EXPLORING THE POLITICAL SIDE OF BOARD INVOLVEMENT IN STRATEGY: A STUDY OF MIXED-OWNERSHIP INSTITUTIONS[1]

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Abstract

Our article reports findings from a comparative study of strategic decision-making and board functioning in nine firms. Findings from our study indicate that the heterogeneity of interests represented in the board, members' possession of relevant knowledge, and the presence of ex-ante conflict resolution mechanisms combine in shaping if and how board members engage in strategy-related activities and how strategic decisions are taken. Our findings extend current understandings about the strategic functions of the board (monitoring, advice, and resource-dependence), suggesting how, under certain conditions, boards may act as negotiation forums where directors search for a reconciliation between diverging shareholders' interests and views.

Keywords: *boards of directors, board involvement in strategy, politics, strategic decisions*

INTRODUCTION

Research on board involvement in strategy can be largely traced back to two main theoretical approaches, namely a strategic choice perspective and an agency perspective (Rindova, 1999). While the former focused on the capacity of board members to contribute to the development and refinement of strategic decisions (e.g. Tashakori and Boulton, 1983; Carpenter and Westphal, 2001), the latter examined how boards could prevent managers from developing corporate strategies that privileged their own interests at the expense of the shareholders' (e.g. Boeker and Goodstein, 1993; Baysinger and Hoskisson, 1990).

Collectively, these studies have considerably advanced our understanding of how and why boards of directors engage in strategy-related activities. Critical reviews of research on board involvement in strategy, however, have raised concerns about the tendency of extant research to oversimplify the structure of decision making in boards (Forbes and Milliken, 1999; McNulty and Pettigrew, 1999) and about its limited capacity to capture the nuances of political issues surrounding strategic decisions (Pettigrew, 1992), and they have called for further explorations of the context and the process of board involvement in strategy (McNulty and Pettigrew, 1999; Rindova, 1999).

Following this call, in this article, we report findings from a comparative study of board functioning and strategic decision making in nine boards of mixed-ownership institutions – i.e. companies where two or more stockholders own large shares of the capital – a research setting selected with the explicit aim of increasing the visibility of social and political dynamics surrounding strategic issues. Evidence from our study suggests that variables of cognitive (members' possession of relevant knowledge) and political nature (heterogeneity of represented interests, presence of ex-ante conflict resolution mechanisms) combined in explaining if and how board members engaged in strategy making and how strategic decisions were taken. Different configurations of board involvement seemed to arise in response to different combinations of these variables.

Our findings highlight the influence of the represented interests on board involvement in strategy and explore the conditions under which this occurs. In doing so, they provide empirical support to the theoretical arguments in favor of the adoption of a political perspective to the study of board involvement in strategy, in addition to the more popular lines of inquiry inspired by theories of agency or strategic choice. In doing so, our findings suggest an enrichment of traditional understandings of the strategic functions of the board as a monitoring device, a source of strategic advice, and a nexus of environmental linkages for securing critical resources (Johnson, Daily and Ellstrand, 1996; Stiles and Taylor, 2001; Zahra and Pearce, 1989). In this respect, evidence from our study suggests that in presence of highly diverging interests represented in the board and in absence of ex-ante conflict resolution mechanisms, boards may have also a *consensus-building function*, acting as a negotiation forum where a compromise between a set of diverging interests is searched for.

THEORETICAL BACKGROUND

The strategic choice perspective

Early research on board involvement in strategy focused on insider representation – i.e. the percentage of board members who are current or former employees of the firm – as a significant antecedent of board involvement in planning (Tashakori and Boulton, 1983), decision-making (Judge and Zeithaml, 1992) and strategic change (Goodstein and Boeker, 1991). Studies in this tradition followed what Judge and Zeithaml (1992) called a *strategic choice* perspective, in that they rested on the idea that directors contribute to refine corporate strategy by evaluating corporate plans and challenging managers, and by occasionally engaging in the development of strategic alternatives

(Andrews, 1980; Demb and Neubauer, 1992; Rindova, 1999). Later studies relied on simplified representations of the process – such as Judge and Zeithaml's (1992) distinction between a formation and an evaluation phase – to facilitate survey-based investigation of antecedents of board involvement (e.g. Carpenter and Westphal, 2001; Westphal and Fredrickson, 2001).

Recent qualitative research on board dynamics, however, indicates multiple ways in which board members may attempt to influence strategic decisions. McNulty and Pettigrew's (1999) exploration of the role of outside directors brought to the identification of three broad types of involvement, as outside directors may "take strategic decisions" (as they accept or reject capital investments), "shape strategic decision" (as they try to influence the preparation of the proposals) or even "shape the content, context and conduct of strategy" (as their influence spans from the formation to the implementation of strategies). Later, Stiles' (2001) field study produced a sophisticated account of various activities through which board members influence strategy making, from business definition (as they set the vision and the mission of the organization) to gatekeeping (as they screen top management's proposals and they ensure the respect of the current strategic framework) and others. Collectively, these findings seem to challenge the capacity of a two-step representation of the process such as Judge and Zeithaml's (1992) to properly describe how board members engage in strategy-related activities, and indicate that research on antecedents of boards involvement in strategy may benefit from more nuanced and empirically grounded accounts of the process.

The agency perspective

A second line of inquiry has focused on the content of corporate strategies as a good indicator of the relative influence of outside directors – as representatives of shareholders – on the outcome of decisions, investigating how board composition and structure are related to R&D spending and innovation (Hill and Snell, 1988), diversification (Hill and Snell, 1988; Yoshikawa and Phan, 2005), strategic change (Goodstein and Boeker, 1991; Golden and Zajac, 2001), internationalization (Tihanyi, Johnson, Hoskisson and Hitt, 2003) and the adoption of governance practices (e.g. Mallette and Fowler, 1992; Young, Stedham and Beekun, 2000).

These studies largely adopted an *agency* perspective, emphasizing the fundamental conflict of interests between shareholders and managers over the content of strategic decisions (Jensen and Meckling, 1976). Agency theorists (Fama and Jensen, 1983) consider the board of directors a primary mechanism for safeguarding shareholders' interests from opportunistic behavior of executives. Research in this tradition assumed that proper managerial incentives (e.g. Hill and Snell, 1988; Johnson, Hoskisson and Hitt, 1993) or a powerful board (e.g. Baysinger, Kosnik and Turk, 1991; Westphal, 1998) would eventually induce managers to select strategies in the primary interests of shareholders.

Building on a theoretical agency framework, scholars inferred conclusions on boards' behavior from the analysis of demographic characteristics of board members, assuming that demographic factors could capture their inclination towards strategy in an effective way (Golden and Zajac, 2001). Past studies, however, seem to have produced mixed results, as, for instance, inside directors were described alternatively as defenders of the existing course of action (Goodstein and Boeker, 1991), risk-averse pursuer of diversification strategies (Hill and Snell, 1988) or bold supporters of innovation (Baysinger *et al.*, 1991). Furthermore, while these studies generally assumed homogenous preferences among shareholders, recent research has highlighted how different type of owners (owner-managers, investment funds, pension funds, etc.) may differ in time horizons and goals, hence in their attitude towards corporate innovation (Hoskisson, Hitt, Johnson and

Grossman, 2002), diversification (Yoshikawa and Phan, 2005) and internationalization (Tihanyi *et al.*, 2003). These results indicate that closer examination of the interests represented in the boards may further improve our understanding of the institutional and ownership context that affect the role of the board and its functioning (Lubatkin, Lane and Schulze, 2001).

Exploring a complementary theoretical framework

Shortcomings of past studies on board involvement in strategy seem to reflect more general issues affecting research on board of directors. Reviews of extant research in the major areas of inquiry have revealed little consistency in past results (Dalton *et al.*, 1998; Johnson *et al.*, 1996). While some scholars have called for more refined correlational research that placed more attention to the influence of less studied, potentially moderating variables (Dalton *et al.*, 1998), others have observed how search for parsimony and simplicity might have led researchers to oversimplify the causal chain linking governance structures and dynamics to corporate performance, reducing the ability of the research method to detect the influence of variables not considered in the design phase (Pettigrew, 1992; Forbes and Milliken, 1999), and leading to overlook the complexity of processes embedded in a web of multiple and diverging interests (Stiles and Taylor, 2001). As McNulty and Pettigrew observed, there seems to be a "need to get closer to boards and directors to collect primary data about processes of contribution, power and influence (1999: 52)."

While it would be incorrect to claim that research on board involvement in strategy has totally overlooked issues of power and interests, with few exceptions (Hill, 1995; McNulty and Pettigrew, 1999; Pettigrew and McNulty, 1995; Stiles, 2001), most researchers have largely relied on the simplified assumptions of the agency framework and have rarely investigated the actual interests shaping the interaction between board members and managers. Yet, the idea that the process and outcome of strategic decisions are partly shaped by the specific interests is central to one of the main research traditions on decision-making – i.e. a *political perspective* on strategy (Eisenhardt and Zbaracki, 1992).

This school of thought highlights the fact that, in organizations, coalitions of people may have competing interests as regards the outcome of strategic decisions (Pettigrew, 1973 and 1977). In this respect, strategic decisions are not just about finding rational solutions to technical or economic problems: insofar as they imply a distribution of resources, they tend to be affected by political processes where actors with partially diverging interests attempt to influence their outcome (Allison, 1971; Hickson *et al.*, 1986; Pfeffer and Salancik, 1974). Strategy formulation, then, can be considered as a partly boundedly rational and partly political process (Hickson *et al.*, 1986). The various interests involved affect strategic decisions insofar as they find a formal or informal way – such as representation in the board – to exert influence on the process.

Past research on decision making has investigated the conditions that affect the likelihood that organizational units engage in power struggles over the allocation of resource (e.g. Hills and Mahoney, 1978), as well as the determinants of the relative power of each subunit (e.g Pfeffer and Moore, 1980; Salancik and Pfeffer, 1974). While later studies observed how an excess of political behavior – i.e. focus on personal interests and use of power – may reduce the effectiveness of decision making, to the extent that it may divert attention from organizational goals and from the feasibility of the adopted solutions given the environmental constraints (Dean and Sharfman, 1996), and it may fail to gather the support required for effective implementation (Floyd and Woolridge, 1992; Nutt, 1987), research in this tradition converges on the idea that political behavior is an intrinsic feature of organizational decision-making (Crozier and Friedberg, 1995).

A political approach to strategy, then, questions the validity of analyses based on universal assumptions, and emphasizes how the outcome of strategic decisions depend on a broad context, of which the internal political system is a fundamental component (Pettigrew, 1977). Therefore, understanding the process and the outcome of strategic decisions requires a careful analysis of the set of interests that have the power to influence the focal decision (Crozier and Friedberg, 1977; Hickson, 1987). In this view, studies of board involvement in strategy would benefit from a preliminary analysis of the set of interests that are represented in the board, and of the relationships of cooperation and competition that connect the various shareholders.

RESEARCH METHOD

In order to benefit from both the richness and realism of longitudinal, grounded studies and the robustness of a comparative approach, our study relied on multiple-case design (Yin, 1984; Eisenhardt, 1989a) and adopted a "synthetic strategy" to the analysis of process data (Langley, 1999). In other words, we compared evidence across several cases, searching for discernible patterns and for plausible antecedents of the observed differences, trying to discriminate between local contingencies and more general regularities (Eisenhardt, 1989a; Crozier and Friedberg, 1995).

Research setting

Our study was conducted on nine large firms. The selection of cases relied on theoretical sampling (Miles and Huberman, 1994). We focused on what we could refer to as "mixed-ownership institutions" – i.e. firms whose ownership is distributed between a few actors, none of whom controls the majority of the votes, and at least some of whom have other exchange relationships with the organization (being a supplier, a customer, a manager, a competitor, etc.) and therefore are likely to have multiple interests in the firm's conduct rather than mere profit-maximization. Our assumption was that the inherent complexity in the ownership configuration of these types of firms would have made political processes more visible and therefore easier to study (Pettigrew, 1990).

Combining various public sources, we compiled a list of the 500 largest industrial, commercial and service companies in the country, ranked by sales. For 492 of them, we managed to gather detailed qualitative and quantitative information about the ownership structure. Data came from various sources including the Stock Exchange, the local Chambers of Commerce, the financial press, and the companies' websites. The ownership structure of fifty of them corresponded to our theoretical requirements (not fragmented, but neither concentrated in the hands of a single majority owner). Thirty-four of these companies were excluded *a priori* because family ties or other personal bonds among shareholders increased the likelihood that business-related processes might be blurred by overlapping social dynamics related to kinship, friendship, obligation, tradition, etc. The remaining sixteen companies were contacted and nine out of sixteen agreed to participate to our research (see details in Table I).

Insert Table I about here

Data collection

Following a recent call to investigate "both the content and the process of board involvement in strategy" (McNulty and Pettigrew, 1999, p. 51), our study followed an embedded design (Yin, 1984). First, an analysis of shareholders' interests and of the multiple relationships between the former and the company provided the contextual information required to properly understand the observed processes. Next, we examined board activities in order to understand what type of strategic issues where brought to the attention of the board. Finally, in order to understand the processual side of board involvement, we investigated instances of strategic decisions: how they started, how they unfolded and how a final agreement was reached.

Following prescriptions for case-based research (Yin, 1984), company data were collected from different sources: archival research in the business press and other secondary sources, and semi-structured interviews with members of the board.

Archival research: preliminary archival research in business magazines and other secondary sources (websites, corporate directories, annual reports and other publicly available corporate documents, etc.) helped us draw a company profile and trace the company's recent history. As customary in inductive research (Locke, 2001), data collection followed emerging insights. After preliminary analysis indicated a possible influence of shareholders' agreements on board members' involvement in strategy, we also collected copies of the company by-laws from the local Chambers of Commerce in order to gather more precise information about the institutional context of decisions. As insights from the cases indicated that the knowledge and expertise of board members could contribute to explain board behavior, further search helped us identify the professional background of most board members or their position in the mother companies. Then, following previous research (Baysinger and Zardkoohi, 1986; Hillman, Cannella and Paetzold, 2000), board members were tentatively categorized according to their presumed strategic role as *insiders* (i.e. current officers of the firm), *decision controllers* (i.e. shareholders' representatives, whose primary role was to ensure that decisions safeguarded the interest of the former), *business experts* (former executives or current officers in other firms in the same or related industries) and *support specialists* (lawyers, bankers, accountants or other professionals, occasionally providing specialized expertise on specific issues), or a combination of the above. Archival data were triangulated with information collected in the interviews, which increased our confidence in the reliability of our assessment.

Semi-structured interviews. Archival research helped us prepare semi-structured interviews, aimed at collecting detailed information on boards' involvement in strategic decisions. For each company, we interviewed at least two members of the board (see Table II). The selection of our informants was aimed at collecting data from directors which (a) were in a good position to be informed about board behavior and involvement in strategy, and (b) represented different shareholders – in order to capture different views on board-related issues and reduce the risk of collecting a biased representation of board dynamics (Friedberg, 1993).

Typically interviews lasted between one and a half and two hours. In order to ensure reliability, both researchers were present at all the interviews. Given the content of interviews, at times we were not allowed to use a tape recorder. However, detailed notes were collected and, soon after each interview, they were compared, merged and transcribed. Following Miles and Huberman's suggestion, transcriptions were supplemented by contact summary sheets, reporting essential data, key issues arising from the interviews, as well as insightful quotations that could help future theorizing.

We initially asked our informants about their company, their industry and their strategy. In a second part of the interview, we asked them to illustrate the ownership structure, and, in order obtain a clearer representation of each shareholder's interests in corporate activity and performance, we asked them to indicate if shareholders had other relationships with the company besides shareholdings (see Table I). In the third part of the interview, we focused on boards of directors: their structure, composition and functioning. We asked our informants to describe typical activities during board meetings. In order to obtain a comparable representation of what each board really did, we asked our informants to rank board activities according to their relative prevalence inside and outside board meetings.

The fourth part of the interview investigated strategic decisions. Following a method already used in research on decision making (e.g. Eisenhardt, 1989b), for each firm we asked our informants to identify a recent major decision that had involved the board and could be considered representative of the usual process by which strategic decisions are made (see Table II). We asked our informants to trace the story of the decision, trying to distinguish facts and events (how it started, who was involved, etc.) from personal observations.

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insert Table II about here

Data Analysis

Data analysis combined common methods for grounded-theory building (Glaser and Strauss, 1967; Locke, 2001) and comparative case analysis (Eisenhardt, 1989a). Accordingly, data collection and analysis proceeded in an iterative way, as new data were gathered in order to test the robustness of emerging interpretations about possible explanations of board involvement in strategy.

In an early stage of our analysis, we carefully examined our informants' descriptions of board activity and strategic decisions, aiming at producing a rich representation of board involvement in strategy. First, following prescriptions for grounded-theory building (Locke, 2001), board members' descriptions of board activities were content analyzed, searching for common categories across cases. First-order categories were labeled in terms that were as close as possible to the words actually used by our informants. In a second round of categorization, cross-case comparison helped us group first-order categories in second-order macro-categories illustrating the prevailing activities of each board.

As regards prevailing board activities, a comparison of the rankings produced by members of the same board showed consistent agreement, at least as regards the first three positions. These results reinforced our confidence in the reliability of an assessment of the prevalent activities of the boards based on the upper part of the ranks – i.e. on the top three activities mentioned by our informants. Further cross-case comparison revealed two prevailing configurations, which building on Stiles (2001) we labeled as "setting the strategic context" vs. "gatekeeping", emphasizing the prevailing strategic activities performed by the board (see Tables III, IV and V later). The different relative importance of strategy-related activities defined what we could call the *type of board involvement* in strategy.

Next, following past research on strategic decisions (Eisenhardt, 1989b), we merged the descriptions of strategic decisions into "decision stories" based on our informants' accounts. Combining multiple perspectives helped us move beyond individual perceptual biases and alleviated potential recall problems. Analysis of decision stories helped us investigate the participation of board members in the various phases of the decision process. While past research has generally distinguished between a formation phase and an evaluation phase (Carpenter and Westphal, 2001; Judge and Zeithaml, 1992), our data suggested the adoption of a four-step framework (generation of ideas, selection of a course of action, execution, and control) to categorize the *scope of board involvement*, understood as the extent of board involvement in the various conceptual phases of the process.

Finally, as we analyzed strategic decisions, we observed that boards did not differ only in their prevailing strategic activities and in their involvement in the various phases of the process, but also in the way a final agreement was reached. Building on earlier frameworks, Mintzberg and colleagues (Mintzberg, Raisinghani and Théorèt, 1976, p. 258) identified three basic modes for choosing among alternative strategic solutions: judgment, analysis and bargaining. Judgment refers to decisions made by individuals in their own mind, on the basis of a subjective evaluation of the consequences. Analysis, on the contrary, is based on a rational evaluation of the alternatives, supported by factual data and technical tools. Bargaining, finally, produces decisions that mediate between the interests of different parties with conflicting goals. Following Mintzberg and colleagues, we categorized the *prevailing mechanism for decision making* for each case. Not surprisingly, given the institutional context in which decisions were taken, no board gave primacy to individual judgment: while some relied on rational analysis, in others, decisions emerged from intensive negotiations among the parties involved.

Cross-case comparison of boards and board members' involvement in strategy revealed three different patterns of behavior across cases, characterized by different combinations of type and scope of board involvement in strategy as well as by the prevailing decision mechanisms. Accordingly, we formed three groups of three, two and four cases respectively displaying different patterns of involvement in strategy, and we tentatively named their boards as "Type A", "Type B" and "Type C" (see Tables III, IV and V). In a further round of comparative analysis, combining within-case analysis with cross-case comparison, we searched for variables that could explain differences in the observed patterns across board types. We adopted a comparative logic closer to the one described by Eisenhardt (1989a), according to which within-case analysis based on rich, often anecdotal, information was used to generate insights to be developed further and tested in cross case analysis. We constructed comparative tables to identify discriminating variables that could explain similarities and differences in patterns of involvement (summarized in Figure 1).

Provisional interpretations were developed in an iterative way, as emerging insights called for additional data collection and tentative explanations were checked across cases; in this respect each case was used to confirm or disconfirm inferences drawn from other cases (Eisenhardt, 1989a).

Following Eisenhardt's (1989a) indications, we referred to the existing literature to refine and enrich inductively derived theoretical insights.

FINDINGS

The analysis of board activities across the nine cases revealed three different patterns of behavior, resulting from different combinations of the *type* and *scope of board involvement* – i.e. the prevailing strategic activities performed by the board and the relative involvement of members along the various phases of the process – and the *prevailing decision mechanism*.

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insert tables III, IV and V about here

Some boards, tentatively labeled "Type A", mainly displayed a moderate involvement in strategy making – similar to what McNulty and Pettigrew (1999) described as *taking strategic decisions* (see Table III). In Redaelli Tecna, Tecnologistica and Teknecomp, shares were roughly distributed between a top management team, collectively owning up to 30-40%, and various institutional and private investors. In these companies, boards evaluated proposals for capital investment and controlled the results of their implementation, but left full responsibility for the generation, elaboration and implementation of alternatives to managers. The evaluation of proposals generally relied on the analysis of the financial implications of strategic or business plans.

Other boards, named "Type B", displayed a higher involvement of members in the development and refinement of strategic plans, as they would often engage in what McNulty and Pettigrew (1999) describe as *shaping strategic decisions* (see Table IV). In joint ventures Nylstar and Polimeri Europa, outside board members – often functional or divisional managers in the mother companies – would engage, together with top managers, in the formulation of plans that would later be submitted to the collective discussion. Directors, either individually or collectively, raised issues, proposed alternatives and contributed to their elaboration, and sometimes even followed their implementation. In other words, board members tended to be involved all along the process. Like in Type A boards, however, the evaluation of alternatives relied primarily on rational analysis of the proposals submitted to the board, based on financial or industrial considerations.

Similarly, "Type C" boards displayed a high involvement in all the phases of the decisions, and actively shaped goals, policies and decisions (see Table V). Their behavior, however, resembled more what McNulty and Pettigrew (1999) described as *shaping the content and context of strategy*. In joint ventures Olivetti Canon Industriale, Telepiù, Italtel and Siemens Nixdorf Informatica, outside board members – often ex executives or other business experts – would vigorously engage in the elaboration, discussion and refinement of broad strategic plans as well as specific business projects. Discussions would be carried out largely outside board meetings, and decisions would be brought to the board only after the parties had reached an agreement. Unlike Type B boards, decisions would emerge from intense negotiation among managers and board members, aimed at developing a solution that would accommodate the interests of the company and its shareholders.

Comparative analysis across cases helped us identify three variables – namely the *heterogeneity of interests represented in the board*, directors' *possession of relevant knowledge*, and the existence of *ex-ante mechanisms for resolving conflicts among shareholders* – which seemed to combine in explaining much of the observed differences in board involvement in strategy-related activities. The resulting explanatory framework is summarized in Figure I, highlighting the moderating effect of ex-ante conflict regulation on the relationship between the configuration of shareholders' interests and some aspects of board involvement in strategy, and the possible mediating effect of members' knowledge between interests and the scope of board involvement; a relationship, however, which, in absence of robust evidence from all the cases, is tentatively indicated with a dotted line.

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insert Figure I about here

The scope of board involvement

By scope of board involvement, we refer to the extent to which board members engage in the various phases of the decision making process. Three of the observed boards showed a narrow involvement in strategy making, focusing mostly on approving or rejecting strategic proposals developed by top managers and controlling their realization. The remaining six showed a broader involvement in all the phases of the process, including the elaboration and implementation of alternative courses of action.

In Redaelli Tecna, Teknecomp and Tecnologistica, Type A boards generally set quantitative objectives (in terms of growth, profitability, etc.), vesting managers with responsibility for strategy formulation (see Table III). Plans were initiated, developed and elaborated almost exclusively by the managers, although directors were kept constantly informed about the emerging alternatives that would later be submitted to the attention of the board. The case of industrial conglomerate Teknecomp, summarized by the CEO, is illustrative of the typical early stages of the process:

> The opportunity to sell a subsidiary, a producer of electronic components, was initially brought to the attention of the board by a manager of the company itself (…) He had received an offer from a large American client. (…) After having informed the board, we [the CEO, the financial manager and the general manager of the subsidiary] worked on the project for 6-7 months (…) Having reached an agreement with our counterpart, we finally brought the proposal to the board.

Type A boards focused mainly on approving or rejecting top managers' strategic proposals and controlling their execution through a rich information flow. Strategic issues would be discussed and decisions taken during board meetings, on the basis of the detailed information provided for by the management. Decisions would be later implemented by the managers, and their results again brought to the attention of the committee and the board.

In all the other cases – corresponding to the six joint ventures – the involvement of the board was broader and the steps were not as well defined: boards, either collectively or through some of their members, were often involved in the generation and elaboration of strategic alternatives (see Tables IV and V), as they would often delegate members to assist managers in the analysis of issues and in the formulation of proposals that would be discussed during plenary meetings.

At producer of artificial fibers Nylstar, for instance, in order to thoroughly analyze the implications of the proposed acquisition of a plant in a former Eastern European country, a joint committee including board members and directors was formed (see Table IV). As the chairman of Nylstar explained:

> At first sight, the deal seemed attractive, but it was fraught with uncertainties. In order to increase our understanding of the pros and cons of the operation, we decided to create a committee that would include the general manager and two outside directors, a sales manager and an operations manager in the mother companies. (…) The task of the committee was to collect further information about the opportunity and to develop a proposal to the board. Its composition ensured a broad range of expertise, adequate to the complexity that we perceived in the task.

Rather than simply choosing between different alternatives proposed by the managers, board members would take an active part in their development, so that it was difficult to clearly distinguish a generation phase and a selection phase. While boards usually took formal responsibility for the selection of alternative proposals, decisions were taken to boards' meeting only after the shareholders' representatives sitting on the committee had analyzed in depth the pros and cons of the alternatives and actively contributed to shape and refine them. Alternatives brought to the board would then be discussed, sometimes approved, sometimes rejected. At times, however, outside board members would even support managers in the implementation of decisions (see Tables IV and V).

An early interpretation of our findings led us to hypothesize that the observed differences could be ascribed primarily to the divergence among the shareholders' interests that were represented in the board. In fact, some of our informants mentioned explicitly how members' involvement in the early stages of the process was often inspired by specific plans of the shareholders they represented. Take the case, for instance, of Siemens Nixdorf Informatica, a producer of systems and services for office automation, as described by the chairman of the board:

> During a regular board meeting, a representative of one shareholder [Siemens Nixdorf] proposed to spin-off the information service business. He proposed to create a new company, which would receive all the assets of the venture in the information services. The proposal was clearly inspired by the decision of Siemens Nixdorf to increase its presence in that business. The spin-off would have facilitated the realization of this plan in our country.

However, while heterogeneous interests seemed to be generally associated with the tendency to purposefully attempt to shape the content of decision, within-case analysis did not provide robust evidence of a direct causal connection between the heterogeneity of shareholders' interests and the scope of board involvement.

In the interpretation of our informants, a second variable, namely the *possession of relevant knowledge*, seemed to display a more robust and direct correlation. By relevant knowledge, we specifically refer to functional or market knowledge that can be usefully applied to the problem solving process implicit in most strategic decisions (Hickson et al., 1986) and is therefore likely to enhance the capacity of board members to perform their advisory task effectively (Forbes and Milliken, 1999). Further examination of the distribution of knowledge and expertise among board members, because of their professional background or their past experience (see Tables VI and VII), seemed to support this emerging interpretation.

Insert tables VI and VII about here

In Type A boards, most outside directors had been appointed by institutional investors in order to monitor managers' decisions and safeguard the interest of their appointers (see Table VI). In doing that, they primarily performed the role of "decision controllers" (Baysinger and Zardkoohi, 1986). They were executives of merchant banks or chartered accountants with a background in finance or in law, but lacking a deep knowledge of the business. The CEO of Teknecomp generally described the competence of outside directors as "generic". Some of them, because of their professional background, occasionally acted as "support specialists" (Hillman, *et al.*, 2000) in that they provided specialized advice of financial or legal nature on specific financial operations.

The potential contribution to strategy formulation of these directors was largely described by our informants as low. Their involvement was limited to reviewing plans, probing for more information and stimulating their refinement. They demanded a timely and comprehensive flow of information in order to be able to control top management's behavior, even in absence of a strong knowledge of the technical and commercial aspects of the business. As a director of Redaelli Tecna observed:

> Every time a proposal was advanced, the CEO would deliver a comprehensive documentation illustrating the project in the details, including expected economic results, cash flow, etc. (…) He would guarantee the business assumptions of the plan (…) we reviewed the analysis of the financial aspect of the plan.

In the six joint ventures, instead, most representatives of the partners were functional or divisional managers in the mother companies or sometimes ex-managers of the company (see table

VII). In other words, most of them qualified as “business experts” (Hillman, *et al.*, 2000). While they acted also as decision controllers – or, as the chairman of Olivetti Canon Industriale defined them, as “observers” on behalf of the mother companies – they possessed a profound knowledge of the industrial or commercial side of the business that enabled them to play a more substantial role. At Siemens Nixdorf Informatica, for instance, the chairman observed repeatedly how involvement in the various phases of strategy making was facilitated by the expertise of board members:

> Most board members have a deep knowledge of the company and they give an active contribution to the development of the strategic proposals (...) Directors give ideas and contributions: make questions, ask for further analysis, and suggest future directions. (…) It is normal [for board members] to contribute to the elaboration of strategies: some members even tend to follow strategic issues more closely, outside board meetings. (…)

By virtue of their background, then, most shareholders’ representatives in the six joint ventures were able to bring specific technological, managerial and commercial knowledge to the strategic process (see Tables IV, V and VII). Frequent interaction and intense collaboration between inside and outside board members was common to the six companies. As a director of Italtel, a large producer of telecommunication equipment, explained:

> The fact that all board members are managers – in the joint venture, in the mother companies or in some affiliated company – ensures that they all share a profound knowledge of the telecommunication industry. Their contribution to board activities, then, is very professional and facilitates collaboration between inside and outside directors.

In summary, our evidence seems to support the following proposition:

Proposition 1: The greater the amount of relevant knowledge possessed by board members, the broader the scope of board involvement in strategic decisions.

The type of involvement and the mechanisms of decision

While Type A and B differed in the relative involvement of board members in the various phases of the process, they showed similar patterns of behavior in the prevailing strategic activities of the board as a collective unit and in the way strategic decisions were eventually taken. Both types of boards showed the prevalence of what Stiles (2001) describes as *gatekeeping* – i.e. the evaluation and screening of strategic proposals advanced by top managers. In Type A and Type B boards, most meetings would be dedicated to the analysis of financial results and to the evaluation of capital investments and strategic plans. Although in Type B boards, individual members would be occasionally involved in refining strategic plans, boards collectively intervened at the end of the decision process, discussing and accepting – or rejecting – capital investment proposals formally advanced by top managers (see Table IV).

Selection largely relied on rational and objective *analysis* of the alternatives supported by factual data and financial tools. Top managers would usually submit plans in advance to board members, along with extensive information. During meetings, directors would analyze and discuss them with managers. At times, they requested modifications or even rejected the plan if the technical solutions were not convincing or if the financial implications were unsatisfactory.

At Teknecomp and Tecnologistica, for instance, managers would illustrate in details the implications of their proposals. Although their report would often include both qualitative and quantitative information, they would place a particular emphasis on financial aspects, as these seemed to be the grounds on which proposals would largely be evaluated (see Table III). Similar patterns of behavior were observed also at Redaelli Tecna, as an outside director recalled:

> As usual, we had all received a detailed report a week in advance. During the plenary meeting, the CEO presented the alternatives, under different levels of projected sales. (…) Different financial ratios were associated to each alternative. (…) I remember we discussed for hours. (…) Eventually we approved the investment that, compared to the alternative solutions, was expected to influence more positively future cash flows. (…) Redaelli is not the usual small business where

> you hear 'I have the impression that if we enter that business…' We might start with impressions, but eventually decisions are guided by expected cash flows.

Rational analysis seemed to prevail also in Type B boards, such as Nylstar and Polimeri Europa, where top managers would submit strategic decisions – developed in collaboration with some board members – to the board meeting, where the plan would be discussed by all members and approved or rejected after having evaluated its assumptions and financial implications for the company.

Type C board members, instead, were highly engaged, both individually and collectively, in what Stiles (2001) describes as *setting the strategic context* for managers' decisions, as boards clearly defined the overall goals and the boundaries within which strategic plans were expected to be formulated. In these companies, shareholders vested the board with the responsibility to give managers broad strategic directions. In board meetings, much time was spent discussing and defining general policies and competitive issues. In fact, as illustrated in Table V, board members did not restrict themselves to set general goals, but would often go down the hierarchy of strategic decisions, sometimes even having a word in the development of product policies and market strategies.

Strategic decisions, however, usually emerged from a process of *bargaining*, in that the selection among the available options required mediation between possibly diverging interests among shareholders. In Type C boards, when asked to describe the decision process, our informants explicitly referred to the necessity to reach a consensus between the shareholders before a decision was made (see Table V): strategic decisions were often discussed between shareholders' representatives outside board meetings, and brought to a meeting only after an agreement was reached.

These boards would perform their functions largely outside plenary sessions. At Telepiù, for instance, an executive committee composed of representatives of the three partners met frequently to discuss strategic issues later to be brought to the attention of the rest of the board. However, as an outside director appointed because of his personal expertise and connections commented, when issues touched the interests of shareholders, decisions would in fact be taken outside the board (see Table V).

The difference in the decision modes used by Type A boards on the one hand and Type C boards on the other hand seemed to be explained primarily by the structure of shareholders' interests and in particular by a variable we labeled *heterogeneity of represented interests*, understood as the variety and diversity of the stakes represented in the board. In the observed cases, such heterogeneity derived from the fact that most mother companies were also engaged in collaborations of various kinds (i.e. supply of technology or raw material, purchase of products, etc.) or were in a position of direct or indirect competition (see Table I). As a member of the board of digital broadcaster Telepiù observed:

> Conflict did not appear in the minutes, but was in the atmosphere and it was due to the diverging interests among shareholders. One of them had developed a proprietary technology and found itself in a double position, as supplier and client.

When one of the shareholders proposed to upgrade the technological platform of the company, being also in the position of potential supplier, tension arose, as one of the co-CEOs later recalled:

> You see, there was no market price for it, no reference. It was a pure negotiation. Bob [the other CEO, representing the shareholder-supplier] and I would sit in opposite offices with open doors and could talk to each other without even leaving the office. I would also talk frequently to Jan [the chairman, representing another large shareholder] and check his reactions (…) and I would go back to Bob and say: Look, if you do this, Jan will not be happy (…)

Similarly, at Italtel, conflict was heightened because of the respective positions of the mother companies: on the one hand, STET was by far the largest customer of the venture and had an interest in pushing development projects that suited its specific needs, while, on the other hand, Siemens's products would compete with Italtel's in some foreign markets. As a director told us:

> At times, frictions might arise between the company and its shareholders (…) In some European markets we are actually competing with one of the parent companies. For example in Spain we would like to increase our market share but the mother company is trying to stop our plans.

In the specific case we analyzed, parent companies had also opposing views on locating the manufacturing of a new product, as both companies had interest in the production being carried out within their own facilities. Negotiation between board members was required to find a compromise between the diverging interests of shareholders.

In fact, most of our informants mentioned how potential conflicts of interests among the shareholders were usually addressed and dealt with outside board meetings, as they often required long negotiation among the parts (see Table V). The presence of high officers from the mother companies, as directors from Italtel and Siemens Nixdorf Informatica explicitly observed, gave boards the possibility to make important decisions that affected the interests of the partners. In summary:

Proposition 2a: Other things being equal, the higher the heterogeneity of shareholders' interests, the higher the likelihood that "setting the strategic context" will be the prevailing strategic activity of the board, and that bargaining will prevail as a decision mechanism.

In Type A boards, instead, patterns of conflict were simpler and closer to the traditional agency-based representation: managers on one side and pure shareholders (i.e. without contractual relationship with the company) on the other. Moreover, managers also owned shares in the company and, hence, just like institutional and private investors of the firm, they were interested in maximizing the financial return of the company. Our informants did not mention particular conflicts: minor divergence was usually considered easier to solve. As a director at Redaelli Tecna remarked:

> We might have had discussions, but no real problems. (…) Between 1990 and 1996 boards decisions had been unanimous. Consensus was easy to reach because interests were convergent. In 1996, the board split when the CEO and one of the shareholders, a merchant bank, developed opposing views about the decision to go public.

In these cases, the convergence of shareholders' interests seemed to facilitate the adoption of procedural rationality – based on objective evaluation of the alternatives – over political bargaining. As the CEO of Teknecomp observed (see also Table III):

> Only once, in my memory, the board denied approval. We shared diverging views about the risk-return profile of an acquisition, and the majority of board members considered the acquisition too risky.

Commonality of interests between investors made it possible for a coalition of shareholders to veto managers' decision, the adequacy of which, then, had to be proven on technical grounds. In formal terms:

Proposition 2b: other things being equal, the lower the heterogeneity of shareholders' interests, the higher the likelihood that "gatekeeping" will be the prevailing strategic activity of the board, and that rational analysis will prevail as a decision mechanism.

At first, the fact that Type B boards – corresponding to joint ventures Polimeri Europa and Nylstar – shown a behavior similar to Type A boards, seemed to contradict our tentative interpretation. Yet further analysis revealed a substantial difference between the shareholders agreements of the first and the second group of joint ventures. In these cases, our informants mentioned how venture agreements between the partners regulated supply relationships and other potential conflicts of interest in details. These rules offered a framework in the light of which managers' proposals could be evaluated. As CEO of Nylstar told us:

> Joint venture agreements clearly define contributions and supply terms. They offer us a precise reference for issues involving a partial conflict of interests. […]

In these ventures, patterns of relationships between shareholders and the ventures seemed to be somewhat simpler and limited to supply relationships. Hence it was probably easier to circumscribe potential conflicts and regulate them ex-ante. The presence of what we could call *ex-ante conflict regulation mechanisms* – i.e. formal agreements that regulated in detail the relationships between the parties, reducing the strategic discretion of the board, and consequently the range of issues that could possibly be disputed and subjected to negotiation – seemed to contribute to the stability of the relationship. In fact, one of our informants at Polimeri Europa reported how the occasional revision of the shareholders' agreement opened the way to negotiations aimed at striking a new balance between the conflicting goals of the mother companies. As the CEO observed:

> Occasionally, a shareholder may propose changes to the rules governing the relationships between the venture and the mother companies. In these cases, decisions are usually taken outside the board, discussed by the shareholders' representatives and brought to the board only after a consensus is reached.

In Type C boards, instead, shareholders seemed to have left resolution of their diverging interests mainly to the negotiations between board members. In these cases, carefully designed governance structures ensured the "balance", as one of our informants observed, of the context within which decisions matured. At Telepiù, for instance, the board was chaired by a representative of the Kirch Group, while two co-CEOs cohabited at the top of the managerial rank: one was initially appointed by Fininvest, the founding company, while the second was appointed later by Nethold, a new partner in the venture. At Italtel and Siemens Nixdorf Informatica, partners appointed an equal amount of directors. The only amendments to the by-laws regarded the rules for electing the chairman. In both cases, amendments gave one of the partners the right to propose a person as chairman, and the other the right to accept or refuse. Finally, at Olivetti Canon Industriale, ample amendments to the company by-laws conferred to the board of directors – where both shareholders were equally represented – exclusive authority over a broad range of business decisions, from investing in research and development, to the establishment or termination of licensing agreements or any other forms of collaboration between the venture and other parties. Company by-laws explicitly forbade board members from delegating decisions over these issues to smaller committees or the top managers.

In summary the moderating influence of ex-ante conflict resolution mechanisms on the relationship between the heterogeneity of shareholders' interest and board involvement in strategy can be summarized as follows:

Proposition 3. Other things being equal, the presence of ex-ante conflict resolution mechanisms will increase the likelihood of "gatekeeping" as the prevailing strategic activity of the board and rational analysis as the prevailing decision mechanisms, even in presence of heterogeneous shareholders' interests.

DISCUSSION

We believe that our findings contribute to increase our understanding of board dynamics in that they (i) substantiate the argument that the adoption of a political perspective may increase our understanding of how and under what conditions boards engage in strategy related activities (see Table VIII), (ii) suggest an expansion of the traditional classification of board functions, and (iii) foreshadow the idea that the salience of the various functions of the board may be contingent upon contextual factors.

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insert Table VIII about here

A political perspective on board involvement in strategy

Past research on board involvement in strategy largely relied on an *agency* or a *strategic choice* perspective. A third line of inquiry on boards of directors adopting a *resource-dependence* perspective (e.g. Pfeffer, 1972 and 1973; Hillman, *et al.*, 2000; Hillman and Dalziel, 2003) pointed at the important role of board members in improving the capacity of the firm to collect critical resources from the environment, through the co-optation of representatives of resource-holders or influential members of the community (Pfeffer, 1972 and 1973). Although this approach seems to have been less popular in recent research on board involvement in strategy, it is nonetheless important in understanding the strategic functions of the board (see Table VIII).

While some studies have pointed at the political nature of board dynamics (Hill, 1995; Pettigrew and McNulty, 1995), applications of a political perspective to the analysis of board involvement in strategy are rare, despite the fact that board membership is a powerful way to influence resource allocation processes in organizations (Hickson, 1987). In this respect, our findings indicate that if there is a substantial convergence of goals and interests among shareholders, the board can be provided with a stable set of goals and guidelines that can be communicated to the managers and used to evaluate their proposals. However, increasing heterogeneity of interests represented in the board is likely to increase board members' concerns with the political implications of strategic decisions even at corporate or business level. As a consequence, in presence of high heterogeneity of interests, boards will tend to rely more on bargaining than on rational analysis or judgment, unless potential conflict of interests among shareholders may be regulated ex-ante in company by-laws or other formal agreements. These conclusions seem to be applicable to any organizations where ownership structure and/or the company bylaws prevent any single shareholder from exercising total control over the board and the company. Conversely, even in presence of high heterogeneity of interests, the controlling shareholder might be able to clearly impose its will (goals and plans) over the managers, with no need to bargain – unless, of course, the minority shareholders could rely on other forms of influence to induce him or her to negotiate.

Our findings are consistent with recent developments of governance studies that have started to emphasize the importance of formal rules in shaping decision making in the board. Past research has generally ignored the influence of rules on board dynamics. Recent studies, however, has shown how formal rules contribute, for instance, to shape the CEO succession process (Ocasio, 1994 and 1999). Ocasio's studies acknowledge the political nature of board dynamics, as the author suggests that "rules establish the parameters by which the political game is played" (1999, p. 386). Sociologist of power Ehrard Friedberg observes how rules may be used by actors engaged in collective action to structure the field of a decision, in order to reduce the autonomy of participants and the possibility of making use of their relative power and discretion (Friedberg, 1993). Indeed, as we have shown in our findings section, as shareholders preferred to leave a resolution between their diverging views and positions to the interaction between board members, they made sure that governance structures and board leadership were carefully designed to balance the power and influence of each party.

As customary in inductive qualitative research, our findings partly reflect and partly extend existing knowledge about the phenomenon (Locke, 2001). The idea that members' functional knowledge tends to affect their capacity to effectively perform their advisory function is not new (see Forbes and Milliken, 1999). Indeed, consistently with research in the strategic choice perspective (Carpenter and Westphal, 2001; Pettigrew and McNulty, 1995), we observed that the scope of board involvement in strategy tends to be affected by the background and expertise of board members. Hillmann and Dalziel (2003), however, observe how research in this tradition has largely neglected the existence of incentives for board members to engage in an advisory role, and encourage scholars to be more sensitive to the actual capacity *and* motivation of board members to contribute to firm performance. In this respect, our findings suggest that the need to actively engage in strategy making – in order to advance or safeguard their own interests – might push shareholders to appoint knowledgeable managers who could actively shape the content and even the context of strategies. Although we have only anecdotal evidence of such intentionality on the shareholders' side, it does not seem unreasonable to argue that while heterogeneous interests may provide an incentive for shareholders' representatives in expanding the scope of their involvement in strategy, it is really the possession of relevant knowledge that allows board members to effectively engage in the initiation and elaboration of strategic proposals (hence the dotted line in Figure I).

The board as a negotiation forum

Management scholars (Zahra and Pearce, 1989; Johnson *et al*., 1996; Stiles and Taylor, 2001) tend to agree that the most significant functions performed by the board in the strategy making-process are (i) monitoring managers' behavior in order to protect shareholders' interests, (ii) reviewing and evaluating strategic decisions – or, in other words, advising managers' strategic decisions – and (iii) facilitating the acquisition of resources and legitimacy critical to firm's success (see Table VIII).

Evidence from our study, however, suggests that past studies might have overlooked a fourth important function of boards, namely facilitating the reconciliation of diverging goals and interests of represented shareholders. Doing research on large public companies, whose ownership structure is assumed to be distributed among shareholders that share the same objective of profit maximization, might have led researchers to emphasize the struggle between the opposing interests of managers and shareholders, at the expense of a more sophisticated account of potential differences among the interests represented in the board (Lubatkin, *et al.*, 2001; Young *et al*. 2002).

In fact, recent studies have acknowledged the potential divergence of interests among shareholders, and have started to investigate how it may affect corporate strategies (Hoskisson, *et al.*, 2002; Tihanyi, *et al.*, 2003; Yoshikawa and Phan, 2005). In financial economics, a rising stream of research addressing what has been termed the "principal-principal problem" is based on the recognition that in several European and Far Eastern countries – where the prototypical public company of the Anglo-Saxon world is not the prevalent corporate form (La Porta, Lopez-De Silanes and Shleifer, 1999) – large pyramidal business groups and high ownership concentration in listed companies lead to a potential conflict of interests between controlling and minority shareholders, the former being in the potential position to expropriate the latter of part of their value through unfair intragroup exchanges and transfers of goods (Faccio, Lang & Yeoung, 2001)

In this respect, our findings show how in presence of highly diverging interests among the shareholders, boards may perform a critical function in facilitating the reconcilement of conflicting views regarding strategic issues and the definition of a common set of goals and guidelines to direct managerial action. As David Hickson (1987) remarked, boards of directors are a prime social mechanism to manage potentially conflicting interests. In this respect, boards are not only a monitoring device to safeguard shareholders' interests from managers' abuse, but provide the context within which convergence between partly diverging goals may be reached, as strategic plans are evaluated in terms of their technical rationality and financial viability as well as of their impact on the goals and interests of all the represented parties.

Further research on boards as decision making teams, however, seems to be needed. In a related stream of research, Donald Hambrick (1994, 1995) has advanced the concept of *behavioral integration*, understood as the capacity of members of a top management team to exchange information timely and effectively, and to ensure collaborative behavior and joint decision-making. TMTs and board of directors display considerable differences as regards their composition (the strategic apex of the company vs. a variable mix of insiders and outsiders), their leadership structure (usually concentrated in the hands of the CEO in TMTs, often distributed and influenced by board composition in boards of directors), and their average involvement in strategy (a primary task for TMTs, an episodic activity for the average board). However, they can be both conceptualized as small decision-making units facing ambiguous tasks, whose relative performance is influenced by their capacity to tap individual skills and knowledge and work together towards a common goal (Hambrick, 1994; Forbes and Milliken, 1999). Indeed, in some of the cases we observed, some outside directors at time acted as informal members of the top management team. Future research may investigate more deeply under what conditions boards may really operate as behaviorally integrated units.

Towards a contingency approach to board studies

More research on the relationships between ownership structure, board functions and strategy making, however, seems to be needed. By emphasizing the relationships between the configuration of shareholders' interests and the relative salience of the political function of the board as a negotiation forum, our findings provide further support to the claim that under different conditions, boards may perform different functions and their level of involvement in strategy-related activities may vary accordingly.

The idea that the prevailing functions of the board may be contingent upon contextual factors has been recently advanced theoretically (Forbes and Milliken, 1999; Lynall, Golden and Hillman,

2003) and seems to have found increasing empirical support. Past research has observed how board involvement in strategy tends to increase in times of crisis (Mace, 1971). A recent study of the airline industry shows also how changing institutional pressures may lead to changes in board composition and structure, in order to adapt to the increased salience of the resource-dependence function (Hillman *et al*., 2000). Conversely, increased market competition may stimulate the adoption of more sophisticated practices for evaluating top managers, in response to a rising salience of the monitoring function (Young, *et al*. 2000). Finally, research focusing on specific types of firms, such as family firms (Danco and Jonovic, 1981; Ward and Handy, 1988) or subsidiaries (Leksell and Lindgren, 1982; Huse and Rindova, 2001), suggests that the main functions performed by the board may vary considerably across corporate forms.

Collectively, these studies point at the role of contextual or environmental variables in affecting the relative salience of the various functions performed by boards of directors. In turn, changing salience of board functions may require changes in the way a board is composed, structured and managed. If this is true, the application of universal guidelines and prescriptions for board design and management, with little regard for the specificity of the focal firm, may be questionable. In this respect, we believe that a replication of our study across other corporate forms and in other settings may further explore how environmental and contextual variables affect the prevailing functions of the board and the appropriate degree of its involvement in strategy, in order to develop contingent prescriptions that take into account the specificity of the corporate context.

In this respect, it may be argued that what we observed might have been affected by the cultural and institutional context within which the observed processes occurred. However, there is little evidence that this was the case. In six companies out of nine at least one of the shareholders was a foreign multinational company and several directors were not locals, which seem to reduce the likelihood of substantial cultural influence on the observed dynamics. Furthermore, the theoretical rationale that seems to explain the observed relationships does not appear to be culture-bound, but might apply equally well in other cultural contexts. This is not to say that we do not believe that peculiar culture and institutions may not affect board dynamics. Indeed, we believe that more comparative studies are needed in order to test the robustness of research findings – including ours – across national borders.

CONCLUSIONS

Our research investigated contextual antecedents of board involvement in strategy-making in mixed-ownership institutions. Evidence from our study indicate that in the presence of diverging interests among represented shareholders, board of directors may facilitate the construction, preservation or restoration of consensus regarding the strategic course of the company. In this sense, the board of directors participates in the political dimension of the strategic decision process not only as a single monolithic entity interacting with top managers, but also as a negotiation forum where an agreement between represented shareholders is to be reached before confronting the management. These findings expand traditional understandings of the strategic functions of the board and provide further support to the idea that the relative salience of the various functions may be contingent upon contextual factors.

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Table I. Description of the firms

Firm	*Sales (.000 €)*	*Employees*	*Background information*
Redaelli Tecna	150,000	1,000	Redaelli Tecna was a holding company controlling subsidiaries operating in the metallurgy industry (steel cables for cableways, equipment for the production of steel cables, etc.). The equity of the company was distributed among four top managers collectively owning 40% of the shares, an institutional investor (Fin2000) with 25% of the shares, and a merchant bank (Sopaf) with 35%.
Teknecomp	150,000	800	Teknecomp was a holding company whose mission was to acquire undervalued small and medium enterprises, to manage their growth and to sell them. The company was controlled by Quattroduedue, a financial holding owned by a coalition of shareholders made by three top managers, a foreign institutional investor, and some Italian wealthy families. Our informants did not want to disclose the exact distribution of shareholdings of the company, but confirmed that no shareholder owned more than 50%.
Tecnologistica	100,000	3,200	Tecnologistica was a company operating in the logistic industry with a strong focus on growth. The company was owned by a coalition of shareholders made by some top managers with 3% of the shares, an institutional investor (Advent International) with 49% of the shares, a second institutional investor (Pechel Industries) with 24% of the shares, a closed fund (Chase Gemina) with 8% of the shares, a second closed fund (Schroeder) with 8% of the shares, and an industrial company (Pirelli) with 8% of the shares.
Polimeri Europa	1,150,000	1,600	Polimeri Europa was a chemical company, leader in Europe in the production of polyethylene. The company was a 50-50 joint venture between Enichem (the largest Italian chemical company owned by the State) and Union Carbide (a giant chemical US company). Both mother companies had supply relationship with the joint venture: Enichem was a supplier of services and materials (monomers), Union Carbide was a supplier of know-how and technology (gas phase Unipol Pe).
Nylstar	300,000	1,400	Nylstar was a chemical company, leader in Europe in the production of nylon yarn for textiles. The company was a 50-50 joint venture between Snia Fibre (the largest Italian producer of artificial fibers) and Rhone Poulenc (a large French chemical company). Rhone Poulenc supplied also raw materials for nylon 6 and 6.6.
Olivetti Canon Industriale	250,000	800	Olivetti Canon Industriale was a company producing ink jet printers and photocopiers. The company was a 50-50 joint venture between Olivetti (the largest office automation company in Italy) and Canon. Olivetti was both a supplier of technology (technical know-how) and a client. Canon was both a supplier of technology (new products) and a client.
Italtel	1,850,000	15,900	Italtel was a telecommunication company producing equipment such as switching and radio-bridge. The company was a 50-50 joint venture between Stet (the largest Italian telecommunication company owned by the State) and Siemens. Stet (Telecom) was by far the main customer of the joint venture, Siemens was both a customer and a competitor on other European markets.
Siemens-Nixdorf Informatica	300,000	900	Siemens Nixdorf Informatica was a large office automation company selling both products (personal computer, server, etc.) and services (design, maintenance, etc.). The company was a 50-50 joint venture between Siemens Nixdorf Information Systems A.G. and Stet (the largest Italian telecommunication company). Siemens Nixdorf was a supplier of technology (know-how and products), Stet was a large client.
Telepiù	200,000	1,100	Telepiù was the only broadcasting company selling pay-tv services in Italy. The company was a joint venture between Kirch's group (a large company in the German broadcasting industry), with 45% of the shares; Nethold (a South African company) with 45% of the shares; and Fininvest (the largest private broadcasting company in Italy) with 10%. Kirch's group was a supplier of content and know-how in the broadcasting industry, Nethold was a supplier of

technology for satellite broadcasting and Fininvest was a supplier of services and also a competitor.

Table II. Description of the observed decisions

Firm	*Observed decision*	*Informants and interests they represented*
Redaelli Tecna	A large, long-term contract signed in the US suggested the establishment of an overseas production facility. Top managers examined possible alternatives (i.e. to export from European plants or to set up a plant in the US) and took them to the board. The board, after having evaluated the alternatives, decided to proceed with the overseas investment.	CEO (shareholder-manager) Director (inst. investor) Director (merchant bank)
Teknecomp	A large American corporation disclosed to a general manager of a subsidiary its interest in acquiring the company. Top managers of Teknecomp started the negotiation with the American corporation and kept directors informed along the process. Before signing the contract, top managers took the decision to the board for its approval. The board approved the decision.	CEO (shareholder-manager) Director (inst. investor)
Tecnologistica	The rapid trend toward the concentration in the logistic industry suggested the need to grow through acquisitions. Top managers found an interesting medium-sized and prepared a business plan illustrating the rationale, the timing and the financial implications of the operation. Top managers took the decision to the board for its approval and, after having obtained the authorization, signed the contract.	CEO (shareholder-manager) Director (inst. investor)
Polimeri Europa	Polimeri Europa was facing an increasing demand requiring an expansion in the production capacity. Top managers of the venture explored possible alternatives and decided to build a new production facility, the largest in Europe. Some directors – representing the two mother companies – assisted senior managers in developing the final proposal. The board collectively approved the proposal during a formal meeting.	CEO (Union Carbide) Chairman (Enichem)
Nylstar	In order to reduce production costs, managers proposed to move part of the production to Eastern Europe. A director suggested the acquisition of a firm localized in Slovakia. The board decided to create a committee – composed by senior managers of the venture and some board members – aimed at collecting further information and preparing a proposal. The committee took the different alternatives to the board, which decided to proceed with the investment.	Chairman (SNIA) CEO (Rhone Poulenc)
Olivetti Canon Industriale	The company was facing increasing sales requiring an expansion in the production capacity. During some informal meetings, some directors worked in close collaboration with managers from the venture to elaborate possible alternatives and to develop a proposal. The proposal was taken to the board for formal approval after the two main representatives of the shareholders – the chairman and an outside director – had reached an agreement.	Chairman (Olivetti) Director (Canon)
Italtel	During a board meeting, a director representing Siemens proposed to move production to one of the company's plants. Directors representing Stet, however, objected to the proposal and proposed instead to increase the production of the existing plant. No decision was taken in the meeting. Some directors representing the two mother companies were delegated the task to analyze the	Chairman (super partes) Director (Stet) Director (Siemens)

	problem and to find a consensus on the decision.	
Siemens-Nixdorf Informatica	Siemens Nixdorf, as part of its own expansion strategy, was planning to enter to the information service business in Italy, by acquiring the related activities of the venture. Some directors – representing the two shareholders – organized informal meetings in order to analyze if and how to carry out the operation. They finally decided to create a new company and spin off all the assets related to the industry. After having reached a consensus, the directors working on the project took the decision to the board. The board approved the decision.	Chairman (super partes) CEO (Siemens Nixdorf)
Telepiù	A board member, appointed by Nethold, a potential supplier of technology, proposed the upgrade of the technological platform for digital broadcasting. The board delegated the formulation and the evaluation of the possible alternatives to the executive committee and to some informal meetings among representatives of the shareholders. When shareholders' representatives found an agreement, the executive committee took the decision to the board. The board approved the decision	CEO (ex Fininvest) Director (Nethold) Director (Kirch)

Table III. Taking strategic decisions in Type A boards: Some illustrative evidence

	Redaelli Tecna	Teknecomp	Tecnologistica
Narrow involvement. Boards essentially engage in the selection of alternatives and in the control of the realization	It is usually a “one man show”: [the CEO] presents the board with some plans and illustrates them in detail (…) We analyze them, discuss them and eventually say yes or no (…) (director).	Business plans are elaborated by the management […] When plans are developed in details, we [the managers] take the proposals to the board for its approval (CEO).	We [the top managers] quickly discussed the proposal, based on some preliminary information. Then we informed the board. (…) Later, we submitted some sort of business plan along with a draft of the contract (CEO).
Prevailing activity: Gatekeeping. – i.e. approving capital investments	The board of directors meets rarely, basically to approve the balance sheet and to take major decisions. […] The CEO prepares strategic and financial plans and submit them to the board (director).	The board meets only 4-5 times per year to approve acquisitions or sales of subsidiaries exceeding the amount of 5 million euros, and to monitor the performance of the subsidiaries and the holding company (director).	When we find a target company that we believe suits the growth strategy of the company, we develop a detailed business plan and submit it to the board. (…) If the board authorizes it, we carry out the acquisition (CEO).
Prevailing decision mechanism: Analysis. Managers’ proposals are discussed during board meetings and evaluated on financial grounds	Recently, we signed a five year contract for a large supply in the USA. The size of the contract brought us to consider the establishment of an overseas production facility in order to reduce the transportation costs. (…) I was delegated to explore possible alternatives and to take them to the board for the approval. (…) We discussed about commercial and industrial issues, but eventually they decided based on the discounted cash flow (CEO).	All decisions are usually taken collectively after we have circulated all the relevant information before and at the meeting. You see, we all generally agree that proposals should be evaluated on purely financial grounds (CEO).	We usually approve or reject proposals based on their financial profile. We look at ratios like the net present value or the internal rate of return (director).

Table IV. Shaping strategic decisions in Type B boards: Some illustrative evidence

	Polimeri Europa	Nylstar
Broad involvement. Board members assist managers in the development of alternatives and in the implementation of plans	Strategic proposals are usually initiated by senior managers, but later some board members can enter into the process in order to help managers to elaborate the details of the plan before its formal approval (chairman).	In order to increase our understanding of the pros and cons of the operation, we decided to create a committee that would include the general manager and two outside directors, a sales manager and an operations manager in the mother companies (…) The committee worked for about two months collecting information, visiting the site, exploring alternatives, etc. (…) Eventually, after having analyzed all the possible costs and benefits implicit in each alternative, we presented two different proposals to the board, implying different combinations of risk and return (CEO).
Prevailing activity: Gatekeeping – i.e. approving capital investments	The board meets 6-7 times per year, once to approve the balance sheet and the other ones when we [the top management] submit investment proposals for the approval (…) Their evaluation is usually straightforward and tends to focus on the expected impact on the financial results (CEO).	The board meets four times per year. Three meetings are dedicated to review the financial performance of the company, to prepare the budget, to organize the presentation of financial results to the shareholders, or to approve large investments. Then a fourth meeting is usually dedicated to evaluate top managers and to choose or nominee new managers (chairman).
Prevailing decision mechanism: Analysis. Proposals developed by managers in collaboration with individual board members are brought to the attention of the board and evaluated on financial grounds	[Board members'] evaluation tends to focus on the expected impact on the financial results. The main objective we have is to make money (CEO).	[…] the final decision is usually taken considering essentially the impact of the project on the return for the shareholders (chairman).

Table V. Shaping the context and content of strategic decisions in Type C boards: Some illustrative evidence

	Siemens Nixdorf Informatica	Olivetti Canon Industriale	Italtel	Telepiù
Broad involvement. Board members often initiate the process and assist managers in the analysis and development of alternatives and in the implementation of plans	It is normal for [board members] to contribute to the elaboration of strategies: some members even tend to follow strategic issues more closely, outside board meetings (chairman).	The available alternatives were evaluated with the assistance of directors (…) [After the approval of the board] managers took care of the details, but the same board members collaborated to implement the strategies (director).	Eventually, the board delegated some members to elaborate a proposal. Some high officers of the company would assist them. (…) In the next meeting the board ratified the decision (chairman).	At times, some directors may be involved in dealing with specific issues. […] It depends on their background: for example, I was called in because of my knowledge of regulations and institutions (director).
Prevailing activity: Setting the strategic context – i.e. defining goals and general policies	Analyzing and elaborating strategic plans is a primary task of the board. (CEO).	We would meet periodically to discuss about what products to develop, how to expand in other European markets, and the like (chairman).	During meetings, we spend time refining and evaluating the budget and the strategic plans, but also analyzing and discussing in details projects aimed at reducing costs or at developing the business (chairman).	The board discusses broad topics: marketing policies, technological developments, as well as issues of capital structure (CEO).
Prevailing decision mechanism: Bargaining. Board members frequently engage in negotiations, in order to reach a consensus before bringing the decision to the board meeting	Usually (…) the final decision is taken outside regular meetings and only when an agreement is reached between the shareholders (chairman). Having senior managers from both partners sitting in the board is crucial: they have power to negotiate on behalf of mother companies, and when they reach an agreement that is it (CEO).	Strategic decisions emerged from direct relationships between shareholders (…) Shareholders had identified two main representatives (…) When we had found an agreement we informed the other board members (chairman).	The equilibrium inside the board reduces the risk that one shareholder takes advantage of the other one. If either sponsors a decision that favors its interests at the expense of the other, the latter has the power to react (chairman).	When issues touch specific interests of the shareholders, the executive committee presents the board with a decision that has been taken elsewhere. They involve the rest of the directors only after they had found a settlement (director).

Table VI. Board composition and the role of directors: Type A boards

Company	*Board Size*	*Board composition*
Redaelli Tecna	10	1 insider (the CEO, also a shareholder) 9 decision controllers (a relative of the CEO, two chartered accountants representing the CEO; three executives of the merchant bank, among which the Chairman; two academicians and a legal advisor representing the institutional investor) Executives from the merchant bank occasionally acted as support specialists on financial operations and acquisitions
Teknecomp	7	2 insiders (the CEO and the general manager, both owning shares in the company) 5 decision controllers (an executive of an institutional investor, acting as Chairman, a lawyer representing the private families, an executive of a bank, two executives in other companies, who may also be considered business experts)
Tecnologistica	8	3 insiders (the CEO, acting also as Chairman, and two managers, all owning shares in the company) 5 decision controllers (four executives from two institutional investors, one lawyer representing the interests of three minority shareholders)

Table VII. Board composition and the role of directors: Type B and C boards

Company	*Board Size*	*Board composition*
Polimeri Europa	8	2 insiders (CEO, appointed by Union Carbide, and general manager, appointed by Enichem) 3 decision controllers / business experts appointed by Enichem, among whom the Chairman (two high officers and one functional manager of the mother company) 3 decision controllers / business experts appointed by Union Carbide (two high officers and one country manager of the mother company)
Nylstar	8	1 insider (Chairman of the joint venture, appointed by SNIA Fibre) 1 insider (CEO appointed by Rhone Poulenc) 2 decision controllers / business experts from Rhone Poulenc (the CEO and a sales manager of the mother company) 2 decision controllers / business experts from SNIA Fibre (the CEO and an operations manager of the mother company) 2 decision controllers (merchant bankers representing respectively SNIA Fibre and Rhone Poulenc)
Olivetti Canon Industriale	8	1 insider (CEO of the joint venture, appointed by Olivetti) 1 decision controller (financial manager, appointed by Olivetti) 2 decision controllers / business experts from Olivetti (one acting as Chairman) 4 decision controllers / business experts from Canon (functional managers in the mother company)
Italtel	9	1 insider (an ex-executive of both mother companies, acting as Chairman, considered *super partes* by both shareholders) 4 decision controllers from Siemens (two of them, functional managers in technology and operations at Siemens, can be considered business experts) 4 decision controllers from STET (two of them, functional managers in technology and operations at STET, can be considered business experts)
Siemens-Nixdorf Informatica	7	1 insider (an ex-executive of both mother companies, acting as Chairman, considered *super partes* by both shareholders) 1 insider (general manager, appointed by STET) 2 decision controllers appointed by STET (one of them, the CEO of STET, can be considered a business expert) 3 decision controllers appointed by Siemens Nixdorf (one of them, a local country manager of Siemens Nixdorf, can be considered a business expert)
Telepiù	9	1 insider (co-CEO, initially appointed by Fininvest, later confirmed by Nethold) 1 insider (co-CEO appointed by Nethold) 1 business expert (a high officer in the Kirch Group, acting as chairman) 1 business expert appointed by Nethold (an ex-executive and board member in other high-tech companies) 1 decision controller appointed by Nethold (a lawyer) 3 decision controllers from the Kirch Group (two of them, a sales manager and a technology manager can be considered business experts)

1 decision controller / business expert appointed by Fininvest (a high officer in the mother company)

Table VIII. Board involvement in strategy: past research and insights from our study

	Agency	*Strategic Choice*	*Resource Dependence*	*Political*
Central issue	Divergence of interests between managers and shareholders; the board is a primary mechanism for safeguarding shareholders' interests (Fama and Jensen, 1983)	Adaptation to environmental changes; the board is a potential source of contributions to the development, analysis and selection of alternative courses of action (Andrews, 1980)	Acquisition of critical resources; the board is an important mechanism for "managing" the environment and securing institutional support (Pfeffer and Salancik, 1978)	Reconcilement of multiple interests converging on the firm and represented in the board; the board is a primary mechanism for social integration (Hickson, 1987)
Contribution of outside directors	Support for risk-seeking, profit-oriented strategies	Imported knowledge about managerial practices, business, etc.	Connection with critical resource-holders and institutional actors	Representation and safeguard of outside interests converging on the firm
Contribution of inside directors	Support for risk-averse, conservative strategies	Firm specific knowledge	Cooptation of influential members of the community	Mediation between the interests of the firms and those of the represented parties
Primary strategic function of the board	*Monitoring*. Ensure that the content of corporate strategies is aligned with shareholders' interests	*Advice*. Contribute to the rational solution of strategic problems	*Environmental linkage*. Secure the resources and legitimacy required to implement strategies	*Consensus building*. Facilitate the compromise between diverging interests about the outcome of strategic decisions
Primary antecedents of board involvement	Board power relative to the CEO, as affected mainly by board composition (Baysinger *et al.*, 1991) and CEO duality (Mallette and Fowler, 1992; Zajac and Westphal, 1996)	Board members' possession of relevant knowledge (Tashakori and Boulton, 1983; Carpenter and Westphal, 2001)	Institutional pressures (Hillmann, Cannella and Paetzold, 2000)	Heterogeneity of represented interests Existence of conflict regulation mechanisms

Figure I: Heterogeneous interests and board involvement in strategy: an emerging explanatory framework