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## EXTENT OF HOSPITAL DIRECTOR INVOLVEMENT IN STRATEGIC MANAGEMENT: DOES TENURE MAKE A DIFFERENCE?

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## **EXTENT OF HOSPITAL DIRECTOR INVOLVEMENT IN STRATEGIC MANAGEMENT: DOES TENURE MAKE A DIFFERENCE?**

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### **ABSTRACT**

Of particular interest to researchers and practitioners is the impact of board members' composition and characteristics on corporate activities. With the exception of studies focusing on the gender of board members and the inside director-outside director dichotomy, much of the research tends to treat directors as a homogeneous group. This study seeks to determine whether a relationship exists between hospital directors' length of tenure and their degree of involvement in the strategic management process.

The results of a survey of 240 directors from twenty-one hospitals are analyzed. A MANOVA, followed by a series of ANOVAs revealed significant differences between the long- and short-tenure directors. In most areas those with relatively short board tenure tend to be less engaged than their longer-tenured counterparts. The latter are more involved in developing strategic alternatives, providing advice and counsel in discussions outside of board/committee meetings, and setting standards for and evaluating the performance of the hospital and management. However, both groups have very limited involvement in setting standards for rewarding top management and evaluating their performance. Short-tenure directors are more concerned with the interests of major stakeholders and promoting their goodwill and support. Also, they are more actively involved in financial matters.

The results raise potentially important strategic dilemmas for hospitals and offer proponents of changes in board composition support for their normative suggestions. Longer-tenured members are not as concerned with financial matters as well as stakeholders' interests and support as their short-tenured counterparts. Also, although longer-tenured members were more active in setting standards for rewarding top management and assessing their performance, it is important to note the limited involvement of both groups. The results show a reluctance by both groups to set performance standards for top management and to formally evaluate their performance.

### **INTRODUCTION**

Directors are ultimately responsible for supervising management's performance and ensuring that decisions are designed to maximize the value of the enterprise. They are expected to help shape corporate management by providing impartial, sound, and experienced advice. A

talented group of active directors is a strategic asset that businesses cannot afford to be without.

There is general agreement among organizational researchers, governance experts, and business executives that, traditionally, boards have engaged in the strategic process only to the extent that they legitimized proposals from corporate executives (Iacocca, 1984). However, in recent years, the extent to which board members are involved in the corporate strategic decision making process has become of major concern. This has sparked many research investigations. Of particular interest is the board's decision making processes (Forbes & Milliken, 1999), the structure of its committee membership (Kesner, 1988), its role in strategic management (Judge & Zeithaml, 1992), and its impact on financial performance (Hillman & Dalziel, 2003), CEO succession (Ocasio, 1999), and social responsibility (Ibrahim & Angelidis, 1995).

## CONCEPTUAL FRAMEWORK

### Board Involvement

To date, the board's multiple roles and duties have been the most-studied aspect among all board investigations. These studies identified several major responsibilities that capture directors' most significant functions. A list of some of these is presented in Table 1.

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TABLE 1

### RESPONSIBILITIES OF BOARDS OF DIRECTORS

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Author(s)	Year	Responsibilities
Pfeffer and Salancik	1978	Advice and counsel Oversight and control.
Ong and Lee	2000	Monitoring the actions of executives on behalf of shareholders
Hillman and Dalziel	2003	Providing input, resources, and advice in formulating strategies
Johnson et al.	1996	Establishing links with stakeholders Participating in strategic planning
Boulton	1978	Reviewing overall board role and responsibilities Reviewing operating variances and problem areas Reviewing objectives and setting standards of performance Reviewing business structure

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Evaluating strategic and operating plans  
 Reviewing standards for compensation and rewarding performance  
 Ensuring the organization's human resource development  
 Reviewing external trends  
 Setting policies for corporate action

There is ample empirical evidence from organizations of many different kinds that there are levels of board involvement, which can be represented as continua. One particularly useful framework was developed three decades ago by Boulton (1978). He presented a model of the "evolving board" for evaluating the role of directors in corporate strategic management. He described the "changing of the board's role as ... a process of evolution in which the board moves beyond providing basic legitimacy for the corporation to ... playing an involved role" (pp. 828-829). The model's significance is twofold. First, it views the board's level of involvement as a dynamic process in which a board may move from minimal participation to a critical contributor

**TABLE 2**

**SCALES MEASURING BOARD INVOLVEMENT**

<b>Author(s)</b>	<b>Year</b>	<b>Purpose of Scale</b>
Judge and Zeithmal	1992	To measure board involvement in the formulation and evaluation phases of the strategic decision-making process
Westphal Blake	1999 1999	To measure the degree to which directors: monitor top management's strategic decision making formally evaluate the performance of top executives defer to the judgment of top managers on final strategic decisions develop performance objectives require information showing progress against corporate objectives analyze financial information for important issues and trends analyze budget allocation against performance review company performance against the strategic plan.
Westphal, Dulewicz et al.	1999 1995	To measure the extent to which : top executives solicit board assistance in strategy formulation outside directors serve as a sounding board on strategic issues directors provide advice and counsel outside of board and

committee meetings  
the board takes into account stakeholders' legitimate interests  
the board ensures that communications with stakeholders are effective  
the board promotes the goodwill and support of relevant stakeholders

Zahra	1990	To measure the degree to which the board:
Blake	1999	articulates a company mission analyzes the internal and external environments identifies a strategic plan develops strategic options and selects a final strategy is involved in the strategic planning process communicates the company's strategic direction throughout the company receives plans for the implementation of strategy from the CEO benchmarks the strategic plan with industry comparative data.

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in the strategic process. Second, the model provides a theoretical framework for determining the extent of board involvement in strategy making by identifying a number of categories of director involvement. Another valuable contribution for evaluating the role of the board of directors in corporate strategic management was developed by Wheelen and Hunger (2008). A board can be characterized as being at a specific point on a continuum depending upon its degree of involvement in strategic affairs. Accordingly, "boards can range from phantom boards with no real involvement to catalyst boards with a very high degree of involvement" (p. 28).

Writers have offered a variety of scales for determining the extent of board participation in strategic decisions. Table 2 shows these scales and the areas they purport to measure. In addition, a number of writers have examined the degree of board involvement in these decisions. Unfortunately, when viewed as a whole, the results are mixed and inconclusive, thus limiting the number of definitive conclusions that can be drawn. Some have found that executives are resisting increased board involvement in the strategic process. Other evidence suggests that board members are reacting to various external pressures with active participation. Table 3 shows a list of the key studies.

### **Board Characteristics and Composition**

The boards of many types of organizations have been examined from a wide variety of perspectives. Almost three decades ago a number of writers expressed the need to study the profiles of corporate upper echelons in order to understand an organization's strategic processes. They asserted that strategic decisions reflect the background of the organization's most powerful

executives and decision makers, and what the organization does could be explained, at least in part, by their profile. In their seminal work on Upper Echelon theory, Hambrick and Mason (1984) articulated an ambitious research agenda by proposing a number of hypotheses for testing the relationship between strategic choice and certain demographic characteristics of key decision makers. Demographic composition offers the advantage of being objective and testable. By virtue of their position, organizational leaders are more capable of perceiving and understanding relevant environmental trends and communicating them to the rest of the organization.

Consistent with this view, one important line of research has been devoted to an examination of one segment of the firm's upper echelon - its board of directors. Of particular interest is the impact of the board's composition and characteristics on corporate activities. However, with the exception of studies focusing on the gender of board members and the inside director-outside director dichotomy, much of the research tends to treat directors as a homogeneous group.

## Hospital Directors

One segment of the literature on directors has been devoted to the study of hospital governing boards. Table 4 presents some of the key studies. These investigations have been instrumental in focusing attention on the composition and characteristics of hospital boards. One area which has remained relatively unexplored is the relationship between board members' organizational tenure and the extent of their involvement in corporate strategy. Tenure is different from other attributes such as sex, race, or age because it is affected by personal choices; one can elect to remain in an organization or leave it. It "is usually taken to mean time of continuous service with a single organization" (Lovett & Cole, 2003, p. 4).

To date very little is known regarding the extent of similarities and differences between long- and short-tenured directors regarding their involvement in strategic issues. The present study was designed to investigate this issue. Specifically, its purpose is to determine whether a

TABLE 3

### BOARD PARTICIPATION IN STRATEGIC DECISIONS

Author(s)	Year	Findings
<b>A. Studies Showing Minimal Board Participation</b>		
Whisler	1984	"Rules of the game" is to minimize participation in setting strategy
Mace	1986	Boards do not participate in strategic decisions unless faced with a

## crisis

Patton and Baker	1987	Members are reluctant to “rock the boat” and get involved
Lorsch	1989	Directors want to increase their involvement but are reluctant to do so.
Judge and Zeithaml	1992	The great majority of boards are not actively working with management to develop strategic action.
Daily and Dalton	1995	Norms of reciprocity: Board appointments confer prestige and status, financial rewards and various perquisites. Members feel socially obligated to support the CEO and minimize any meaningful participation
<i>Wall Street Journal</i>	1996	Social ties between top managers and outside directors tend to be be “chummy” or even “collusive” thus diminishing board effectiveness

## **B. Studies Showing Active Board Participation**

Worthy and Neuschel	1984	A major increase has taken place in the duties, power, and responsibilities of corporate boards
Westphal	1999	Social ties between the CEO and the board encourage collaboration between top managers and outside directors in strategic decision making
Heidrick and Struggles	1990	Board members are increasingly involved in determining and monitoring the strategic directions of the organization.
Dobrzynski	1989	“Quietly, many boards are asserting themselves - redirecting strategy here, vetoing an investment there” (p. 66).

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relationship exists between hospital directors’ length of tenure and their degree of involvement in the strategic management process.

**TABLE 4**

**STUDIES OF HOSPITAL GOVERNING BOARDS**

<b>Author(s)</b>	<b>Year</b>	<b>Focus</b>	<b>Findings</b>
Witt	1993	Board training policies	Most hospitals did not have any policies for training and developing board members. Most directors did not have any board experience in large organizations
Molinari et al.	1992	Board training programs	Boards whose members attended training programs were better informed about management issues and changes in the external environment, and were associated with improved financial performance
Molinari et al.	1997	Relationship with CEO	CEO participation on boards was associated with enhanced hospital financial performance
Gardner	1992	Board composition	The importance of including nurses in hospital boards because they have a health care background
Goes and Zhan	1995	Board composition	Physician membership on boards was associated with higher operating margins and occupancy
Molinari et al. Delbeq and Gill	1993 1988	Board composition	A high proportion of directors with business-related occupations provided boards with up-to-date operational information and financial and strategic expertise
Gautam and Goodstein	1996	Board composition	Boards with a higher proportion of insiders and business directors made more changes in their mix of services in response to legislative reform
Ibrahim et al.	2000	Social responsiveness orientation	Compared to those with a healthcare background, directors who did not have such a background were more concerned with economic and legal issues

## METHODS

A total of 291 directors from twenty-one hospitals in six southeastern and three northeastern states were asked to participate in the study. The survey questionnaires were completed immediately following a regularly scheduled board meeting. Two hundred-and-fifty-one responses were received (86.3% response rate). Interestingly, the response rate from each hospital was in the 81-to-89 percent range. On the average, the hospitals had 409 set-up-and-staffed beds.

In addition to several demographic items, each participant's level of involvement was based on an adaptation of studies involving hospital boards and other previous research (Boulton, 1978; Patton & Baker, 1987; Judge & Zeithaml, 1992; Westphal, 1999; Blake, 1999; Zahra, 1990; Dulewitz et al., 1995). A seventeen-item scale was constructed to measure the extent of a board member's participation in corporate strategic management. They were framed to address the following areas: Broad cross-functional strategic matters, overall hospital performance, performance of top executives, and internal and external issues. Responses were made on a four-point scale on which the higher the number the greater the perceived involvement.

## FINDINGS

The respondents were predominantly male (77%) and white (86%) with an average age of 54 years. The mean number of years they had served on their respective boards was 9.6 (median = 9). Ninety-nine percent had an undergraduate college degree, 27 percent were medical doctors, and 34 percent earned another professional degree or a graduate degree. Approximately three-quarters (77%) of these boards meet monthly, 16 percent meet bimonthly, and 7 percent hold quarterly meetings.

A median split was conducted to separate respondents into long- (more than nine years) and short-tenure (less than nine years) groups. Since ten respondents had a tenure of nine years, each group contained 120 persons. The results of chi-square tests and a *t*-test showed no significant differences between the two groups with respect to gender ( $\chi^2 = 1.91, p = .17$ ), level of education ( $\chi^2 = 0.48, p = .79$ ), and the size of the hospital on whose boards they served ( $t = 1.77, p = .09$ ). Another *t*-test showed that the long-tenure directors were slightly older than the short-tenure directors (56.2 versus 51.6 years old). Although this difference is statistically significant ( $t = 6.44, p < .00$ ), it was not considered to be of any practical significance.

Descriptive statistics for all seventeen measures of director involvement are displayed in Table 5. The table also shows the rankings (based on the means of scores) of the responses provided by each group. The analysis of these results was performed in three stages. First, the Spearman rank-order correlation test was conducted to determine to what extent the rankings are similar. The results ( $r_s = 0.97, p = 0.0001$ ) indicate that there are no significant differences

between the two sets and that they are positively correlated. That is, there is a high degree of consistency between the two groups' rankings. Closer examination of Table 5 shows that the means of the two groups' scores on each of the items are different. For this reason, a second test was conducted to explore these differences. A multivariate analysis of variance (MANOVA) procedure was considered to be the most appropriate analytic technique. It compensates for variable intercorrelation and provides an omnibus test of any multivariate effect. The MANOVA revealed significant differences between the long- and short-tenure directors (Wilks'  $\lambda = 0.568$ ,  $p = 0.03$ ). That is, overall, the two groups exhibited different degrees of involvement.

Finally, to understand the underlying contributions of the variables to the significant multivariate effect, each of the seventeen dependent variables was tested using a series of one- way analyses of variance (ANOVAs) with the two groups treated as our two levels of the independent variable. The results, depicted in Table 6, show that differences between the two samples were significant on eleven of the seventeen variables. No significant differences were found in the following six areas: reviewing the board's overall role and responsibilities, defining/reviewing the hospital's mission/vision statement, conducting an analysis of the internal environment, developing strategic alternatives, reviewing the hospital's overall structure, and ensuring the hospital's development of its human resources. However, it is important to note that, in all six areas, the long-term directors' mean scores were greater than those of the short-term group.

## **PRACTICE IMPLICATIONS**

The present study is an attempt to partially fill a void by examining similarities and differences among hospital directors based on the length of their tenure. It led to several insights about this relationship. When the means and rankings shown in Table 5 are analyzed, several patterns emerge. More than two-thirds of the scores of long-tenure directors are higher than those of their counterparts but there is a very high degree of agreement between the two groups in terms of the "ranking" of the items. Specifically, the top eight items of the short-tenure sample correspond to seven of the top eight items of the long-tenure directors. These are generally most directly related to broad, cross-functional strategic issues such as defining/reviewing the hospital's mission-vision statement, reviewing the board's overall role and responsibilities, analyzing the external and internal environments, providing advice and counsel in discussions outside of board/committee meetings, and developing strategic alternatives. Also, they address the hospital's relationship with its major stakeholders.

With respect to setting standards for and evaluating top management's performance, reviewing the hospital's overall structure, and ensuring the development of the hospital's human resources, both groups' rankings were identical. Also, these four items had the lowest scores. Indeed, both samples' scores were well below 2.0. This suggests that both groups were least interested in or preferred to limit their participation in these four areas.

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The results of the ANOVAs show that, compared to directors with short-term tenure, longer-tenured members were more involved in developing strategic alternatives, providing advice and counsel in discussions outside of board/committee meetings, and setting standards for and evaluating the performance of the hospital and management. It is interesting to note that, although longer tenured members were more active in setting standards and evaluating top management's performance, their involvement was quite limited (scores well below 2.0). This suggests a reluctance to monitor and evaluate top management's performance. A related issue is evident upon a careful inspection of Table 5. Both groups of directors were much more involved in setting standards for overall hospital performance than in setting standards for rewarding top management's performance (short-tenure directors:  $t = 22.35, p < .00$ ; long-tenure directors:  $t = 18.49, p < .00$ ).

**TABLE 5**  
**MEANS AND RANKINGS OF DIRECTORS' SCORES**

Variable	Overall ( <i>n</i> = 240)		Short-tenure ( <i>n</i> = 120)		Long-tenure ( <i>n</i> = 120)	
	Mean	Ranking	Mean	Ranking	Mean	Ranking
Reviewing the board's overall role and responsibilities	3.56	1	3.52	1	3.60	1
Defining/reviewing the hospital's mission/vision statement	3.50	2	3.47	2	3.52	2
Conducting an analysis of the external environment	3.27	3	3.30	3	3.24	3
Taking into account the legitimate interests of major stakeholders	3.22	4	3.31	4	3.13 <sup>a</sup>	4
Promoting the goodwill and support of major stakeholders	3.18	5	3.29	5	3.07	6
Developing strategic alternatives	3.07	6	3.00	6	3.13 <sup>a</sup>	4
Conducting an analysis of the internal environment	3.02	7	2.99	7	3.04	7
Evaluating operating variances	2.84	8	2.93	8	2.75	9
Providing advice and counsel in discussions outside of board/ committee meetings	2.78	9	2.60	11	2.96	8
Setting standards for overall hospital performance	2.65	10	2.57	10	2.72	10
Analyzing financial information for important issues and trends	2.48 <sup>a</sup>	11	2.59	9	2.34	12
Evaluating overall hospital performance against the strategic plan	2.48 <sup>a</sup>	11	2.30	13	2.64	11
Benchmarking the strategic plan with industry comparative data	2.28	13	2.43	12	2.12	13
Setting standards for rewarding top management's performance	1.52	14	1.42	14	1.61	14
Formally evaluating the performance of top management	1.33	15	1.27	15	1.39	15
Reviewing the hospital's overall structure	1.14	16	1.12	16	1.16	16
Ensuring the hospital's development of human resources	1.06	17	1.04	17	1.07	17

<sup>a</sup> The scale ranged from 1 = no involvement to 4 = much involvement.

<sup>b</sup> Denotes a tie.

**TABLE 6**

**ANOVA RESULTS FOR DIFFERENCES BETWEEN SHORT-TENURE AND LONG-TENURE DIRECTORS**

Variable	Short-tenure (n = 120)		Long-tenure (n = 120)		F	p
	Mean	SD	Mean	SD		
Reviewing the board's overall role and responsibilities	3.52	0.45	3.60	0.61	1.34	0.25
Defining/reviewing the hospital's mission/vision statement	3.47	0.62	3.52	0.69	0.35	0.56
Conducting an analysis of the external environment	3.30	0.84	3.24	0.87	0.62	0.43
Taking into account the legitimate interests of major stakeholders	3.31	0.61	3.13 <sup>a</sup>	0.57	5.58	0.02
Promoting the goodwill and support of major stakeholders	3.29	0.62	3.07	0.60	7.80	0.01
Developing strategic alternatives	3.00	0.34	3.13 <sup>a</sup>	0.37	8.03	0.01
Conducting an analysis of the internal environment	2.99	0.51	3.04	0.57	0.51	0.47
Evaluating operating variances	2.93	0.55	2.75	0.50	7.04	0.01
Providing advice and counsel in discussions outside of board/committee meetings	2.60	0.51	2.96	0.88	15.03	< 0.00
Setting standards for overall hospital performance	2.57	0.51	2.72	0.58	4.53	0.03
Analyzing financial information for important issues and trends	2.59	0.54	2.34	0.47	14.63	< 0.00
Evaluating overall hospital performance against the strategic plan	2.30	0.44	2.64	0.49	31.99	< 0.00
Benchmarking the strategic plan with industry comparative data	2.43	1.09	2.12	0.98	5.37	0.02
Setting standards for rewarding top management's performance	1.42	0.24	1.61	0.31	28.19	< 0.00
Formally evaluating the performance of top management	1.27	0.30	1.37	0.33	7.62	0.01
Reviewing the hospital's overall structure	1.12	0.19	1.16	0.29	1.60	0.21
Ensuring the hospital's development of human resources	1.04	0.36	1.07	0.31	0.48	0.49

<sup>a</sup> The scale ranged from 1 = no involvement to 4 = much involvement.  
<sup>b</sup> Denotes a tie.

The results also show that, compared to their long-tenured counterparts, short-tenure directors were more concerned with the interests of major stakeholders and promoting their goodwill and support. Also, they were more actively involved in financial matters (benchmarking, analyzing financial information, and evaluating operating variances). Regarding the similarities between the two groups, no significant differences were found for the three items that received the highest scores and the two items that received the lowest scores from each group. This suggests that there is agreement that the top three items are the most “strategic” and require board members’ involvement while the bottom two items are of the least concern to board members. They are more related to the day-to-day management of the organization. Consequently, board involvement is focused on other areas.

This study has important implications and raises an essential issue for the expanding literature on the composition of hospital boards of directors. While prior research has focused primarily on the impact of the membership make-up of boards on issues such as social responsibility and financial performance, there has been a dearth of research on directors’ tenure. The relationships we found between tenure and level of participation raise potentially important strategic dilemmas for hospitals: longer-tenured board members are not as concerned with financial matters as well as stakeholders’ interests and support as their short-tenured counterparts. Yet hospitals are under increased pressure to focus on financial performance and abide by numerous legal and regulatory requirements. Hospital administrators, researchers, regulators, public policy advocates, and other stakeholders advocating changes in board membership may need to consider the implications of these findings. Also, although longer-tenured members were more active in setting standards for rewarding top management and assessing their performance, it is important to note the limited involvement of both groups. Therefore, one of this study's findings appears to be consistent with previous research showing CEO domination of the board and the directors’ need to ingratiate themselves or curry favor with the CEO (Westphal, 1999). Indeed, the independence of directors and the critical need to adequately monitor the performance of the CEO and other managers has been found to be an essential requirement for board effectiveness (Dalton et al., 1999). Future research efforts need to determine the possible reasons for the reluctance of short-tenured members to express their views.

Regarding the similarities between the two groups, it is interesting that the three items where the two groups’ scores were not significantly different also received the lowest scores from both groups. With respect to the two other issues – setting standards for evaluating top management’s performance and formally evaluating the performance of top management – the results show a reluctance by both groups to examine these two areas.

Certainly, caveats must be offered regarding conclusions generated by this research. Clearly, the differences between the two groups in terms of their degree of involvement reinforce the importance of examining the composition of hospital boards. However, larger samples are needed to assess the robustness of these results. Additional research is necessary to determine whether a director's level of participation does translate into organizational action. Also, since most board decisions are made by committees, in the future researchers may want to investigate the possible impact of group dynamics on member involvement. Another limitation concerns the use of the median-split to create the four subgroups. The conversion of a continuous variable into a categorical variable tends to lead to information loss and decreases the sensitivity of the measurement instrument. Finally, board members' degree of involvement was reported by the directors themselves. Although the possibility of bias cannot be completely ruled out, a number of authors have pointed out that self-report measures are indispensable in organizational research (Gupta & Beehr, 1982; Podsakoff & Organ, 1986). This is consistent with Steiner and Miner’s (1986) assertion that direct observation of top executives at work is not a practical approach; “only self-reports ... can provide an indication of the time ... spent in decision making and planning ...” (p. 195). Indeed, in certain research contexts, self-reports may provide more accurate estimates of population parameters than behavioral measures (Howard et al., 1980).

In conclusion, the findings of this study highlight an area of growing concern to society and all types of organizations. The directors' role in the strategic process is likely to expand due to increased risks of legal

liability and the public's (and patients') unrelenting insistence for safe and high quality products and services. In health care, the issue of board members' involvement is likely to gain increased attention because of societal demands on hospitals and many questions regarding the strategic dimensions of decision making. The results are a reminder that major differences exist between directors based on their tenure. This offers proponents of changes in board composition support for their normative suggestions.

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