Corporate Governance: The International Journal of Business in Society

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Joel Kiplagat Tuwey and Daniel Kipkirong Tarus are both based at the Department of Accounting and Finance, Moi University, Eldoret, Kenya.

Abstract

Purpose – *The purpose of this paper is to determine how board leadership affects the board strategic involvement in private firms in Kenya and how CEO power moderates this relationship.*

Design/methodology/approach – *The authors used a Kenyan data set to investigate what makes boards in private firms get involved in strategy. Survey data derived from a sample of 186 CEOs of private firms were used, and the hypotheses were tested using moderated regression analysis.*

Findings – *The results indicate that board members' knowledge, board chairman's leadership efficacy, board members' personal motivation and board members' background all have a positive and significant effect on board strategy involvement. The authors also found that CEO power moderates the relationship between board leadership and strategy involvement. The study concludes that when the CEO wields immense power, the board tends to become passive and to submit to the direction of the CEO.*

Originality/value – *The study adds value to the understanding of the effect of the board leadership on strategic involvement in private firms and how CEO power influences this relationship, particularly in a developing country like Kenya.*

Keywords *Kenya, Private firms, Board leadership, Board strategic involvement, CEO power*

Paper type *Research paper*

1. Introduction

Most research on corporate governance in general and on boards in particular has focused on large listed firms (Daily *et al.*, 2003; Gabrielsson and Huse, 2005; Uhlaner *et al.*, 2007a, 2007b; Tarus and Aime, 2014; Chen, 2014). While there has been a substantial increase in the research on privately held firms in recent times, relatively little attention has thus far been paid to corporate boards and decision-making (Gabrielsson and Winlund, 2000). There is, however, an emerging consensus that boards in privately held firms are critical to the running of the organization (Gabrielsson *et al.*, 2007; Neville, 2011), insofar as the board enhances strategic decision-making (Brunninge *et al.*, 2007; Machold *et al.*, 2011).

The extant literature draws a distinction between corporate governance in listed and unlisted firms. In the research on listed firms, the central focus is on the separation of ownership and control and the resulting divergence of interest (Jensen and Meckling, 1976). Although agency problems exist, the scale of the problem is less significant in private firms because they operate with fewer complex control and decision-making structures. Similarly, the impact of the founders in the decision-making structure is greater in private firms, and this diminishes the monitoring role of the board (Nelson, 2003). Boards do, however, play an important strategic role in both the listed and unlisted firms. These roles include strategy formulation, strategy choice and strategy implementation (Stiles, 2001; Tarus and Aime, 2014). Scholars have studied the strategic role of the board in large listed firms, but there is as yet relatively little research on the strategic role of boards in

Received 10 January 2016
Revised 7 May 2016
Accepted 1 June 2016

private firms. Similarly, most studies have used traditional archival methods to collect data. In contrast, in the present study, primary data on board effectiveness in executing strategic functions were collected using questionnaires derived from the CEOs of private firms. Further studies have focused on data derived from developed economies, to the exclusion of developing economies where the majority of firms are unlisted. To rectify this situation, the present study uses data from Kenya.

The processes by which board leadership encourages board members to become involved in strategy have yet to be fully understood. Despite a large body of research suggesting that leadership is important in strategy involvement (Jung *et al.*, 2003; Atwater and Carmeli, 2009), the potential influence of board leadership on strategy involvement has not been studied in sufficient detail (Machold *et al.*, 2011). In an attempt to rectify this, and to further contribute to this line of research, we investigate the effect of board leadership on strategic involvement in private firms and how CEO power moderates this relationship. Specifically, in the present study, we re-direct our focus on the use of primary data collected from private firms in an emerging market, to test the proposed hypotheses. We noted that the few studies on board leadership and corporate strategy are largely drawn from developed countries and from large listed firms. By studying board leadership in private firms, this paper responds to calls for more research on small firms (Huse, 2000; Uhlaner *et al.*, 2007a, 2007b; Bammens *et al.*, 2008; Machold *et al.*, 2011). Similarly, by focusing on CEO power, a particularly important characteristic of such firms, this study contributes to the body of knowledge on the moderating effect of CEO power in strategic decision-making in the context of a developing economy, where the power of the CEO is more apparent due to the ownership structure and the role of family and founders in firm management (Young *et al.*, 2008). Indeed, studies have called for further exploration of different contexts in examining board involvement in firm strategy (McNulty and Pettigrew, 1999; Rindova, 1999; Ravasi and Zattoni, 2006).

1.1 The Kenyan context

Our study focuses on Kenya, where corporate governance systems not only exhibit characteristics found in other countries but also have unique features. First, the Kenyan business sector comprises publicly listed and privately owned firms. There are comparatively few listed firms (around 60), as compared to other countries in the region such as South Africa, and a high percentage of private firms. These private firms invest in every sector of the economy, such as construction, financial services, insurance, agriculture and commerce and trade. The ownership structure of large listed firms in Kenya is concentrated (Tarus, 2011). This is also true of private firms, and studies have shown that such firms are closely held, and that their shareholders are drawn from family and friends (Mustakallio *et al.*, 2002; Neville, 2011).

Public listed firms in Kenya are required by law to comply with the Corporate Governance Guidelines of 2002, which stipulate how such firms should be governed. These guidelines detail the structure, role and composition of the board, as well as ownership-related issues. Although these corporate governance guidelines are useful in managing governance, private firms are not legally required to observe them. Most firms have embraced corporate governance mechanisms such as appointing boards of directors to assist in governing firms, though most have founders and family members as CEOs. The extant literature indicates that the board plays a critical role in aligning the interests of the owners with those of the management (Jensen and Meckling, 1976; Perry and Peyer, 2005; De Andres and Vallelado, 2008). In this context, CEOs are often founders, family members or friends, and the contribution of the board therefore tends to be in an advisory rather than a monitoring role.

In terms of the business environment, the Kenyan private sector industry is dynamic, due to its innovative capabilities. Kenya is one of the most innovative countries in the Sub-Saharan Africa, particularly in terms of information technology. For instance, developments in mobile money transfer have changed the way the banking system works. Notable innovations in Kenya include the "*M-PESA*" technology. "*M-PESA*" is derived from a combination of two words "M", an abbreviation for "Mobile", and "*PESA*" (a *Swahili* word for cash, hence "mobile cash money" (Ngugi *et al.*, 2010; Tarus and Sitienei, 2015). The *M-PESA* concept is a money transfer system that allows people to deposit, send and withdraw funds using their cellphones. *M-PESA* can also be used to pay bills with the click of a button, instead of waiting in long queues or traveling to an office that is often a considerable distance away. Customers can purchase airtime without moving, travelers can travel safely without carrying cash (Jack and Suri, 2011), and parents can pay school fees for their children without having to visit the bank. Such levels of innovation and strategic engagement require critical thinking, open-mindedness and the ability to search for relevant information to guide decision-making. In particular, the board should be knowledgeable, well-motivated and have a strong and skilled chairman, to deploy such strategies in the firm. In essence, board leadership and the CEO play a critical role in providing strategic direction within private firms.

The paper is organized as follows: Section 2 discusses the relevant theories and reviews the literature related to the hypotheses. Section 3 presents the methodology adopted in the study as well as a model specification. In Section 4, the results are presented, in the form of both a descriptive and a multivariate analysis. Finally, Section 5 provides a discussion of the results and concluding remarks.

2. Theory and hypotheses development

Research on corporate governance has tended to focus on agency theory in explaining the role of the board (Neville, 2011; Jensen and Meckling, 1976). This perspective is based on the structure of listed firms, which is characterized by a conflict of interest between management and shareholders. According to the theory, the board acts as a watchdog in aligning the interest of management with those of shareholders (Jensen and Meckling, 1976; Jackling and Johl, 2009). However, the ownership structure of private firms is different. Indeed, the ownership structure of private firms is closely held, with majority shareholders engaged in the management of the firm (Uhlaner *et al.*, 2007a, 2007b; Machold *et al.*, 2011). This structure reduces the degree of divergence of interests between the management and the shareholders. Thus, agency theory seems too limited to explain the role of boards in private firms.

More recently, consensus seems to have converged around the fact that boards in private firms provide resources (in a broad sense) such as strategies and services (Neville, 2011). Drawing upon the Resource Dependency Theory, board members bring important resources to the firm (Pfeffer and Salancik, 1978). The theory focuses on the board as a human capital resource that uses its power, its knowledge and its skills to advise management (Teece *et al.*, 1997; Mustakallio *et al.*, 2002), particularly as regards corporate strategy. Studies on boards' strategic involvement have continued to attract substantial attention (Golden and Zajac, 2001; Tarus and Aime, 2014) for two reasons: first, strategy is viewed as an important ingredient in firms' value creation (Pugliese *et al.*, 2009), and board engagement in strategic decision-making is therefore seen as a way of enhancing firm value; second, strategy involvement is seen as a way of differentiating between active and passive boards. According to McNulty and Pettigrew (1999), an active board not only ratifies but also formulates strategy, by defining and shaping the decisions to be taken through strategy implementation. In other words, active boards engage in strategy formulation and implementation. So, the board strategic involvement is a key indicator of board performance (Stiles, 2001).

Board performance, particularly with respect to strategic involvement, is determined by board leadership. Indeed, board leadership entails the effective facilitation and use of the knowledge and skills of board members (Huse, 2007). Because boards are composed of individuals drawn from varied backgrounds, their effectiveness depends upon how board members share their knowledge, and on how they interact and engage in strategic decision-making (Forbes and Milliken, 1999). Thus, board leadership entails the design of effective interactions in the boardroom, as well as requiring a skilled chairman who is able to lead the board in decision-making (Machold *et al.*, 2011). Board leadership is therefore a multi-dimensional construct encompassing several issues that enhance strategic decision-making, such as those processes ensuring that board members bring relevant knowledge and skills to the board, the structure of interactions and the chairman's leadership skills.

Despite a large volume of research on boards and strategy involvement, results remain inconclusive. In addition, there is a lack of empirical studies investigating the phenomenon in contexts other than US boards (Huse, 2000; Uhlaner *et al.*, 2007a, 2007b; Machold *et al.*, 2011). Indeed, there is a general lack of research on board processes in private firms in emerging countries such as Kenya. The present study looks at how board leadership affects strategy involvement among board members.

2.1 Board members' knowledge

Studies drawing upon the Resource Dependency Theory suggest that boards add value to the firm by complementing management with experience, knowledge and skills (Gabrielsson and Huse, 2005). A key issue in board leadership is ensuring that board members have the requisite skills and knowledge (Hillman and Dalziel, 2003; Machold *et al.*, 2011). The skills and knowledge of board members help the firm to engage in strategic decision-making, by offering a wide spectrum of perspectives and strategic considerations of possible alternatives. Drawing from the work of Ravasi and Zattoni (2006), board members' possession of relevant knowledge determines how board members engage in strategy making. According to Forbes and Milliken (1999), the possession of relevant knowledge helps in problem-solving process implicit in most strategic decisions, and is therefore likely to enhance the ability of board members to perform their strategic tasks. The knowledge and skills of the board are critical for private firms because such firms are constrained by resources such as managerial talent (Brunninge *et al.*, 2007).

Using survey data from 140 firms in Norway, Machold *et al.* (2011) showed that board members' knowledge positively influences boards' strategy involvement. Specifically, board members' firm and industry specific skills and knowledge supplements the firm's existing managerial resources. Similarly, board members with a wide array of skills, experiences and knowledge can provide advice to the management, particularly as regards strategic choices. Thus, boards in private firms provide decision-making support to the management, who often lack the competence and experience needed to engage effectively in corporate strategy (Minichilli and Hansen, 2007). In this context, we hypothesize that:

> *H1*. Board members' knowledge positively affects board strategic involvement in private firms.

2.2 Board chairman's leadership efficacy

Self-efficacy is defined as the belief in ones' capabilities to organize and execute the courses of action required to produce given outcomes (Bandura, 1977). It is the estimation of one's ability to perform successfully in a wide variety of challenging situations (Eden, 1996). On the basis the theory of self-efficacy (Bandura, 1977, 1997), leaders with greater self-efficacy are more effective in producing outcomes because they are inclined to expend greater efforts to fulfil their leadership roles and to persevere longer when faced with difficulties.

Drawing on the Social Cognitive Theory, human actions result from dynamic interplay among personal, behavioral and environmental influence (Bandura, 1986), and therefore, individuals with certain capabilities help them plan strategies and learn through experience. Indeed, a board is a social network containing members with a diverse set of personalities, skills, knowledge and motivation, which may influence board task performance both individually and collectively (Huse, 2007). Because of this diversity of personalities and relationships in the boardroom, there is an increasing interest in how the chairman leads the board (Dulewicz *et al*., 2007; Machold *et al*., 2011).

The chairman's leadership traits have the potential to influence board effectiveness in strategic involvement (Machold *et al*., 2011). According to Leblanc (2005), a strong board is characterized by a strong and skilled chairman who can motivate and lead board members. The role of a board chairman is to encourage members to coordinate and integrate their knowledge and competencies and to direct them in a particular direction (Wu *et al*., 2010). In an exploratory study by Kakabadse *et al.* (2006) involving chairmen, board members and CEOs in the UK, it was found that the chairman sets the tone in the boardroom, and his wit and guidance establishes the foundation for board effectiveness. In essence, the chairman creates a safe haven and creates a conducive atmosphere where a diversity of views, feelings and beliefs are accommodated. At the same time, the board members freely interact and engage constructively in board deliberations.

Consistent with Paglis and Green's (2002) perspective, self-efficacy is the ability to exert leadership by setting a direction for the work group, building relationship with followers and working with them to overcome obstacles. Therefore, the chairman should provide direction to the board members, make sense of their experiences, alter their thinking and behavior and build relationships. Paglis and Green (2002) surveyed managers and their direct reports and found that leaders' self-efficacy is positively related to both direction setting and gaining follower's commitment. In this regard, the board chairman is critical in setting the direction and gaining the board members commitment in board deliberations and strategic involvement. In small firms, leaders' self-efficacy is more important because power is concentrated in the hands of one or very few individuals in the firm (Brunninge *et al*., 2007). Therefore, for board members to fully participate in strategic decision-making, the chairman needs to create a conducive climate where every member is encouraged to contribute (Johannisson and Huse, 2000). We therefore hypothesize that:

H2. Board chairman's leadership efficacy affects board strategic involvement.

2.3 Board members' personal motivation

It is not enough that board members have knowledge and skills (Forbes and Milliken, 1999); they must be motivated to use such resources for the benefit of the firm. According to Hermalin and Weisbach (1991), several factors motivate the board to be involved in decision-making, such as ownership, liability and professional obligations. From a resource-dependent perspective, board members derive the motivation to engage in decision-making from the wish to protect their reputations and to demonstrate their expertise (Borch and Huse, 1993). Indeed, when board members are highly motivated, they are more likely to engage in strategic decision-making. According to Borch and Huse (1993), board members' intrinsic motivation has an impact on board strategic involvement. We therefore hypothesize that:

H3. Board members' personal motivation has a positive effect on strategic involvement.

2.4 Board members' background

Board members' backgrounds have been found to influence strategic decisions (Golden and Zajac, 2001; Hillman and Dalziel, 2003). Golden and Zajac (2001) link diversity in functional, educational and industry background to a firm strategy. According to Forbes and Milliken (1999), board members' diverse backgrounds (e.g. education, functional, socio-economic, occupation) and industry experience provide them with access to vital information that is relevant for strategic decisions. Furthermore, board members' exposure to different backgrounds can make it easier to adapt to a turbulent environment (Ingley and van der Walt, 2005). Drawing upon a resource-based view, a board with a diverse background enjoys a broader pool of information, which ultimately enhances creative and innovative solutions (Williams and O'Reilley, 1998). McDonald *et al.* (2008) find evidence that a director background is related to firm level outcomes such as strategic change. Such correlations become apparent when specific expertise and experience derived from background experience are closely aligned with the strategy being pursued. We therefore hypothesize that:

H4. Board members' background has a positive effect on strategic involvement.

2.5 The moderating effect of CEO power

While we concur with the extant literature that board leadership affects strategy involvement (Zahra and Pearce, 1989; Ruigrok *et al.*, 2006), we expect CEO power to moderate these relationships. CEO power refers to the ability of the CEO to exert influence on board members (Finkelstein, 1992; Chen, 2014). Thus, a powerful CEO influences the independent judgment and decision-making of the board (Dalton and Kesner, 1987). From an agency perspective, powerful CEOs may stifle board discussions and deliberations (Zahra and Pearce, 1989; Kakabadse *et al.*, 2006), thus forestalling board involvement in strategic actions by withholding information. A qualitative study done by Kakabadse *et al.* (2010) targeting CEOs, chairmen and non-executive directors found that a good working relationship between the chairman and the CEO is critical (herein referred to as "chemistry factor") in determining boardroom effectiveness. In effect, the chairman and the CEO ought to share a cordial relationship to allow board members to engage freely in strategic decision-making.

Power plays an important role in decision-making, particularly in strategic decision-making. In this context, we examined CEO power from the perspective that as the power of the CEO increases, his or her ability to influence strategic decision-making also increases (Daily and Johnson, 1997). Indeed, studies have shown that the CEO is the most powerful and dominant individual member in the firm (Daily and Johnson, 1997), and that the board cannot get involved in strategy without CEO support (Allio, 2004). When the CEO wields excessive power, the board is less likely to be involved in corporate strategy (Golden and Zajac, 2001; Ruigrok *et al.*, 2006).

CEO power may manifest itself in a number of ways, such as CEO duality, long CEO tenure and CEO ownership of the firm. CEO duality refers to a board leadership structure in which the CEO is also the chairman (Yang and Zhao, 2014). A CEO who also chairs the board can restrict the flow of information to other board members (Fama and Jensen, 1983; Chen, 2014).

CEO tenure is also used as a proxy of CEO power. Long CEO tenure increases the CEO's influence over the board and thus increases CEO power (Linck *et al.*, 2008). Specifically, CEOs with relatively long tenure may have been instrumental in recruiting other directors, which makes it difficult for them to disagree with the CEO (Jensen and Zajac, 2004). CEO ownership is also a proxy used to measure CEO power. According to Fischer and Pollock (2004), the greater the level of CEO ownership, the higher the CEO's influence on decision-making, and thus on making boards passive. These indicators are used as proxies to measure the extent of CEO power in the firm. Thus, we hypothesize that:

H5a. CEO power moderates the relationship between board members' knowledge and strategic involvement, such that when the CEO has more power, board members' knowledge does not affect board strategic involvement.

H5b. CEO power moderates the relationship between board chairman leadership efficacy and strategic involvement, such that when CEO is powerful, the board chairman's leadership efficacy does not affect strategic involvement.

H5c. CEO power moderates the relationship between board members' personal motivation and strategic involvement, such that when CEO is powerful, board members' personal motivation does not affect strategic involvement.

H5d. CEO power moderates the relationship between board members' background and strategic involvement, such that when CEO is powerful, board members' background does not affect strategic involvement.

3. Methods and data

3.1 Sample

We tested the hypotheses using primary data collected from the CEOs of private firms in Kenya. The study targeted private firms with boards of directors operating in Kenya. In total, the study includes about 1,200 private firms with active boards that have been in operation for more than 10 years. Questionnaires were used to collect the data. The method of using primary data in collecting corporate governance data is consistent with prior research (Machold *et al.*, 2011; Clarysse *et al.*, 2007; Uhlaner *et al.*, 2007a, 2007b). Using primary data has been hailed as an alternative way of testing corporate governance theories, which are largely based on secondary data. Structured questionnaires derived from previous studies were used to collect data from a targeted sample of 300 firms identified which were accessible. A total of 186 usable questionnaires were used in the analysis.

3.2 Validity and reliability

To ensure content validity of the measurement scale used in the study, we adapted scales used in previous research (Minichilli *et al.*, 2009; Minichilli and Hansen, 2007; Huse, 2007; Sellevall *et al.*, 2007). The reliability of the data collection instruments was tested using both the test re-test and the Cronbach's alpha methods. Construct validity was assessed using a factor analysis on the 18 items in the questionnaire (Appendix). Board strategy involvement yielded a one-factor solution, with an eigen value of 2.94 and item loadings above 0.70. Similarly, all independent variables had Eigen values >1, and factor loadings greater than the rule of thumb of 0.7 (Nunnally, 1978), thus providing evidence of convergent validity.

3.3 Measurement of variables

3.3.1 Dependent variable. We measured board strategy involvement using four constructs ($\alpha = 0.75$) validated by Minichilli *et al.* (2009). This was anchored on a five-point Likert scale (1 for strongly disagree and 5 for strongly agree). The items assessed the degree to which the board was actively involved in initiating strategy proposals, making decisions on long-term strategies, implementing strategic decisions and controlling and evaluating strategic decisions. Overall, the measure was found to be reliable (Cronbach's alpha of 0.75).

3.3.2 Independent variables. Board members' knowledge was measured using four questions adapted from Minichilli and Hansen (2007), which asked the CEO about the extent of board members' knowledge of key business activities, the firm's critical technologies and competencies, the firm's products and services and the firm's markets and customer needs. The items were presented on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Overall, the measure was found to be reliable, with Cronbach's alpha of 0.74.

We measured the board chairman's leadership efficacy using three indicators adapted and modified from Leblanc (2005), Huse (2007) and Chemers *et al.* (2000). The instrument asked the CEO about the extent to which the board chairperson was skilled in motivating and using board members' competence, formulating proposals for decisions, summarizing the conclusions of board deliberations and chairing board discussions without promoting his/her own agenda. The questions were presented in the form of statements. The CEO provided answers on a five-point Likert scale, from 1 (strongly disagree) to 5 (strongly agree). The indicator was found to be reliable ($\alpha = 0.71$).

Board members' personal motivation was measured by asking the CEO four questions, adapted from Sellevall *et al.* (2007). These questions concerned whether board members were motivated to do a good job due to their shareholding in the firm, to do a good job due to their own academic and professional qualifications, to do a good job due their own reputations or to do a good job due to economic benefits such as allowances. These items were measured on a five-point Likert scale, from 1 (strongly disagree) to 5 (strongly agree). The measure was found to be reliable (α = 0.72).

We measured board members' background using four items (α = 0.70), adapted from Sellevall *et al.* (2007). The CEO was asked to rate, on a scale of 1 to 5, the extent to which board members were diverse in regard to functional background (e.g. finance, accounting, marketing, etc.), industry background (e.g. different industries), personality (e.g. different levels of creativity and orientations to action) and educational background (e.g. the type of education).

3.3.3 Interaction effects. As regards interaction variables, we computed the following additional variables. CEO power variables (*CEO duality, CEO tenure, CEO Ownership*) was multiplied by board leadership variables to create an interaction variable. The variable is thus a product of two originating variables, and all board leadership variables were mean-centered to avoid collinearity problems.

3.3.4 Control variables. We used a number of control variables. At the firm level, we used firm size. Consistent with previous studies, firm size was measured using a logarithm of the total number of employees (Zahra *et al.*, 2007). To adjust for skewness, a log transformation of the number of employees at year-end was used in the analysis. Firm age was measured according to the number of years the firm had existed (Tarus and Aime, 2014). To control for industry, we distinguished firms in the manufacturing and service sectors. We coded firms in the manufacturing sector as 1 and in the service sector as 0. At the board level, board size was measured as the total number of board members in the firm. Studies argue that board size affects board tasks such as strategic decision-making (Calabrò *et al.*, 2013).

3.4 Analyses

We tested our hypotheses using a moderated regression analysis, following the procedure set out by Aiken and West (1991). Before performing the regression analysis, we examined the variables for multicollinearity using variance inflation factors (VIF). The VIF results for all variables were within the accepted threshold of 10 (Hair *et al.*, 2010), suggesting that there was no multicollinearity issue. We also tested for normality of data, using both residual plots and the Kolmogorov–Smirnov test. The results found no major violations of normal distribution.

Before performing the regression analysis, we standardized all independent variables to reduce the multicollinearity problem that arises when a moderator variable is computed as the product of two variables, i.e. a moderator and an independent variable (Aiken and West, 1991). To test the moderated regressions, all the independent and moderated variables were introduced into the regression equation at the same time.

3.4.1 Model specification. The regression equation for main effect model is indicated below:

$$\begin{aligned}\text{Board strategy involvement} = {} & \alpha + \beta_1(\text{Board knowledge}) \\ & + \beta_2(\text{Chair personal efficacy}) \\ & + \beta_3(\text{Members personal motivation}) \\ & + \beta_4(\text{Members background}) + \beta_5(\text{Controls}) + \acute{\varepsilon} \quad (1)\end{aligned}$$

The moderated regression model is specified as follows:

$$\begin{aligned}\text{Board strategy involvement} = {} & \alpha + \beta_1(\text{Board knowledge}) \\ & + \beta_2(\text{Chair personal efficacy}) \\ & + \beta_3(\text{Members personal motivation}) \\ & + \beta_4(\text{Members background}) + \beta_5(\text{moderators}) \\ & + \beta_5(\text{Controls}) + \acute{\varepsilon} \quad (2)\end{aligned}$$

4. Results

4.1 Descriptive results

Table I shows mean and standard deviations. The results show that the average board size is approximately six members, and an average CEO tenure is 5.9 years, with a minimum of one year and a maximum of 12 years. The results also show that firms were in existence for some time, with a minimum of 10 years and a maximum of 32 years.

Table II presents the correlations among all the study variables. The results show higher levels of correlation among the independent variables and the dependent variable. The results indicate that board member knowledge is correlated with board strategy involvement ($r = 0.683$; $p < 0.01$). This indicates that boards where members are knowledgeable are likely to engage in firm strategy. Similarly, the board chairman's personal efficacy is significantly correlated with strategy involvement ($r = 0.671$; $p < 0.01$), board members' personal motivation is correlated with strategy involvement ($r = 0.476$; $p < 0.01$) and board members' background correlates positively with strategy involvement ($r = 0.679$; $p < 0.01$). The results therefore indicate that board leadership is positively related to board strategic involvement in private firms in Kenya.

4.2 Multivariate analysis

The hypotheses were tested using the moderated hierarchical regression method. Model 1 includes control variables and independent variables. The coefficients of the control variables were weak and, aside from firm age ($\beta = 0.133$; $p < 0.05$), board size and

Table I Descriptive results

Variable	*Mean*	*SD*	*Minimum*	*Maximum*
Board size	5.84	2.98	4	22
Firm size (No. of employees)	128	123.67	5	3,987
Firm size (log. No. of employees)	2.14	0.81	1.4	3.71
Firm age	16.17	2.13	10	32
Industry	0.27	0.39	0	1
CEO tenure	5.9	0.83	1	12
CEO ownership	0.63	0.48	0	1
CEO duality	0.41	0.49	0	1
Board strategy involvement	4.48	0.65	1	5
Board members' knowledge	4.44	0.61	1	5
Board chair leadership efficacy	4.12	0.67	1	5
Board members' personal motivation	4.11	0.76	1	5
Board members' background	4.39	0.66	1	5

Table II Correlation results

Variables	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
1. Board strategy involvement	1										
2. Board members' knowledge	0.683**	1									
3. Board chairman's personal efficacy	0.671**	0.579**	1								
4. Board members' personal motivation	0.476**	0.451**	0.263**	1							
5. Board members' background	0.679**	0.679**	0.516**	0.388**	1						
6. Firm size	0.022	−0.13	−0.076	−0.011	0.004	1					
7. Board size	0.088	0.065	−0.086	0.135	0.019	0.391**	1				
8. CEO tenure	0.202**	0.254**	−0.07	0.180*	0.257**	0.121	0.122	1			
9. CEO ownership	0.320**	0.398**	0.086	0.141	0.231**	0.098	0.204**	0.555**	1		
10. CEO duality	0.209**	0.04	0.088	0.001	0.223**	0.141	0.099	0.210**	0.200**	1	
11. Firm age	0.112	0.249**	0.109	−0.117	−0.191*	0.112	0.121	−0.003	0.119	0.111	1
12. Industry	0.191*	0.171	−0.281	0.310**	0.091	−0.001	0.109	0.125	−0.001	0.115	0.123

Notes: Pearson's product-moment correlation; two-tailed test: ** <0.01; * < 0.05

industry were marginally significant ($p < 0.1$), while firm size was not significant. We used the results in the Model 1 to test *H1-H4*. *H1* predicted that board members' knowledge would positively affect board strategic involvement. The results support this proposition ($\beta = 0.286$; $p < 0.01$). *H2* postulated that the board chairman's leadership efficacy would be positively related to board strategic involvement. Again, the results support the hypothesis ($\beta = 0.239$; $p < 0.01$). *H3* indicated that board members' personal motivation would be positively related to board strategic involvement. The results marginally support the proposition ($\beta = 0.127$; $p = 0.069$). Finally, the results support *H4* that board members background has a positive effect on boards' strategic involvement ($\beta = 0.146$; $p < 0.05$). In all, the results indicate that board leadership is an important variable in the board's involvement in strategic decisions.

To test for the interaction effects of CEO power, three proxies were used: CEO tenure, CEO ownership and CEO duality. The use of several indicators is encouraged in research because it provides a basis for confirming results (Jensen and Zajac, 2004). Model 3 tests the interaction effects of CEO tenure on board leadership variables, Model 5 tests the interaction of CEO duality, and Model 7 tests the interaction of CEO ownership on the board leadership–strategic involvement relationship. In Model 3, the interaction results of CEO tenure on the board leadership–board strategy involvement relationship indicate that CEO tenure negatively moderates the relationship. Specifically, the results show that higher CEO tenure negatively moderates the relationship between board members' knowledge, board chairman's leadership efficacy, board members background and board strategic involvement ($\beta = -0.125$; $p < 0.01$; -0.034; $p < 0.01$; -0.541; $p < 0.01$). Our results did not find a significant moderating effect of board members' personal background and strategic involvement.

Model 5 tests the moderating role of CEO duality on the board leadership–strategic involvement relationship. The results indicate that CEO duality negatively moderates the relationship between board members' knowledge and board chairman's leadership efficacy on board strategic involvement ($\beta = -0.442$; $p < 0.01$; -0.111; $p < 0.05$). Model 7 tests the moderating role of CEO ownership. The results are consistent with the findings derived from CEO tenure and CEO duality. Specifically, under high CEO ownership, board members' knowledge does not enhance involvement in firm strategy ($\beta = -0.563$; $p < 0.01$). In addition, when CEO ownership is high, the board chairman's leadership efficacy leads to more strategic involvement ($\beta = 0.076$; $p < 0.05$). Finally, under higher CEO ownership, board members personal motivation does not enhance board strategic involvement ($\beta = 0.052$; $p < 0.01$) (Table III).

5. Discussions and conclusion

The purpose of the present study was twofold: the first was to explore the effect of board leadership on board strategic involvement using a sample of CEOs in private firms in Kenya; the second was to determine the moderating role of CEO power on the board leadership–board strategic involvement relationship. We postulated that board members' knowledge, the board chairman's leadership efficacy, the board members' personal motivation and the board members' background would all have a positive and significant effect on the board's involvement in strategy. The regression results provide support for some of these hypotheses. In tandem with our hypotheses and with previous research (Stiles, 2001; Ruigrok *et al.*, 2006; Chen, 2014), board involvement in strategy requires board members to have the requisite knowledge. According to Gabrielsson *et al.* (2007), effective board performance in decision-making is dependent on skills and knowledge, and therefore the involvement of the board in strategy depends on the members' knowledge. We argue that board members with the requisite knowledge are likely to get involved in strategy because of the wealth of information and experience required in decision-making. Consistent with previous studies (Johannisson and Huse, 2000; Leblanc, 2005; Wu *et al.*, 2010), the board chairman's leadership efficacy was found to be important in mobilizing and guiding the board in strategic decision-making. Such a chairman

Table III Regression results

Variables	*Model 1*	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*	*Model 7*
Constant	0.211* (0.107)	0.257 (0.255)	1.682** (0.296)	0.309 (0.248)	−0.099 (0.259)	0.277* (0.112)	−0.026 (0.233)
Firm size	−0.012 (0.032)	−0.149 (0.091)	−0.147 (0.079)	−0.126 (0.086)	−0.064 (0.084)	−0.007 (0.113)	−0.035 (0.074)
Board size	0.198*** (0.107)	0.251** (0.141)	0.201 (0.124)	0.211 (0.137)	0.207 (0.135)	0.193* (0.071)	0.189*** (0.107)
Firm age	0.113** (0.021)	0.136** (0.016)	0.193*** (0.112)	−0.163 (0.131)	0.321*** (0.173)	0.201* (0.099)	0.197* (0.085)
Industry	0.146*** (0.079)	0.193 (0.171)	−0.231 (0.186)	0.177*** (0.094)	0.244 (0.193)	0.127 (0.081)	0.109*** (0.061)
Board members' knowledge	0.286** (0.090)	0.388** (0.062)	0.386** (0.061)	0.436** (0.056)	0.378* (0.141)	0.406** (0.063)	0.429** (0.141)
Board chair leadership efficacy	0.239** (0.061)	0.306** (0.049)	0.137* (0.051)	0.279** (0.046)	0.084 (0.218)	0.284** (0.045)	0.323** (0.051)
Board members' personal motivation	0.127*** (0.069)	0.106* (0.038)	0.082* (0.042)	0.117** (0.037)	0.335** (0.032)	0.102** (0.037)	0.124** (0.037)
Board members' background	0.146* (0.067)	0.179** (0.055)	0.051 (0.057)	0.144* (0.055)	−0.135 (0.184)	0.219** (0.055)	0.274** (0.049)
CEO tenure		0.149** (0.035)	−0.506** (0.081)				
CEO duality				0.176** (0.053)	0.273** (0.055)		
CEO ownership						0.371** (0.119)	0.721* (0.302)
Board members' knowledge × CEO tenure			−0.125** (0.013)				
Board chair leadership efficacy × CEO tenure			−0.034** (0.011)				
Board members' personal motivation × CEO tenure			0.021 (0.013)				
Board members background × CEO tenure			−0.541** (0.012)				
Board members' knowledge × CEO duality					−0.442** (0.132)		
Board chair leadership efficacy × CEO duality					−0.111* (0.056)		
Board members' personal motivation × CEO duality					−0.124 (0.016)		
Board members background × CEO duality					0.137 (0.111)		
Board members' knowledge × CEO ownership							−0.563** (0.088)
Board chair leadership efficacy × CEO ownership							0.076** (0.021)
Board members' personal motivation × CEO ownership							−0.052** (0.011)
Board members background × CEO ownership							−0.067 (0.014)
R-squared	0.691	0.728	0.798	0.741	0.778	0.781	0.821
Adjusted *R*-squared	0.673	0.717	0.785	0.731	0.776	0.769	0.808
Durbin–Watson	1.971	1.95	1.87	2.01	2.05	1.89	1.97
F statistic	59.34**	67.71**	62.77**	72.44**	64.98**	70.12**	71.60

Notes: Significant levels: *** < 0.1; * < 0.05; **< 0.01

inculcates team spirit, a participatory style in decision-making, and thus taps into the knowledge and competencies of board members. This is particularly true for private firms where there are no formal rules that help establish the parameters by which decisions are made, as opposed to large firms where the board chairman may invoke rules to structure how decisions are made. In this context, the chairman's self-efficacy plays a critical role in strategy involvement.

We found that board members' background influences strategic involvement. For instance, some studies indicate that a board with members who have diverse backgrounds plays an active role in strategic decision-making (Williams and O'Reilly, 1988; Pettigrew and McNulty, 1995; Carpenter and Westphal, 2001). The background of board members is important in terms of providing the critical information that is required to engage in firm strategy. Consistent with our view, Hillman and Dalziel (2003) and Ravasi and Zattoni (2006) observed that board members' background expertise can help firms to formulate strategies that enhance competitive strength. Again supporting our arguments, Golden and Zajac (2001) found that the strategy adopted by a firm is a reflection of the background of the board. Therefore, firms with board members with diverse functional background (e.g. sales, finance, marketing, accounting), drawn from different industries and firms and with diverse personalities (e.g. innovation orientation), are likely to be involved in firm strategy.

The moderated regression results provided the interesting result that the ability of the board to engage in strategy is dependent on the power of the CEO. Using several indicators of CEO power, our results are consistent with the proposition that when CEOs are powerful, board members are less engaged in strategy. For instance, a powerful CEO may not permit the board to exercise their knowledge in strategic decision-making by taking the lead in discussion and drawing of strategic direction. Similarly, CEO power reduces the board chairman's leadership efficacy in terms of board involvement in strategy. We view this negative effect as resulting from the influence of the CEO in decision-making. When the CEO wields power, the board chairman becomes rather passive, particularly in terms of guiding and providing direction to board members. In other words, powerful CEOs make the board chairman become a mere rubberstamp for the organization, and decision-making shifts from the board to the CEO. For instance, the extant literature indicates that CEOs with significant ownership may influence the board member selection process (Young *et al*., 2008; Chen, 2014), and that board members will therefore owe their allegiance to the CEO. Vafeas (2003) developed an expertise hypothesis, suggesting that greater tenure leads to greater firm and industry knowledge. For this reason, when CEOs accumulate power by virtue of long tenure, this puts the board at a disadvantage because of the inventory of firm-specific experience and industry expertise, thereby reducing the contribution of the board to strategic decision-making. We found this to be a significant finding in the Kenyan context in particular, where most private firms are closely held and where the majority of owners are CEOs.

The results of this study have both theoretical and practical implications. First, our theoretical approach is consistent with the resource-based theory, which considers the board as a provider of links, knowledge and resources to the firm. Our results confirm the proposition that the board's knowledge is critical in board engagement in strategic decisions. First, because private firms are closely held, board members are engaged to provide advisory services to the firm. Second, the theoretical contribution of this work is to show that board leadership is critical to the board's engagement in firm strategy. Most importantly, boards' knowledge, the board chairman's leadership efficacy and board members background were all found to be important predictors of boards' involvement in firm strategy.

Moreover, we found that CEO power moderates the relationship between board leadership and strategy involvement. This finding provides an understanding of how CEO power influences board performance in private firms. We argue that CEO power entrenches the CEO. This entrenchment allows the CEO to participate in the selection of board members and, in the process, to appoint his friends or associates. This leaves the board members in a precarious position and passive in strategic decision-making. Similarly, private firms are closely held, and in most cases, the CEO is the founder. In this case, board members may not have an active voice in pushing their agenda in decision-making.

Our study also has practical implications. First, we showed that board members' knowledge is critical in board strategy involvement. In this regard, it is important to consider appointing board members with firm and industry knowledge. Equally, the board chairman should be a team player, capable of mobilizing the board in formulating proposals for decision-making. Board members' personal motivation and background are also important in strategy involvement. The study therefore suggests that private firms should consider appointing board members who are motivated to achieve organizational objectives. In addition, if private firms are to benefit from board involvement in corporate strategy, then CEO power needs to be minimized.

5.1 Limitations and directions for future research

Evidently, our study is not without limitations. First, our final sample of 186 was relatively small. However, it should be noted that the respondents were the CEOs of the sampled firms, drawn from different sectors. Future research focusing on larger samples using different measures, as well as different contexts, may help to move the theory forward. Second, CEOs were the respondents; hence, bias in favor of their perceptions may have crept in, especially as regards their perceptions of board members' leadership attributes. To mitigate this shortcoming, future research should consider including board members in the survey group. Finally, the study was limited to private firms in Kenya, which have different organizational set ups as compared to publicly listed firms. Future research using similar methods may therefore be extended to publicly listed firms.

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Appendix

Table AI Factor analysis

Items	Factor loadings	Eigen values	% variance
Board strategy involvement		2.94	25.26
1. Board actively involved in initiating the strategy proposals	0.78		
2. Board actively involved in making decisions on long term and main goals of the firm	0.83		
3. Board actively involved in implementing strategic decisions	0.76		
4. Board actively involved in controlling and evaluating strategy decisions	0.73		
Board member's knowledge		2.71	12.43
1. Board members have extensive knowledge of the firm's main operations	0.85		
2. Board members have extensive knowledge of the firm's critical technology and key competence	0.72		
3. Board members have extensive knowledge of the firm's weak sides and products and services	0.73		
4. Board members have extensive knowledge of the threats from entrants and new products and services	0.71		
Board chairperson's personal efficacy		2.57	8.68
1. Board chairperson is excellent in motivating and use of each member's knowledge and competence	0.73		
2. Board chairperson is excellent at formulating proposals for decisions and summarizing conclusions after board negotiations	0.70		
3. Board chairperson is excellent at leading board discussions or agenda without prompting his/ her own agenda	0.74		
Board member's personal motivation		2.39	7.77
1. Board members are positively motivated to do a good job due to their shareholding in the firm	0.77		
2. Board members are positively motivated to do a good job due to their own academic and professional standards	0.86		
3. Board members are positively motivated to do a good job due to their own reputation	0.73		
4. Board members are positively motivated by economic gains such as allowances or perks	0.74		
Board member's background		2.16	6.43
1. Board members have diversity with regard to functional background, e.g. sales, finance, accounting and marketing	0.73		
2. Board members have diversity with regard to industrial background, e.g. different industries and firms	0.77		
3. Board members have diversity with regard to personality e.g. different degree of creativity, and orientation on action	0.71		

Note: Extraction method: principal component analysis

Corresponding author

Daniel Kipkirong Tarus can be contacted at: kdtarus@gmail.com