **Vs. Ego:**

1. “You have massive egos - these ex-CEOs have massive egos and all they talk about is how big their corporate jets are.”
2. “...pick a company if there is personal ego satisfaction and the camaraderie of hanging around with the other chief executives I think that it is probably more a driver than the economics although the economics are not inconsequential either. You look at your personal liability risk today you would be nuts to do it for financial reason.”
3. “Most of the boards I have been on are with seasoned executives - all of them have pretty strong egos and all of them are not afraid to say their opinion and most of them are

not going to get bullied but are going to be rational about how much they are going to fight something the majority of what the stockholders pursue.”

The fourth individual positive belief and value is defined by a majority of the participants as a behavioral characteristic that they want all key actors to possess and that is the ability to bring value to the organization in the form of growth-oriented ideas, strategic insights, operational expertise, etc. Not having a value proposition is a negative because it leaves the key actor vulnerable to manipulation by other board directors or executive managers according to the interviewees. Note further clarification of these concepts in the participant’s comments.

### **Individual Beliefs and Values – Value Proposition vs. No Value Proposition**

#### **Value Proposition:**

1. “And really there are two aspects - there needs to be cognitive diversity and there needs to be value proposition. This person needs to bring real value to the board - real value not just cosmetic value.”
2. “...but the biggest single factor to me for a good working board - every member of that board is productive - is doing the right job - stays on the right page at the meeting - does their homework - contributes to the discussion on the input side of the decision and gives their point of view readily.”

#### **Vs. No Value Proposition:**

1. “Here is another issue with the whole putting board members on boards that do not add value and are really more cosmetic.”

The next set of individual beliefs and values to compare and contrast are examples of the behaviors that drive decisions. According to the participants moral courage is what key actor possesses who will stand for what he/she believes no matter the consequences. Bullying on the

other hand is a characteristic that key actors possess that allows them to intimidate the other actors in decision-making. The participants revealed that bullying usually results in negative experiences.

### **Individual Beliefs and Values – Moral Courage vs. Bully**

#### **Moral Courage:**

1. “I have seen a very outspoken board member who was not afraid to challenge the chairman who had substance because he was a CEO of another Fortune 500 company.”

#### **Vs. Bully:**

1. “They can vote their shares...if someone owns 20% of the company what they say gets a lot more attention because they have more influence.”

2. “I have been unfortunate in that I have seen boards that bullying took place. I have seen two of those situations neither of them ended up well quite honestly because you do not get the give and take and the discussions.”

The ethical debate is found in the final contrast of positive and negative beliefs and values. The sense that key actors have the right morals and principles to instill trust in the relationship is very important to the participants. The interviewees shared that they are surprised when unethical behavior is discovered in a board director or executive manager and have been even more surprised when the same key actor does not believe that they are unethical.

### **Individual Beliefs and Values – Ethical vs. Unethical**

#### **Ethical:**

1. “From my perspective it is - do you trust the people who are posting the books or do you trust the people who are telling you that this case has a 12 percent internal rate of

return or do you trust the people dealing with their supplies and their contractors on an ethical basis and things like that...that to me is the culture of the company.”

2. “Producing ethical numbers can be because they do not want to or they do not know how. The primary thing I look for is do they want to. Is the guy who you are talking to - who is offering you a position on his board - do you believe he wants to do things the right way.”

**Vs. Unethical:**

1. “...we had a board member who had ethical issues. I was the lead director and I had to ask him to resign and the ethical issue was that he consulted with companies that were our competitors. And it was written in our ethical policy agreement that you could not do it. He tried to explain to us, but there was no way he could explain it. We had to ask him to resign.”

The beliefs, values and inferred behaviors are reflected in these first-hand experiences and quotes from the interviewees that determine the outcome of their personal involvement with boardroom cultural governance on an individual basis. There were twelve individual categories included due to the significant number of times they were mentioned in the interviews. Other beliefs, values and inferred behaviors were shared including gender, mediator and mentor to name a few, but each received only one minor comment, resulting in their exclusion from the list (see Table 6). The participants, especially the board directors discussed the need and usage of skill set lists to define the appropriate beliefs, values and inferred behaviors of the key actors believed to produce the best results for their corporations. Having this skill set list does not guarantee the perfect boardroom cultural governance relationship, but a list does begin to quantify and predict what appropriate behaviors are. From these group and individual

occurrences, boardroom cultural governance beliefs and values for the board directors and executive managers are reflected in positive and negative experiences. Continued empirical research to test, verify and even expand key actors' beliefs, values and inferred behaviors will contribute to a more complete understanding of the boardroom culture, boardroom cultural governance, and its influence on the organization.

A final question was asked of each participant - what is his or her definition of boardroom cultural governance beliefs and values? Their answers aligned significantly with the beliefs, values and inferred behaviors they had experienced as shown in Table 7. In reviewing the list of beliefs and values definitions the reader may sense that these positive and negative behaviors seem intuitive in their classifications, but this is not always the case. Positive experiences revealed by the participants yielded some negative beliefs and values yet the results ended positively while negative incidents revealed some positive beliefs and values even with negative results. For example, ego falls in the negative individual beliefs and values definition because the participants shared that CEOs' big egos are a negative behavior. However, popular consensus is that CEOs make the best board members because of their current experience from a strategic and leadership perspective (Larcker and Miles, 2011) so egos might be placed in the positive beliefs and values category knowing the value that these personalities can bring if different participants had shared that conclusion. This example illustrates the need to further refine our understanding of beliefs and values in context to provide opportunity for board directors and executive managers to select the proper fit when hiring new key actors. A survey from Stanford University (Larcker and Miles, 2011) confirmed that boards are struggling to select prospective board members who will be a good fit for their organization. Registering moderate difficulty in this evaluation process were 51% of the respondents while 20% said it was

extremely difficult to discern whether a prospect would make a good board member. Participants stated that executive firms are not always successful in determining a good candidate and they believe a skills set tool would be more beneficial in candidate selection. Larcker and Miles (2011) stated that one person can ruin a great board so considerable time should be spent evaluating a prospect.

While not specifically aligned with a particular value or belief set, respondents did speak extensively about the impact of Sarbanes-Oxley (SOX) subsequent to the Enron and MCI/WorldCom collapses. The impacts of SOX rules and regulations help to inform the behavior changes of board directors and executive managers over time. The participants in the following quotes summarized them.

#### **SOX Impact on Key Actors' Behavior**

1. "A very positive step and very meaningful for all the shareholders and financial community - all will benefit from all officers in the companies having to sign the financial statements. I think it is a simple and outstanding technique to reemphasize that the CEO is responsible for disclosures and numbers that are put out there."
2. "One of the dangers with SOX is that the audit committee driving down to all the details and tries to manage and that was not their role. The committee stayed very clear on what their role was but there were some additional statutory requirements so we did start sharing more details - we did formalize internally without the board - a disclosure committee in place so we had to review the process for the disclosure committee and they kind of approved those every year."



3. “I think most of that is a distraction as opposed to helpful. It is largely forcing you to be sure that your meetings are politically correct as opposed to struggling with the strategy to add value to the shareholders.”

One comment from a director was very telling about what the SOX changes did to behavior in the boardroom:

4. “...- the CFO used to say he was able to talk about the business more in board meetings before Sarbanes Oxley and then after Sarbanes Oxley because he ran a tight ship anyway, he did not feel he was more or less exposed or that he would run things differently, but the board meeting themselves had to spend so much time on compliance and regulatory issues that you did not get to talk about the business issues at the board meetings. He kind of missed being able to talk about the business.”

These findings relative to SOX and its impacts on key actors would warrant an additional empirical study to understand the boardroom cultural governance beliefs, values and inferred behaviors of key actors to address changes over the last two decades and the impact it has had on the boardroom governance.

## **VII. Conclusion, Limitations and Further Research**

Boardroom cultural governance is defined as the beliefs, values and inferred behaviors of the key actors both inside and outside of the boardroom that influence and control the organization. The beliefs, values and inferred behaviors of the board directors and executive managers from this study were accumulated and defined. What is the impact that defining boardroom cultural governance can have on board directors and executive managers? Just look at the financial statistics of the twenty-four interviews conducted. The thirty-four experiences and the years impacted by these experiences included in the study represent a total of \$134 billion in net income and \$3 trillion in total assets. The magnitude of these numbers are enormous, but these participants represent a very small percentage of the total corporate net income and assets controlled by board directors and executive management in U.S. MNCs. History has shown what can happen to these corporations when either board directors or executive management are not diligent in their corporate or boardroom cultural governance (Boerner, 2011). The boardroom cultural governance beliefs, values and inferred behaviors of these extremely important key actors and how they perform are critical to the financial and economic well being of their respective organizations (Nicholson and Kiel, 2007).

### **Contribution to Theory and Practice**

There is a definitive demand for studies in boardroom cultural governance, but little actual response (Erakovic & Overall, 2010; Lockhart, 2010; Huse et al, 2011). Doing this study has been like opening Pandora's box. There is so much potential for future research in boardroom cultural governance that would be appreciated by the board governance community of board directors, executive management and their shareholders. This whole experience has been analogous to the medical field paradigm where the practicing medical community requests

that studies be performed on their specific interests. Medicine has not lacked for epistemology and rich and robust research in its practice. The partnership between the medical community and its practitioners has been extremely successful and can serve as an example of what the business community should aspire to do. Researching and defining boardroom cultural governance using theoretical framing with its beliefs, values and inferred behaviors will only add to epistemology and practical applications as well as enhancing the academic/practitioner paradigm of engaged scholarship. “The problem solving activity of the engaged scholarship process focuses on linking the research findings back to the problem observed in the practitioner and the scientific communities. Generally, this involves executing the research design to produce empirical evidence for a solution to the research problem and question that initially motivated the research” (Van de Ven, 2007, p. 24).

### **Future Research**

Future research opportunities from this study are abundant. An important prospect for future empirical studies rests in the literature review discussion on Denison et al’s work in measuring organizational cultures (Fey and Dennison, 2003). Applying this model to key actors experiencing these boardroom cultural governance issues in today’s current environment would be beneficial to this field of research as well as to the practitioner’s realm.

Additionally, future research examples extracted from these findings are the implications of the SOX and the Dodd-Frank bills on boardroom cultural governance and their respective financial impacts to corporations, the executive search firm’s influence on boardroom cultural governance in how they place board directors and executive management, and who should or should not be a board director relative to global representation and academic experience. In addition the skills set list used by some board directors and executive managers for recruitment

analysis that surfaced in the research interviews would provide a good empirical study on whether organizations rely on these lists to select board members and if not, how do they select their key actors for optimal boardroom cultural governance. Fine-tuning and studying the boardroom cultural governance beliefs, values and inferred behaviors discovered in this study would validate what to embrace in the board director and executive management relationships and what to avoid.

### **Limitations**

Limitations or barriers exist in the study of boardroom cultural governance and they are empirical data accessibility constraints, cooperation disincentives and conflicting alliances to corporate governance (Daily et al, 2003; Huse, 2005; Roberts et al, 2005; Lockhart, 2006; Leblanc and Schwartz, 2007; Erakovic and Overall, 2010, Huse et al, 2011). Researchers will need to move away from comfort zones like archival data because this subject is evolving everyday and past history has shown that there is a great need for the knowledge of how boardroom cultural governance works in a live forum.

### **Conclusion**

This paper began with a proposal to examine the beliefs and values of board directors and executive managers to begin to understand what is in the black box of boardroom governance. The first eyeglasses displayed in Figure 1 showed corporate governance in the left lens and the black box in the right lens showing the need for a more holistic view including the behavioral aspects of boardroom governance. The extent to which corporate governance has been documented over the last eighty years was revealed, the studies defining organizational culture were reviewed, and the call for research to discover what is in the black box of board governance was presented. Boardroom cultural governance was then defined and introduced as a first step in

theoretical framing. In Figure 7 the holistic eyeglasses display has the same left lens of corporate governance, but the right lens now has boardroom cultural governance – beliefs, values and inferred behaviors showing that looking through both lens provides a more comprehensive look at boardroom governance. A list of group and individual beliefs, values and inferred behaviors both positive and negative defined by the 24 participants were presented. Boardroom cultural governance could serve as the research framework open to empirical studies to validate, expand and elaborate on the initial work done in this study. This study has taken the first step in documenting an empirical study of 24 key actors who shared their personal experiences resulting in an initial look at what actually transpires in their boardroom cultures through their beliefs, values and inferred behaviors. As documented in the literature review, there is a call to continue these boardroom governance empirical studies, which will increase the unearthing and understanding of what the black box of boardroom governance contains (Erakovic & Overall, 2010; Lockhart, 2010; Huse et al, 2011).

## **Appendix A**

### **Glossary of Terms and Abbreviations**

Agency Theory - Defined by the agency relationship in which the agent has certain obligations to be completed for the principal in their economic relationship. There is a contract between the principal and the agent and the corporation is the holder of the contracts between principals and agents (Shankman, 1999).

Black Box – “Investigating actual board behaviour involves viewing the board through a behavioural perspective lens. The idea of looking into the ‘black box’ of board behaviour was innovative in that researchers had not been exposed to witnessing the processes of board meetings previously to this, neither had boards invited anyone to do so (Barratt & Korac-Kakabadse, 2002). Whilst some studies use proxies for actual board behaviour, it is very rarely studied as a construct itself (Huse, 2005)” (Erakovic & Overall, 2010, p. 254).

Boardroom Cultural Governance – The beliefs, values and inferred behaviors of the key actors both inside and outside of the boardroom that influence and control the organization.

C-Suite – Executive Management

CEO – Chief Executive Officer

CFO – Chief Financial Officer

Cadbury Committee – “The Cadbury Committee was appointed by the Conservative Government of the United Kingdom (UK) in May 1991 with a broad mandate to "...address the financial aspects of corporate governance" (Cadbury Committee, 1992). In December 1992, the Committee issued its report which recommended, among other things, that boards of directors of publicly traded companies include at least three non-executive (i.e., outside) directors as members and that the positions of Chairman of the Board (Chairman) and Chief Executive Officer (CEO) of these companies be held by two different individuals. The apparent reasoning underlying the Committee's recommendations is that greater independence of a corporate board will improve the quality of board oversight” (Dahya et al, 2002).

Coding Schematic – Qualitative coding master list of descriptive words or category names for a meaningful segment of text in a transcript.

Cognitive Diversity - Defined as the extent to which the group reflects differences in knowledge, including beliefs, ideas, viewpoints, opinions, assumptions, preferences and perspectives (Miller et al, 1998; Schilpzand and Martins, 2010).

Cohen’s Kappa – “Cohen’s Kappa (Cohen, 1960) is an index of interrater reliability that is commonly used to measure the level of agreement between two sets of dichotomous ratings or scores” (Wood, 2007).

## Glossary of Terms and Abbreviations

Collegial - "I define collegial as not the good old boys where everyone is right...collegial from the stand point of respecting each other's opinions and not trying to dominate the conversation-willing to listen to management and fellow board members. Active listening to the standpoint that sometimes you may not think of something but you hear a fellow board member raise the line of questions and issues and you try to build on it - that is important from an oversight standpoint" (Participant Interview).

Corporate Governance – "The system by which companies are directed and controlled" (Cadbury Committee, 1992).

Cosmetic Diversity - "Rather than have someone in your annual report so your picture looks nice and it looks like you have all aspects covered. I've seen people appointed to the boards who have no business being on the board. And really there are two aspects - there needs to be cognitive diversity and there needs to be a value proposition. This person needs to bring real value to the board - real value not just cosmetic value" (Participant Interview).

EDGAR – "The Electronic Data Gathering, Analysis, and Retrieval system, performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by law to file forms with the U.S. Securities and Exchange Commission (SEC). Its primary purpose is to increase the efficiency and fairness of the securities market for the benefit of investors, corporations, and the economy by accelerating the receipt, acceptance, dissemination, and analysis of time-sensitive corporate information filed with the agency" ([Sec.gov](http://Sec.gov), EDGAR).

Key Actors – Board Directors and Executive Management

Management Theory - Executive management is the accountable group because of their daily knowledge and expertise within the firm. Shareholders and board directors are not able to garner this experience and expertise because they do not participate on a regular basis. This theory was popular before the 2000s' scandals that made corporations aware that this structure allows unethical executive managers to go unchecked and as a result defraud all the stakeholders (Koontz, 1980; Donaldson, 1990; Letza et al, 2008).

Moral Courage - Moral reasons dictate taking action even if there is a risk of adverse consequences.

MNC – Multinational corporation also known as an international corporation, which delivers goods and services or manages production in more than one country.

Narrative Analysis – "...ways of developing identities, representing experience, and of giving meaning to the lives in the past, present and anticipated future" (McKenna, 2007, p.146).

## Glossary of Terms and Abbreviations

Organizational Culture - “Organizational culture, then, is the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration — a pattern of assumptions that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 1983, p. 14)

SOX – Sarbanes-Oxley Act of 2002 – “In response to a number of high-profile scandals since late 2001, Congress passed the Sarbanes-Oxley Act (the Act or SOX hereafter) in July 2002 to enhance corporate governance and thereby restore public confidence. The Act has introduced significant changes in both management’s reporting responsibilities and the scope and nature of the responsibilities of the auditor. When President Bush signed the Act into law, he characterized it as “the most far-reaching reform of American business practices since the time of Franklin Delano Roosevelt.” The major provisions of the Act established the Public Company Accounting Oversight Board (PCAOB), prohibited auditors from performing certain nonaudit services for their audit clients, imposed greater criminal penalties for corporate fraud, and called for more detailed and timely disclosure of financial information. Further, Section 404 of the Act required that management assess internal controls and that auditors report on the internal controls of their clients. By requiring more oversight, imposing greater penalties for misconduct, and dealing with potential conflicts of interest, the Act aims to prevent deceptive accounting and management misbehavior” (Zhang, 2007).

SEC – Securities and Exchange Commission

“The mission of the U.S. Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation” ([Sec.gov](http://sec.gov)).

Shareholders – Also known as stockholders are individuals or institutions that legally own a share or shares of stock in a public or private corporation. Shareholders own the stock, but not the corporation itself (Fama, 1980).

SPSS – “IBM SPSS software enables educators to teach effectively helps students gain critical analytical skills and supports more accurate and insightful institutional research and decision-making” ([ibm.com](http://ibm.com))

Stakeholders - Defined as a group that was essential to the corporation’s very existence. Without these stakeholders the corporation would cease to exist. The authors presented a list, which included equity owners, economic partners and influencers (Freeman and Reed, 1983).

Stakeholder Theory - Defines stakeholders as “actors that: (i) provide essential means of support required by an organisation; and (ii) could withdraw their support if their wants or expectations are not met, thus causing the organisation to fail, or inflicting unacceptable levels of damage” (Garvare and Johansson, 2010).



## **Glossary of Terms and Abbreviations**

Stewardship Theory - Donaldson & Davis advocated stewardship theory to define relationships based upon other behavioral premises (Donaldson & Davis, 1989, 1991). They believed that stewardship theory includes situations in which executive managers are not motivated by self-interest, but serve as stewards whose motives are in line with the objectives of their shareholders. Stewards will not substitute or trade individualistic behaviors for cooperative behaviors. This theoretical approach was introduced as an alternative model to agency theory and was derived from sociological and psychological traditions (Davis and Donaldson, 1997).

The Dodd-Frank Wall Street Reform and Consumer Protection Act – “Beginning in 2007, U.S. financial conditions deteriorated, leading to the near collapse of the U.S. financial system in September 2008. Major banks, insurers, government-sponsored enterprises, and investment banks either failed or required hundreds of billions in federal support to continue functioning. Households were hit hard by drops in the prices of real estate and financial assets, and by a sharp rise in unemployment. Congress responded to the crisis by enacting the most comprehensive financial reform legislation since the 1930s. The Dodd-Frank Act creates a new regulatory umbrella group chaired by the Treasury Secretary—the Financial Stability Oversight Council—with authority to designate certain financial firms as “systemically significant” and subjecting them to increased prudential regulation, including limits on leverage, heightened capital standards, and restrictions on certain forms of risky trading. These firms will also be subject to a special resolution process similar to that used in the past to address failing depository institutions. The Dodd-Frank Act consolidates consumer protection responsibilities in a new Bureau of Consumer Financial Protection within the Federal Reserve. The act consolidates bank regulation by merging the Office of Thrift Supervision (OTS) into the Office of the Comptroller of the Currency (OCC). It requires more derivatives to be cleared and traded through regulated exchanges, and it mandates reporting for derivatives that remain in the over-the-counter market. Hedge funds have new reporting and registration requirements. Credit rating agencies are subject to greater disclosure and legal liability provisions, and references to credit ratings will be removed from statute and regulation. A federal office is created to collect insurance information. Executive compensation and securitization reforms attempt to reduce incentives to take excessive risks. Intermediaries who provide investment advice to retail investors and municipalities may be subject to a fiduciary duty. The Federal Reserve’s emergency authority is amended and its activities are subject to greater public disclosure and oversight by the Government Accountability Office (GAO)” (Webel, 2010, p. i).

Value Proposition – Defined as a promise of value to be delivered which in a boardroom means a board director or executive management will contribute to the value creation for the shareholders.

**Appendix B  
Participant Demographics**

<b>Age</b>	<b>Gender</b>	<b>Race</b>	<b>Position</b>
52	Female	White	Director
56	Female	African American	Director
56	Female	White	Director
61	Male	African American	Director
62	Female	White	Director
62	Male	White	Director
64	Male	White	Director
66	Male	White	Director
66	Male	White	Director
72	Male	White	Director
73	Male	White	Director
77	Male	White	Director
47	Male	White	CFO
53	Female	White	CFO
53	Male	White	CFO
57	Female	White	CFO
58	Male	White	CFO
63	Female	White	CFO
54	Male	Hispanic	CEO
48	Male	White	CEO
59	Male	Hispanic	CEO
60	Male	White	CEO
61	Male	White	CEO
63	Male	White	CEO

**Appendix C**  
**Inter-rater Reliability**  
**Cohen's Kappa Calculation - SPSS**

**Case Processing Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Rater1 * Rater2	74	100.0%	0	.0%	74	100.0%

**Rater1 \* Rater2 Crosstabulation**

Count

		Rater2		Total
		.00	1.00	
Rater1	.00	32	5	37
	1.00	1	36	37
Total		33	41	74

**Symmetric Measures**

		Value	Asymp. Std. Error <sup>a</sup>	Approx. T <sup>b</sup>	Approx. Sig.
Measure of Agreement	Kappa	.838	.063	7.250	.000
N of Valid Cases		74			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

## **Cohen's Kappa Interpretation of Results**

Landis & Koch proposed the standards for strength of agreement for the kappa coefficient in 1977:

0	Poor
.01-.20	Slight
.21-.40	Fair
.41-.60	Moderate
.61-.80	Substantial
.80-1.00	Almost Perfect

**Appendix D**  
**Final Interview Protocol**  
**Research Supervisor: Karen Loch**  
**Researcher: Marianne Fortuna**

**Interview Guidelines**

- At the beginning of the interview, the purpose of the study will be restated. At the time that the interview is requested and subsequently confirmed, the basic information regarding the purpose of the study, expected time length of the interview, etc. will be disclosed.
- All responses will be recorded and considered confidential
- The oral consent of the participant will be sought before asking any questions.

Read to the interviewee at the start of the interview:

Thank you for agreeing to be a part of the study. As you know, the purpose of the study is to examine the cultural governance of board directors and executive management in U.S. based multinational organizations. I want to learn, from your perspective:

How cultural governance affects firm performance?

All your responses will be recorded and held in strict confidence. Do you have any questions for me before we begin?

**Background**

- Please describe for me your time at this organization:
  - Name of organization
  - Position or title
  - How long have you been in your current position?
  - How long have you been with the organization?
  - In what board committees do you participate?
  - How many boards do you serve?

**Board Culture**

Cultural governance in this context is defined as formal and informal relationships and interactions inside and outside of the boardroom.

1. Tell me about a growth-oriented decision that was made by your board starting at the beginning with the proposal through the disposition (approval or rejection) and how the decision was made.
2. Thank you. Now tell me about another experience with a growth-oriented decision that had a different outcome from your first story. Again start from the beginning through the conclusion and how the decision was made.

**Final Interview Protocol**  
**Research Supervisor: Karen Loch**  
**Researcher: Marianne Fortuna**

Time permitting: Potential scenarios within the same context of the questions above will be presented to elicit cultural governance stories for additional growth-oriented decisions.

**Thank you very much for your stories and participating in my study today.**

**Final Interview Protocol**  
**Research Supervisor: Karen Loch**  
**Researcher: Marianne Fortuna**

Cultural Governance Potential Scenarios:

1. A presentation has been made to your board of directors by the executive management introducing a new potential product with a very low gross profit margin. You feel it does not make good business sense, but the majority of the board feels it should be adopted. What would you do in this situation?
2. A major strategic change in direction for your company was discussed at the last board of directors' meeting. A vote will be taken at the next board meeting. You receive a phone call from one of your board members prior to the second meeting wanting you to vote their way with which you disagree. What would you do in this situation?
3. Your CEO or Chairman of the Board are responsible for declining profits and in turn share price. There is a need to change directions and replace the CEO or the Chairman of the Board. How would your board handle this situation?

## **Appendix E**

### **Final Informed Consent**

The Role of Cultural Governance in Firm Performance: An Empirical Analysis of Board of Directors and Executive Management in U.S. Based Multinational Corporations (MNCs)

Karen Loch, Principal Investigator (PI)

Marianne Fortuna (Student PI)

I. Purpose: You are invited to participate in a research study. The purpose of the study is to examine the cultural governance of board directors and executive management in U.S. based multinational organizations (MNCs) and determine how it impacts the organization's performance. We will conduct an in-depth analysis of cultural governance boardroom experiences in U.S. based MNCs. This in-depth study of these organizations will produce a rich data set permitting an analysis that is expected to shed insights into the cultural governance experience and how it impacts the corporate performance. You are invited to participate because you are embedded in this research area. A total of 60 participants will be recruited for this study. Participation will require 45-60 minutes of your time over the next two months.

The research question is as follows: RQ: How does cultural governance of board directors and executive management in U.S. multinational corporations (MNCs) affect corporate performance?

II. Procedures: If you decide to participate, the interview will be conducted where you want it to be located and will last approximately 45-60 minutes. I will be interviewing over the next three months and will schedule the interview at your convenience. The session will be open-ended and I will interview you one time during this period; there may be opportunities for follow-up should additional questions arise if you are willing. All answers will be based on your own knowledge and perceptions.

Your participation will help us provide organizations a better understanding of cultural governance; enable them to examine their response to cultural governance, and its impact on their corporate performance. I, Marianne Fortuna will conduct the interviews.

III. Risks: In this study, you will not have any more risks than you would in a normal day of life. If you choose to withdraw from the study, we will not use any data we have collected from you to that point. Whatever you decide, there is no penalty.

**APPROVED**

*Consent Form Approved by Georgia State University IRB November 08, 2011 - November 07, 2012*



## Final Informed Consent

IV. Benefits: Participation in this study may benefit you personally in a two-fold manner: 1) to reflect on how cultural governance in your boardroom impacts your corporate performance and 2) a summary report of our findings should you be interested in receiving it. Overall, we hope to gain information about the role of cultural governance in firm performance.

V. Voluntary Participation and Withdrawal: Participation in this research is voluntary. You do not have to be in this study. If you decide to be in the study and change your mind, you have the right to drop out at any time. You may skip questions or stop participating at any time. Whatever you decide, you will not lose any benefits to which you are otherwise entitled.

VI. Confidentiality: We will keep your records private to the extent allowed by law. Karen Loch- Principal Investigator (PI) and/or Marianne Fortuna (Student PI) will have access to the information you provide. Information may also be shared with those who make sure the study is done correctly [GSU Institutional Review Board, the Office for Human Research Protection (OHRP)]. We will use a specific code rather than your name on study records. The information you provide will be stored using a key (code sheet) to identify you. This key will be stored separately from the data to protect privacy. The key (code sheet) utilized to identify you will be destroyed after completion of this study. The interviews will be audio recorded and then transcribed for the purposes of data analysis. The audio recordings will be stored with the PI and kept in a locked location. They will be destroyed upon completion of the data analysis phase.

Your name and other facts that may point to you will not appear when we present this study or publish its results. The findings will be summarized and reported in- group form. You will not be identified personally.

VII. Contact Persons: Contact Dr. Karen Loch at 1 (404) 413-7295 or [kloch@gsu.edu](mailto:kloch@gsu.edu) if you have questions about this study. If you have questions or concerns about your rights as a participant in this research study, you may contact Susan Vogtner in the Office of Research Integrity at 1 (404) 413-3513 at [svogtner1@gsu.edu](mailto:svogtner1@gsu.edu).

VIII. Verbal Consent or Copy of Consent Form to Subject: You may choose to provide verbal consent at the time of the interview. If you would like a copy of the consent form, we will provide you a copy of this form to keep. If you are willing to volunteer for this research and be audio recorded, please give verbal consent.

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Principal Investigator or Researcher Obtaining Consent

Date

**APPROVED**

*Consent Form Approved by Georgia State University IRB November 08, 2011 - November 07, 2012*

## Appendix F Coding Schematic

<ul style="list-style-type: none"> <li>1 Board of Directors' Norms               <ul style="list-style-type: none"> <li>1.1 Gender</li> <li>1.2 Experience</li> <li>1.3 Character                   <ul style="list-style-type: none"> <li>1.31 Value Proposition</li> <li>1.32 Moral Courage</li> <li>1.33 Ethical/Unethical</li> </ul> </li> <li>1.4 Decision Participation                   <ul style="list-style-type: none"> <li>1.41 Contributor</li> <li>1.42 Mediator</li> <li>1.43 Arbitrator</li> <li>1.44 Mentor</li> <li>1.45 Incapable of Contributing</li> </ul> </li> <li>1.5 Accountability</li> <li>1.6 Other</li> </ul> </li> <li>2 Executive Management Norms               <ul style="list-style-type: none"> <li>2.1 Gender</li> <li>2.2 Experience</li> <li>2.3 Character                   <ul style="list-style-type: none"> <li>2.31 Value Proposition</li> <li>2.32 Moral Courage</li> <li>2.33 Ethical/Unethical</li> </ul> </li> <li>2.4 Decision Participation                   <ul style="list-style-type: none"> <li>2.41 Contributor</li> <li>2.42 Mediator</li> <li>2.43 Arbitrator</li> <li>2.44 Mentor</li> <li>2.45 Incapable of Contributing</li> </ul> </li> <li>2.5 Accountability</li> <li>2.6 Other</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>3 Total Board Norms               <ul style="list-style-type: none"> <li>3.1 Composition                   <ul style="list-style-type: none"> <li>3.11 Cosmetic Diversity</li> <li>3.12 Cognitive Diversity</li> <li>3.13 Good Ole Boys Network</li> <li>3.14 "Yes" Men/Women</li> </ul> </li> <li>3.2 Decision Making                   <ul style="list-style-type: none"> <li>3.21 Bullying</li> <li>3.22 Groupthink</li> <li>3.23 Proactive Participation</li> <li>3.24 Non-participating</li> <li>3.25 Cohesive/Collegial</li> </ul> </li> </ul> </li> <li>4 Board/Executive Management Relationship Norms               <ul style="list-style-type: none"> <li>4.1 Collaborative</li> <li>4.2 Combative</li> <li>4.3 Dysfunctional</li> <li>4.4 Respectful/Disrespectful</li> </ul> </li> </ul>
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## **Vita**

Marianne G. Fortuna was born in Atlanta, GA on December 8, 1950. She received her BS degree from Florida State University in 1972; her Masters degree in Accounting from Georgia State University in 1978 and her Executive Doctorate in Business also from Georgia State University in 2012. Marianne is a full-time faculty member of the University of Georgia where she teaches Accounting, Finance and Statistics as an academically and professionally qualified lecturer. She is a CPA and CGMA and has more than thirty years experience in accounting and financial operations where her expertise ranges from directing major project initiatives to leading large organizations in Fortune 100 companies. Marianne has held senior positions in multinational corporations and has traveled extensively throughout the world. Her research interests are corporate social responsibility and sustainability in multinational corporations as well as boardroom governance with an emphasis on the behavioral aspects of the boardroom cultural governance also in multinational corporations.