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Board-Management Relationships: Resources and Internal Dynamics**

This paper investigates directors' relationships with firms' managers, using lenses of resource dependence theory and resource based view. Because of different roles that board members perform in modern organisations we seek to find out what board-management relationships may provide a company with competitive advantage relative to other firms. The paper reports the results from a study conducted in six New Zealand companies. We used multiple respondents from the top management and board members in a variety of firms from different industries. Qualitative analysis of interview transcripts, and matching the qualitative results with secondary information on the companies, reveal several interesting patterns of relationship among top management and board members, as well as the value of this relationship to the firm.

Key words: **corporate governance, board-management dynamics, resource dependence, resource-based view**

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Introduction

The emerging research on corporate governance has extensively considered the changing role of boards in modern corporations. Prescriptive studies by (Carter/Lorsch 2004; Demb/Neubauer 1992; Huse 1998; Lorsch/MacIver 1989), among others, have analysed a number of issues or paradoxes that boards around the world have to deal with and consequently redesign themselves and their relationships accordingly within and outside corporations. The major issues that are ascribed as key evolutionary changes refer to the changing expectations that management, shareholders, and other stakeholders (customers, employees, and suppliers) have about directors' involvement in the company's affairs.

We investigated the specific governance mechanism of board of directors, and directors' relationships with firms' managers, using lenses of resource dependence theory and resource based view. The flexibility in exploration was preserved by using detailed case studies from six companies based in New Zealand from a variety of industries. The research questions investigated directors' knowledge and expertise (resources) and their contribution and involvement (internal dynamics) in the company's affairs.

Heeding recent calls to study governance and board policies from within, under the overall rubric of the emerging behavioural perspectives on boards and governance (Gabrielsson/Huse 2002; Huse 1998, 2003, 2005; McNulty/Pettigrew 1999; Rindova 1999; Useem 2003), we place particular emphasis on the internal workings and dynamics of the boards. In particular, this study was motivated by a desire to provide an empirical underpinning to theoretical developments that widen the context of corporate governance, by investigating a wider variety of roles and processes within the board (Gabrielsson/Huse 2005; Goel/Erakovic 2003; Huse 2005). In addition, by investigating boards in firms in different stages in the lifecycle (young versus mature) and in two different contexts (traditional versus high-tech), we are able to see the contrast between board roles hypothesized by lifecycle theories of board processes (Shen 2003). We believe that our research enhances literature on internal board working (Demb/Neubauer 1992; Finkelstein/Mooney 2003; Gabrielsson/Winlund 2000; Roberts et al. 2005) by providing evidence from a relatively understudied context of New Zealand.

Because of different roles that board members perform in modern organisations we seek to find out what board-management relationships may provide a company with competitive advantage relative to other firms. Also, how these 'internal qualities' can be translated into valuable 'external' relations? What are the distinctive structures and norms of various governance practices? Are these qualities specific for certain types of companies/industries? It is these questions, this research aims to explore.

The major contribution of this paper is investigating the board's role as a resource via three key roles. First, we investigate the board's sources of knowledge about the company's affairs and how they are linked or deployed toward the roles boards are supposed to play. Second, we investigate the board's involvement in monitoring of a company's strategic processes and outcomes. Third, we investigate how a board's reputation serves as a resource in and of itself to the company.

This paper is structured as follows. We first outline the theoretical foundation of our research. We then explain the research design and method employed. The major findings are presented in the third section. Special attention is given to the board resource roles and involvement in the company's affairs. Fourth section offers a theoretical elaboration of the research findings from the resource dependence and resource based view perspectives. We conclude the paper by outlining areas for future research.

Theoretical background

We combine resource dependence theory (Pfeffer/Salanick 1978) and resource-based view (Barney 1991) in order to provide a more complete understanding of the dynamics of board-management relationship. We believe that this theoretical combination offers a compelling explanation of various aspects of a board's functioning. According to both perspectives, internal and external organisational processes are influenced by the importance of resources for an organisation. An organisation's governance system can be seen as a specific set of resource relationships rooted in a specific cultural and historical framework. However, conditions of environmental munificence or scarcity can challenge existing norms of a board's behaviour and promote the development of new governance roles.

Resource dependence

Resource dependence perspective allows for greater understanding of how resource dependencies establish specific governance arrangements in terms of the formal governance structures and the actions of directors and management.

Resource dependence theory is one of the mainstream approaches in analysing board behaviour (Boeker/Goodstein 1991; Boyd 1990; Geletkanycz/Hambrick 1997; Hillman et al. 2000; Pfeffer 1972). This perspective is concerned with the tendency of firms to co-opt the sources of uncertainty or to create collaborative relationships to increase control over their environments. Criticality and scarcity of resources define the organisation's position among other organisations, particularly with respect to resource providers. According to this perspective, organisational decision makers (board and management) are given an active role in seeking alternative sources of resources and reducing environmental uncertainty (Pfeffer 1972), and in developing various links and arrangements with different organisations from the environment (Pfeffer/Salanick 1978). As such, resource dependence theory emphasises the importance of power relations within and outside the organisational boundaries.

Resource dependence requirements are critical in discussing board-management relationships (Daily/Schwenk 1996). A balance between resource scarcity and resource criticality (Boyd 1990; Pfeffer/Salanick 1978) for a focal organisation may determine the board's involvement in the company's affairs and interactions inside and outside the boardroom. Proponents of resource dependence perspective see the board as a key organisational body that could provide critical resources for the company, protect the company from the environmental uncertainties and reduce transaction costs in managing external relationships (Huse 2005; Lynall et al. 2003). Outside directors, in particular, play an important role in providing (1) specific resources otherwise unavailable to management (e.g., financial funds, information), (2) access to external institutions and influential organisations (e.g., regulatory bodies, consulting firms, and international organisations), (3) legitimacy, and (4) expert knowledge and advice (Hillman et al. 2000; Lynall et al. 2003; Pfeffer/Salanick 1978). Resource scarcity prompts corporate boards to engage in inter-organisational relationships in an attempt to moderate influences of external pressures upon their organisations (Pfeffer/Salanick 1978).

Resource-based view

While resource dependence perspective is employed to discuss how specific governance processes can help firms to emanate from external environmental uncertainties, resource-based view (RBV) is used to emphasise how effective board-management relationship, as internal critical capability, can be a source of competitive advantage. According to Barney (1991), in order for a resource to provide a sustainable competitive advantage, three criteria must be satisfied. First, the resource must be valuable which means it should generate high financial value to the firm. Second, the resource must be rare in that it must not be possessed by many other firms in the same industry. Finally, in order to render sustainable competitive advantage, a resource must be difficult to imitate by a firm's competitors.

From the RBV perspective, it has been argued (Carney 2005; Castanias/Helfat 2001; Gadhoum 1998) that certain qualities of corporate governance systems can serve as a critical capability which generates sustainable competitive advantage for a firm when it meets the above-mentioned three conditions. First, the board's network role is likely to create economic value for a firm when board members possess superior connections with key providers of resources (e.g. suppliers, potential and current investors, government agencies, financial institutions). Second, companies' governance practices vary from one another in terms of: (1) firmness, reciprocity and sustainability of effective board-management relationships; (2) knowledge, reputation, behaviour and values of individual directors and executives; and (3) broader institutional context in which the company operates. Therefore, board-management relationships in each company are individually embedded and constitute tacit knowledge or a distinctive resource. RBV perspective also places emphasis on the notion of 'path dependency' which implies that rare resources are developed over time through opportunities that do not repeat themselves (Leonard 1998). For example, major organisational transitions caused by significant business growth or downturn may both have positive effects on the evolution of board-management relationships which often develop into capabilities that are unique to itself. Third, with regard to barrier to imitation, governance practices rooted in close relationships with customers and suppliers and reputation of individual board members and top level executives can create significant barrier to imitation. Interaction of executives and board members with various stakeholders creates strong trustful relationships, whereas maintenance of long-standing connections with various partners cultivates strong ties characterised by mutual trust and reputation which enable the firm to gain a competitive edge over its competitors. Another barrier to imitation is the intricacy of interpersonal chemistry, which makes the dynamics of board-management relationships a socially complex resource. Although there is a myriad of literature (Carter/Lorsch 2004; Demb/Neubauer 1992;

Finkelstein/Mooney 2003; McNulty et al. 2003) available regarding effective board functioning, the methods of developing close relationships and initiating team-work between strong and independent individual organisational members still remains highly ambiguous. Growing effective board-management relationships is often an intricate and complex social interaction process that reflects constraints of institutionalised norms, individual values and effort. This socially complex resource increases the difficulty to imitate by competitors.

Research method and research design

Our study utilises qualitative research. The nature of the phenomenon, its complex and contemporary character directs the research approach to be taken. In the previous section we have shown how board-management relationships can be conceptually informed from the two theoretical perspectives. The reminder of the paper combines grounded theory methodology (Glaser/Strauss 1967), based on six case studies, with the two organisation theories, in order to investigate relationships between directors and managers. The grounded theory approach is used to obtain insight into each of three important roles of the board of directors, as outlined in the introduction.

The case study method (Yin 1994) is applied to understand more fully the role of the board and its involvement with the management. Case study analysis, being one method of qualitative research, provides a deep understanding of corporate governance practices in a specific context and supports the main purpose of this research. Incorporating multiple cases, the study employed a comparative analysis across the cases to identify major patterns.

This paper is part of a larger research of New Zealand companies from different industries. The main purpose of this exploratory study is directed by finding patterns of governance relationships in the small number of organisations, investigating them in details, and applying and studying these emerging patterns on other organisations. In selecting the companies for the research we were looking more for a diverse rather than a representative sample. We use pseudonyms instead of companies' real names and labelled the companies after the stars of the Southern Sky.

Data was collected through interviews and secondary sources (annual reports, magazine and newspapers articles, and internal publications). The major source of information was open-ended interview with members of the board and members of top executive team. In total, 11 directors and 11 executive managers were interviewed (see Table 1). The interview script covered four topics: (1) directors' knowledge of internal operations and external environment, (2) directors' involvement in the company's affairs, (3) directors' expertise and industry experience, and (4) the firm and board reputation. These four topics were used more as a discussion platform rather than as specific questions.

Data analysis was conducted by employing QSR NUD*IST computer software for qualitative data analysis (Qualitative Solution and Research 1997). Interview transcripts were analysed using an inductive content analysis; that is, major concepts were developed from text. The key ideas that emerged from the interview transcripts reflected the importance of certain themes for organisational actors (Kabanoff/Holt 1996). By employing various NUD*IST search tools, we were able to systematically examine similarities and differences in the emerging themes (categories) within and across the cases, and two types of respondents (i.e., directors and managers).

Table 1: Profile of sample companies and participants

Case	Southern Star	Sagittarius	Acrux	Beta Crucis	Eta Carina	The Pleiades
Industry sector	Building and construction	Food manufacturer	Transport infrastructure	Biotechnology	Computer software developer/ manufacturer	Technology incubator
Established	1952	1979	1990	1993	1993	2001
Revenue 2003 (NZ$ 000)	632,300	25,000	47,700	10,000	4,000	1,800
Staff	1,100	120	73	140	14	10
Business orientation	International	Domestic (output) International (input)	Domestic	International	Domestic and international	Domestic
Market status	Dominant position in Australasia	Competitive	Monopoly	Competitive	Competitive	N/A
Current ownership structure	Publicly listed company	Private company	Mixed 1/3 public 2/3 private	Publicly listed company	Mixed 3/4 family trust 1/4 outside investor	Not-for-profit/ charitable trust
No. of directors	6	4	6	6	5	11
BOD composition	1 inside (CEO) + 5 outside directors	1 inside (CEO) + 3 outside directors (all shareholders)	All outside directors	2 inside (CEO +1)+ 4 outside	2 inside (incl. founder) + 3 outside	1 inside (CEO) + 8 outside directors (incl. founder)
Study Participants	Chairman, 2 directors, CEO, CFO, GM	Chairman, director, CEO, CFO	2 directors, CEO, CFO	Chairman, CEO, Corporate manager	Outside director	Chairman, director, CEO, GM

Empirical findings

The analysis of the interview transcripts revealed a number of important issues in the functioning of the board of directors in six New Zealand companies. We isolated a total of 54 categories which we classified into three major groups. These categories comprise what analysis showed as the salient issues in the functioning of the boards from the perspective of directors and executive management. The three groups include: (1) Board's sources of knowledge, (2) Board's role in strategy formation and (3) Board/Firm reputation.[1]

1 Detailed definitions of each of the group and their related attributes (concepts) are available from the first author.

Board's sources of knowledge

From the data analysis, two major sets of concepts emerged: (1) directors' approach in obtaining knowledge about the company and (2) the dynamics of relationships between the board and management (including lower level managers).

Directors' approach in acquiring information is described as proactive or reactive (Erakovic/Goel 2004). Proactive approach is characterised by directors' active role in accumulating, investigating and exchanging information from internal and external sources. Reactive approach is identified as passive act which is limited to the information provided to the board members in the reports prepared by the executive management, CEO or Chairman. In four out of six case-companies, directors follow a reactive, reporting approach in acquiring knowledge (see Table 2). Consequently, the agenda items are largely controlled by the CEO and Chairman. An Acrux minority owner director illustrates this approach by the following statement:

> "It would be rare that I would have contact with management in between Board meetings. I read my Board papers and turn up and proactively interact on the day."

However, directors in Southern Star argue the importance of proactive approach in gathering knowledge. They explain how their knowledge acquisition process usually includes communications with other directors outside the boardroom, initiations of discussions on certain strategic topics, meetings with other managers and experts, visiting the company's sites and customers. This board of directors is given an active role in governing the company. Such level of board competence is achieved through 'internal education' managed by the joint action of the Chairman and CEO. This is how Southern Star's Chairman explains this process:

> "When they [new directors] were first appointed they didn't have a lot of understanding of the company, but each individual had a very strong history in his particular field. I slowly developed a reasonable induction programme for them all. Through our way of running board meetings with presentations by different management teams in the company they pretty quickly feel for the company."

The second set of findings emerged from the data, considers the dynamics of relationships between the board members and management in obtaining information. Our respondents describe their relationships with this stakeholder group as 'open', 'formal' or 'lack of' communications. Open communications, according to the respondents, present a good way of acquiring knowledge about the company's business. Board and management meet at regular basis, exchange information and discuss certain topics freely, and collaborate in resolving strategic issues for the company. The 'open communications' attitude is exemplified by the following:

> "In a company like ours, most of the board members know reasonably well most of the management members and I know in some companies chief executives get hostile if directors come in and talk to managers. I encourage them to come in and walk round and talk. I think that is while there are a limited number of formal meetings". (Beta Crucis, CEO)

Lack of communications is related to irregular meetings of the board and absence of contacts with other organisational members. In this situation, CEO usually serves as a liaison between directors and the rest of the company. One of The Pleiades' managers describes the situation in her company:

Table 2: Board's sources of knowledge

Case	Knowledge about internal operations and external environment	Source of knowledge	Process of getting knowledge	Proactive in seeking information	Examples
Southern Star	Balanced knowledge All directors have in-depth knowledge about the company's businesses Customer centred	Regular updates from CEO and other business managers Internal experience and education	Monthly board meetings (rotation of sites) + strategic planning retreat Monthly board meetings also involve: site visits, meeting the staff, site inspections & meeting principal customers	Very aggressive in seeking information	"By meeting at different sites we develop better understanding of the business and staff can see that the board takes interest in what they do". "We would invite between 30-100 customers and we have a dinner. The board members move around and talk to the customers so we get a good idea of how the customers view Southern Star".
Sagittarius	Imbalanced knowledge Directors have fair understanding of the business In-depth knowledge resides with the Chairman	Regular updates from CEO Chairman	Monthly board meetings	Reactive	"Apart from the Chairman, our directors have never been in front of a customer". "Industry experience is important, but I [CEO] don't believe every board member needs to have the industry experience. I think it's quite helpful sometimes that we have members who don't have it but have other skills".
Acrux	Imbalanced knowledge Knowledge resides with the majority owner Minority owner has fair understanding of the business and regulatory framework	Regular updates from CEO Extensive majority directors' participation in various strategic issues Informal but frequent contacts with other managers	Seven board meetings per year + 'Blue sky planning day' Special group (2 directors and CEO) can be set up to analyse important issues	Proactive (majority owner) Reactive (minority owner)	"…the board really don't know a lot about our internal administrative process".
Beta Crucis	Balanced knowledge Directors have fair understanding of the business	Regular updates from CEO and other business managers	Board meetings Seven meetings per year + a strategy meeting	Reactive approach, depends on reports prepared by CEO, Chairman and management	"As a CEO I expect my directors to understand the business of the company. I think that in the area of their individual expertise they actually take quite a bit of effort to do this". "Certain members of our board are particularly beneficial because of their technical background …In that respect they're not just supervising the chief executive, they are providing detailed input to management".
Eta Carina	Imbalanced knowledge Directors have fair understanding of the business Particular knowledge resides with particular group of directors	Regular updates from Chairman and other business managers	Board meetings 10-12 meetings per year	Proactive in seeking info	"[Founder] is the technical guru. He doesn't have any marketing experience; he doesn't have any business operations experience because his business was so small".
The Pleiades	Imbalanced knowledge Directors have fair understanding of the business	Regular updates from CEO and Chairman	Board meetings Six meetings per year	Reactive approach, depends on reports prepared by CEO, Chairman and management Some directors are more proactive than others	"The benefit for our board is that they've learnt a lot at the operational level which means that they can feed it back from the board". "Directors commitment depends on their expectations. Some see it as a pro-bono activity, some see it as a learning opportunity, and some see it as an investment in the growth of their customers".

> "The initial meetings were interactive problem solving with everyone engaged in it. I used to be invited to all the board meetings, so did everyone else. Since [new Chairman] has been on, it tends to be more CEO goes to the board meetings. And maybe it's because The Pleiades is more mature as well. Since then people [board members] seem to be focused mainly on the finances and monitoring which they didn't seem to do before".

Relationships between the board and management are described as 'formal' in the situation where both directors and managers argue for a clear distinction between the governing and management roles. For example, although the Chairman of Southern Star describes board-management relationships as "close interpersonal interactions", he stresses that in well established governance practice of his company all communications between the directors and general management are formally made through the CEO. CEO is responsible for management processes and it is his task to forward directors' ideas and board information to other managers. As he put it: "You've got to be a little careful about the Board getting involved with the management. Nothing upsets the managing director more than staff being interfered with by the board".

Board's role in strategy formation

The second aspect, board's role in strategy formation, refers to the substance of the corporate board's functioning. The major issues revealed in our analysis are (1) directors' role in the company's business and (2) the real implementation of their expertise in various organisational processes.

Directors' role in the company's strategic business activities varied from active involvement in strategy formation (and implementation) and provision of various tangible and intangible resources to more formal and ceremonial roles in the company's affairs (see Table 3). There is an interesting distinction between the boards in the traditional industries and the boards in the high-tech companies. In 30% of their discussion on the topic of the board's role in strategy, the directors and executive management of three high-tech companies emphasise the importance of board members' active role. They find it essential for the board to work actively with the management on strategy formulation. Below are some comments from the high-tech industry regarding the board's role in strategy:

> "How we see our role is making absolutely sure that the thing is successful; individually and also for [the partner company]. We see it as we can play quite a strong role within the board and in helping management or in the spirit of doing it collectively in making sure that the right issues are identified and the right strategic direction is taken as we navigate through to a place where we wanted to see ourselves being sustainable". (The Pleiades, Director)

> "I would say for the first five years of the company the board was very involved in strategy. … We started from nothing, had nothing, zero. It was very important for the board to be actively involved in strategy. I would say the second five years the management's got better and better at developing and refining their strategic plan and presenting it to the board and actually driving it. (Beta Crucis, CEO)

In contrary, only 15% of the answers on the same topic from the directors and executives that belong to the companies in the traditional industry underline the value of directors' active participation in the early stages of strategy development. Majority

(57.5%) of their discussion refers to more formal role of directors in strategy reviewing, according to which the board gives guidelines for the long-term strategy and decides the short-term strategy which is formulated by the management. It is management responsibility to prepare strategy and present it to the board. The board, on the other hand, has responsibility to review the strategic plan, challenge the management strategic initiatives, change the plans, and determine the final strategy.

The second aspect of the board's involvement – the directors' role in the provision of different resources – is given particular attention by all our respondents. The resource role (Daily/Schwenk 1996) is found critical in obtaining partners, additional funds, and consulting advice in solving some of the current problems or securing their future endeavours. Directors and managers all acknowledge that from time to time board members have been asked to become involved in some of the management issues. In the small companies with relatively small management teams and insufficient assets, directors consider their involvement in provision of intangible resources essential to the value of the business and the company's reputation. Even in the large company, like Southern Star, executives emphasise the value of the utilisation of directors' expert knowledge in negotiating the company's certain past and future transactions. Furthermore, they believe that directors' engagement in critical management activities gives more comfort to the rest of board. A Sagittarius director confirms this position:

> "A Board member might get involved at a fairly high level, say with the bank doing negotiations there, the Board member may make suggestions in terms of contacts and networks, but generally tries to leave it for management to execute."

Apart from their intensive involvement in defining the company's strategic directions, directors in the high-tech companies play an important role in attracting clients, finding new partners, making international contacts with technology providers, and attracting new investors. Two following comments illustrate this finding:

> "Board members provide contacts. I would bet that most of New Zealand companies struggle because their CEOs can't open doors and get into big companies. I have marvellous contacts so if I want to go and visit a company, I don't want to visit number ten or eleven in line, I want to see the CEO and so the Board helps me immensely there. In the investment world, [directors X &Y] in the US they help me get right into the very heart of the companies. You can't beat that". (Beta Crucis, CEO)

> "What I do as the Chairman in [The Pleiades] is looked to add value, using my experience to grow and mentor and develop a management team". (The Pleiades, Chairman)

By implementing their expertise in obtaining various tangible and intangible resources for the company, directors perform an important part of their roles and contribute to the board effective functioning. But what type of expertise and experience is important for the board functioning. Is industry experience more important than non-industry experience? All our respondents argue for a balanced view of the board. They remark the equal importance of the industry and non-industry experience as well as technical and non-technical expertise. Industry experience of non-executive members of the board is emphasised as particularly valuable. Intimate industry knowledge increases the overall value of the company as directors are able to provide easier access to the customer or supplier base at a board-to-board level. Board members' industry

Table 3: Board's involvement

Case	Team work/ Group work	Strategy process	Ownership of the final decision	Examples
Southern Star	Collaboration without 'group-think' Synergy Close relationship between the Chairman and CEO	Long-term strategy developed and decided by the board Business plan developed by the management and decided by the board	The board Board 'hands-off' approach Active board	"At times there is a very strong difference in opinion but we rarely leave the board table without having sorted that difference out".
Sagittarius	'Group-think' behaviour Close relationship between the Chairman and CEO	Chairman is highly involved in strategy forming. The board reviews the strategy presented to it.	Chairman Chairman 'hands-on' approach Passive board	"I [CEO] do not think I've ever changed anything from when I've presented the strategies". "If Chairman says, I agree, it just gets a tick in the box".
Acrux	No team work Coalition of two different groups Lack of close relationship between the Chairman and CEO	The board is involved in strategy making process in an early phase ('blue sky planning') and in the final stage of decision making.	Majority owner directors Chairman 'hands-off' approach Polarised board	"We've [majority owner directors] found it desirable to encourage correspondence outside of the board forum. We don't like having just the CEO as the conduit between the board and management". "It would be rare that I [minority owner director] would have contact with management in between board meetings. I read my board papers and turn up and proactively interact on the day".
Beta Crucis	Past: team work Future: ? Board in transition, from unified to more diverse board following the change in ownership	Board actively involved in strategy making CEO drives the vision for the company Quarterly reviews of strategic objectives	The board Board 'hands-off' approach Active board	"Strategy is perhaps a much shorter term tool than in many other industries. Several times during the year we might dramatically change the directors' directions for the future, terminate a project, combine it, divide it, up resource it, down resource it".
Eta Carina	No team work Domination of one group of directors	Board takes the role of CEO/management	The owner Chairman 'hands-on' approach Polarised board	"He [founder-chairman] has not been on the board of any other company to my knowledge. So, he has no idea at all of the division between shareholder or board responsibilities and employee [responsibilities]. As a result, when the board is trying to make a decision for the company, he often is viewing it as the controlling shareholder and as a result he finds it difficult to make a decision that is objectively in the best interests of the company, rather than in his best interests as controlling shareholder".
The Pleiades	No team work Board in transition following organisational consolidation Close relationship between the Chairman and CEO	Chairman (an original founder) is highly involved in strategy forming. The board reviews the strategy presented to it.	The board Chairman 'hands-on' approach Passive board	"Management and Chairman do the work and the board listens to them and then really plays a part in setting the strategy". 'Chairman made a proposal, this is something I want and I am going to pursue this…If I [a manager] am a member of the board I would be disappointed because there wasn't discussion, there wasn't fully coasted proposal, there wasn't any contextual or strategic analysis".

knowledge enables directors to understand the ability of management and the company to influence strategic outcomes. One of the Acrux directors specifically emphasised the function of industry knowledge in evaluating management strategic options and directing the decision-making process. According to his point of view: "It is incredibly important to have somebody else [besides the CEO] with industry experience.

You never even want to have a situation where you've got only one guy who can say, 'I'm the expert here'." Southern Star's CEO shares the same perception: "Industry experience ensures that the management are questioned about some of the things that a non-industry professional wouldn't know to ask."

Nevertheless, both directors and management believe that experience and expertise from without industry is equally important condition of successful functioning of the board. What most of them point to is a good balance of expertise and skills in the boardroom, and respect for each other's expertise. Directors with experience in other industries or with different expertise provide challenges for the management and other directors. This is how the Chairman of Southern Star comments on the composition of his board:

> "I've chosen pretty strong people. I always believe in managing as well as developing a board with people who are going to challenge you. I believe we have a board of independent thinkers with different disciplines in their background and we have very lively discussions."

Firm and board reputation

Finally, we examined directors and executive managers' perception about the company and board's reputation. We define reputation as positive associations that others make of a particular individual or a formal group of individuals. We consider it important to analyse reputation in the context of this research as the company's reputation can reflect quality of the relationship between the board and management, between the management and the firm's business associates, as well as between the board and other stakeholders. The directors' good reputation was seen as a factor which can attract desirable tangible and intangible assets. It was also found to be a factor that has the ability to increase the credibility of directors within the company and contribute to the development of more effective relationships between the board and management. We believe that directors' perception of the company's reputation can influence intensity of their involvement with the company. On the other hand, the executives' perception on the company's reputation can influence their expectations towards directors' input and behaviour. Table 4 summarises the major factors of the company's reputation emerged from the data.

There are several important findings that have followed from our analysis. Firstly, both groups of respondents, directors and managers, in all case companies emphasise multiple links between the company's reputation, its overall business performance, and management. They do not conceive direct links between board reputation and firm reputation. Board reputation, which is more important to investors than other stakeholders, is linked to individual reputation of directors, the Chairman or founder in particular. Individual reputation of the board members is seen important in performing their network role and providing firm legitimacy. Directors in our high-tech sample played an essential part in attracting clients, finding new partners, enabling international contacts with technology providers, and attracting new investors. The Pleiades Chairman, for example, argued that the shareholders have by and large invested in this company because of him, whereas Beta Crucis CEO emphasised the importance of board reputation in provision of intangible resources.

Secondly, although all respondents point to the company's shareholders/investors as the most important stakeholder determining reputation, they also stress the value of the relationships that they have established with other stakeholders (suppliers, customers and employees). The only exception are Acrux's directors and managers who argue that the company's reputation should be exclusively estimated via the shareholder value criteria. This attitude can be explained by the company's monopolistic position. Three facets of the reputation that all respondents emphasise are the company's overall performance, management integrity and directors individual reputation. The last two present the key factors of successful governance practice. A director puts it in the following way: "The most important factor is people, not money, money is important, but people … I think it's a much bigger factor than what [we] realise in corporate governance, it is the people."

Table 4: Firm and board reputation

Case	Firm reputation	Major factors	Board reputation	Major factors	Examples
Southern Star	Reputation resides in stability A true culture of customer service Integrity and reputation of management Company's overall performance	Steady returns on investment Strong relationships with customers Partnerships with suppliers Respect from competitors	Collective reputation Individual reputation	Transparency Honesty Leadership Integrity Strong code of ethics Professionalism Commitment	"We've always had a very good reputation with the investors in that we are open. We tend to always deliver on our commitments and promises and generally have a very strong support from the industry".
Sagittarius	Reputation in transition Product brand	Financial performance of the business Market position	Important to investors Individual reputation (reputation of the Chairman) Internal reputation	Openness Fairness Consistency Trust	"The company's reputation I [CEO] think is seen more as how a management has performed, rather than how the board has governed".
Acrux	Reputation in disarray Shareholder value Involvement with the community	Best possible return on investment Consultations with community	Important to investors "Reputation of pushing the boundaries"	Individual expertise High public profile Community links	"I [director] suspect that [some business partners] would probably not regard us as terrible nice people".
Beta Crucis	Reputation relies on integrity and reputation of management	Communication with all stakeholders Continuous innovations Marketable products	Collective reputation Good reputation for communicating promptly, accurately and fully	Well balanced board Integrity Honesty Strong code of ethics Commitment	"Boards need to actively review their own role". "I [CEO] don't believe companies are as good as their boards are. Companies are only as good as their managers are".
Eta Carina	Reputation in disarray	Results	Individual reputation	Honesty Commitment Integrity Trust	"…it is highly dependent on the personalities of the people involved".
The Pleiades	Reputation relies on uniqueness and creativeness	Proficient partners Results Sustainability	Collective and individual reputation	Contribution Commitment Mutual trust	"The reputation of the partners is what matters".

Discussion and conclusion

Concepts of the resource dependence perspective (Pfeffer/Salancik 1978) and resource based view (Barney 1991) are the main building blocks utilised for the exploratory analysis of board-management relationships in six New Zealand companies. The elements related to the directors' network and resource roles and power of outside directors have been used to reanalyse the empirical data.

In line with other researches from a resource dependence perspective (Hillman et al. 2000; Pfeffer/Salanick 1978), our findings show that directors are perceived critical in obtaining partners, additional funds, and consulting advice in securing the company's future endeavours, and to signal legitimacy/value (Certo et al. 2001; Page/Spira 2000). Undoubtedly, directors and managers in our research believe that the resource role is one of the key roles of the board. Outside directors are expected to and they generously offer the access to their networks. This 'network' role is especially stressed in the case of Beta Crucis, the most important high-teach company in its industry sector in New Zealand, where overseas directors make possible exchange of information with the significant international counterparts. Our data show that directors in all companies are expected to provide various consulting services, provide legal and financial advice in certain situations, to be actively involved with management in disputes against third parties.

However, the outside directors' position as boundary spanners (Geletkanycz/ Hambrick 1997) gives them a significant power and unique place in the boardroom. The importance of their role in the situation of high resource scarcity generates power in relation to other board members and management. The more emphasised organisational need for resources, contacts or knowledge the bigger the power of outside directors. Their power is exercised by putting pressure on management and board to (1) implement certain policies (like in Eta Carina), (2) modify governance and organisational structural arrangements (like in Beta Crucis), and (3) introduce new inter-organisational relationships (like in Acrux and Sagittarius).

In addition, the analysis of boards' involvement has shown that directors' proactive approach in processes of knowledge acquisition and resource provision may lead towards more intensive and closer relationships between the board and management. In the situation of scare resources and high environmental uncertainty, like in the high-tech industry, board and management will pursue more collaborative and open relationships without formal director-manager distinctions. Our analysis illustrates such relationships in three case companies (Southern Star, Beta Crucis and The Pleiades). It can be assumed that the companies where boards of directors are more involved or have more active approach in acquiring knowledge may gain competitive advantage relative to other firms. Encouraging exchange of information inside and outside the boardroom, inciting the board's willingness to challenge management, promoting constructive conflict (Finkelstein/Mooney 2003) and developing team-work, can all build-up unique governance structure and practice (and make them to become the resource-based characteristics) and strengthen organisational future performance.

In the area of board reputation, our findings suggest that managers employ cognitively simpler strategy of associating individual members with their reputation, as opposed to conceptualising boards as providers/lenders of reputation capital. Our respondents do not make direct links between firm reputation and board reputation, although they emphasise the importance of individual director's skills, knowledge and reputation for the effective board functioning. This suggests that 'board reputation' may be more of an abstract concept for management, and managers cognitively associate reputation with individual board members. This process however, ensures that boards will be comprised of at least some board members who are reputed, and others who serve other functions, spreading the multiple benefits of board across several different sets of board members. Taking into account other descriptive studies (Carter/Lorsch 2004; Lorsch/MacIver 1989), this suggests that boards may represent, and managers may prefer to see, different directors as different sources of expertise (Castanias/Helfat 2001). However, the degree and the way in which director reputation is used are different for companies in different contexts and lifecycle stages. For example, strong boards in our two well-established companies in the traditional group of industries, Southern Star and Acrux, prefer directors with a reputation for independent thinking and active involvement in governance. This finding is supported by Zajac and Westphal (1996) who reported that powerful boards in traditional companies preferred directors with a reputation for more actively monitoring management and avoided directors with experience on passive boards. Chairmen of our two entrepreneurial case companies, Beta Crucis and The Pleiades, favour directors with a reputation for having good networks within and outside the industry. Having this type of reputable directors on the board enhances the investors' confidence in the capability and sustainability of the firm and attracts additional investments (Carpenter/Westphal 2001). This finding is also consistent with (Deutch/Ross 2003) statement that high-quality new ventures may be able to credibly signal their type by appointing reputable directors to their boards.

Within the framework of the RBV, our findings indicate that boards and executive management need to develop a conceptual understanding of internal and external capabilities of their relationships and comprehend how these capabilities translate into sustainable competitive advantage. In other words, the board-management relationships must have as much of a conceptual basis as an operational one. Thus, for example, the knowledge diffusion, assimilation and reproduction systems at the corporate level should be used to develop a common understanding of the value-adding engine of the corporation. This would lead to an engaged and collaborative board and would provide a better basis for monitoring in the board. Of course, boards must have multiple knowledge bases, incorporating both internal and external sources of information. However, our point is that a commitment to developing involvement, knowledge systems and reputation would spur sustainable long-term initiatives at the corporate level and become a source of competitive advantage.

Future research

One dominant theme emerging from our study of corporate governance in these six companies is that of importance of trust-based relationship between management and the board, based on board members' knowledge of the firm and their involvement in the process of governance. This relationship helps the board do a better job of monitoring the top management, protecting the interests of stakeholders, and, where required, offer advice and other resources. It is evident from our study that in situations where both the CEO and the Chairman expressed a high degree of satisfaction with their relationship in terms of knowledge and involvement, the monitoring function was well served - where this did not happen, the resulting mismatch and friction compromised the monitoring function. Thus, it is important for future research to investigate how trust, proximity and emotions affect the effectiveness of the board-management relationships and board roles.

At a different level, a study of interaction between these three aspects of governance (knowledge acquisition, board involvement and reputation) would also be a worthwhile endeavour. For instance, how does board potential knowledge transfer into active board involvement? And, does either of these translate into reputation of board members?

In our study, we point out how effective board-management relationships, embedded in their internal and external power, can develop into a source of competitive advantage. One fruitful area of future research would be how specific and critical qualities of the board functioning (the resource) and other factors (contextual or otherwise) affect the choices of future directors. Qualitative approaches may provide a finer-grained multi-theoretic picture of how directors' recruitment and 'education' take place and how these processes are managed and perceived by boards and management in a variety of contexts.

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