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UNPACKING THE CEO–BOARD RELATIONSHIP: HOW STRATEGY MAKING HAPPENS IN ENTREPRENEURIAL FIRMS

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We examine how venture CEOs effectively engage their boards in the strategy-making process. Using the inductive multiple-case study approach, we track CEO–board interactions inside *and* outside the boardroom in depth and over time through rare observations of board meetings and rich interview access to CEOs and their boards of directors. Our primary theoretical contributions are to the resource dependence perspective. We clarify the resource versus power tradeoff as a fundamental tension in venture CEO–board relationships. Further, we add a much-needed process framework to resource dependence by highlighting how venture CEOs use four behaviors to resolve this tradeoff in an effective strategy-making process. Finally, we contribute a fresh view of the venture CEO–board relationship—i.e., spotlighting the CEO (not board) and boards as CEO–director dyads (not groups). We conclude by noting implications for other key corporate governance perspectives, and indicating boundary conditions for our framework. Overall, we deepen the conversation at the nexus of resource dependence theory and venture governance.

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> "I bet that 70–80 percent [of venture board members] add negative value to a startup in their advising." (Vinod Khosla, renowned venture investor and former entrepreneur)[1]

> "I believe 50% of venture board members do nothing, 48% actively destroy value, and like 2% create value." (Personal interview with an experienced venture board member)

The above quotes may be surprising. After all, ventures (i.e., professionally funded and privately owned young firms) seem to be an ideal setting for productive CEO–board relationships. Venture directors—many of whom are professional investors—are often well informed about the sector (Pahnke, Katila, & Eisenhardt, 2015a; Sorenson & Stuart, 2001) and have substantial financial interest in the venture's success (Garg, 2013; Garg & Furr, 2017). Venture CEOs are also often well aligned with a significant financial stake and high personal identification with their

[1] http://techcrunch.com/2013/09/11/vinod-khosla/.

ventures (Amit, MacCrimmon, Zietsma, & Oesch, 2001; Horowitz, 2014). Since ventures are often resource constrained, CEOs depend on their boards for resources such as funding, strategic advice, and social connections (Beckman, Schoonhoven, Rottner, & Kim 2014; Hallen & Eisenhardt, 2012). Conversely, venture directors have the knowledge and financial incentives to assist these firms (Fried, Bruton, & Hisrich, 1998; Pahnke et al., 2015a). Overall, it seems that venture CEOs and boards just naturally work well together.

However, the above quotes suggest otherwise, and instead point to challenges that venture CEOs face in strategy making at the board level, and broadly in the CEO–board relationship. One challenge that many CEOs face is the limited time of outside directors, which makes it difficult to tap their expertise (Lorsch & MacIver, 1989; Mace, 1971). Venture CEOs often face the added challenge of working with directors who can offer valuable advice, but may be misaligned due to their involvement in rival firms (Katila, Rosenberger, & Eisenhardt, 2008; Pahnke, McDonald, Wang, & Hallen, 2015b). Further, venture CEOs may be less powerful than their boards if they have given up substantial equity, and may find themselves dismissed by the board even when the venture is performing well (Wasserman, 2003). Yet at the same time, venture CEOs need their boards for resources such as funding, legitimacy, advice, and social connections (Beckman et al., 2014; Gulati & Higgins, 2003; Lynall, Golden, & Hillman, 2003). Finally, venture CEOs are expected to set successful strategies in new firms with few stable processes and in often rivalrous, high-velocity markets (Santos & Eisenhardt, 2009). Overall, venture CEOs face a complex strategy-making process—i.e., they must work with knowledgeable but sometimes busy or misaligned directors to draw out these directors' best advice in a difficult operating environment where strategy is critical.

Given the importance of the CEO–board relationship, there is extensive corporate governance literature on the topic. By corporate governance, we mean "the formal structures, informal structures, and processes that exist in oversight roles and responsibilities in the corporate context" (Hambrick, Werder, & Zajac, 2008: 381). This rich literature offers diverse perspectives. In Jensen and Meckling's (1976) influential work, agency theory frames the CEO–board relationship in terms of a principal (owners, or board as representatives of owners) and an agent (CEO). It identifies separation of ownership and managerial control as a key "agency problem" (Berle & Means, 1932), and emphasizes the board's monitoring function and the CEO's financial incentives (Boivie, Lange, McDonald, & Westphal, 2016; Dalton, Hitt, Certo, & Dalton, 2007). Agency theory has also been applied to ventures (Lerner, 1995; Sapienza & Gupta, 1994) by focusing on the core agency issues of board monitoring of the CEO and incentive misalignment (Cable & Shane, 1997).

A second strand is what Westphal and Zajac (2013) termed the "behavioral perspective" on corporate governance. This approach takes a broad view of the CEO–board relationship, and offers "a distinct alternative to under-socialized governance theories such as agency theory" (Westphal & Zajac, 2013: 605). It centers on the relationships among actors, and how their behaviors are shaped by social context and past experience. Often relying on social psychology, it explores issues such as interpersonal relationships between CEOs and directors such as friendships (e.g., Westphal, 1999), social influence tactics such as ingratiation (e.g., Westphal, 1998; Westphal & Stern, 2007), and norms of reciprocity (Westphal & Zajac, 2013). This perspective has been applied to ventures to address general antecedent processes, although not strategy-making behaviors per se (Gabrielsson & Huse, 2002; Rosenstein, Bruno, Bygrave, & Taylor, 1993). Overall, this perspective emphasizes that the CEO–board relationship is influenced by a variety of microsocial processes.

A third strand is resource dependence theory. This assumes that firms depend on external actors for resources (Pfeffer & Salancik, 1978). In the corporate governance literature (Hillman, Withers, & Collins, 2009), the theory emphasizes the resource-provisioning role of boards, and research has found that directors with relevant expertise can provide helpful advice and influence strategy in both public firms and ventures (Kor & Misangyi, 2008; Kroll, Walters, & Wright, 2008; Rindova, 1999). Recent work has reintroduced the resources versus power tradeoff from the original conception of the theory by examining situations in which entrepreneurs refuse valuable resources when they must relinquish too much power in exchange (Katila et al., 2008; Wasserman, 2016).

Together, these corporate governance approaches suggest a mix of theoretical variables—ownership structure, financial incentives, behavioral processes, and board composition—that might influence strategy making and the CEO–board relationship in ventures. However, it is difficult to adjudicate among them. A key issue is that none of these perspectives have typically included studies of actual board behaviors over time. Instead, agency and resource dependence scholars have theorized about CEO–board relationships using antecedent variables assessed by demographic and structural measures, such as percentage of outside directors and functional expertise of board members (Dalton et al., 2007; Finkelstein & Mooney, 2003; Johnson, Schnatterly, & Hill, 2012). The behavioral approach comes closer by looking at potentially relevant behaviors such as ingratiation and reciprocity (Westphal & Zajac, 2013), but does not fit these behaviors into a larger theoretical understanding of strategy making or the CEO–board relationship within firms, including ventures. As a result, extant studies have provided little theoretical insight regarding how venture CEOs might engage with busy and potentially misaligned directors in an effective strategy-making process.

As we observed CEO–board relationships in ventures, we found that the extant governance theories provided incomplete insights. While these theories focus on demographic and structural antecedents, they leave unaddressed a substantial range of actual CEO and director behaviors. Instead, we saw venture CEOs engaging in a variety of behaviors. Some behaviors enabled CEOs to overcome constraints such as lack of a board chairmanship and misaligned directors, and achieve effective strategy making with their boards. Others, with different behaviors, were unable to overcome such constraints. Thus, we aim to build theoretical insight by focusing on the critical behaviors by which venture CEOs engage with their directors in effective (or not) strategy-making processes and CEO–board relationships. We do so through a theory-building study that asks: How do venture CEOs effectively engage in strategy making with their boards?

Given the limited theory and empirical evidence on CEO–board behaviors in strategy making within ventures, we rely on multi-case theory building (Eisenhardt, 1989c). This method also fits our interest in a rich understanding of the strategy-making process. We define strategy making as the process of setting the overall business direction of the firm (Eisenhardt & Bourgeois, 1988; Kaplan, 2008). We track how four venture CEOs and their boards interacted in the strategy-making process over time. We include very rare observational data of board meetings, and rich data from waves of personal interactions with CEOs, board members, and executive teams.

We provide several theoretical contributions at the nexus of resource dependence and venture governance. First, we clarify the *resource versus power tradeoff* at the heart of venture CEO–board relationships. In doing so, we return to the original conception of resource dependence as an exchange theory (Pfeffer & Salancik, 1978; Wry, Cobb, & Aldrich, 2013), and contrast with recent resource dependence research that has centered on "resource provisioning" by boards (Hillman et al., 2009) and on avoiding *ex ante* relationships in which venture CEOs lose too much power (Wasserman, 2016). Second, we contribute a valuable *process component to resource dependence* by inducting a process framework of four behaviors by which venture CEOs engage in *effective strategy making* with their boards. These behaviors allow CEOs to "divide and conquer," and complement the extant resource dependence emphasis on board composition (Beckman et al., 2014; Gulati & Higgins, 2003). Third, we offer a fresh vision of the venture CEO–board relationship, using the CEO perspective (not board's), and boards as *CEO–director dyads* (not groups). We also add implications for agency theory and the behavioral perspective, and discuss boundary conditions. Overall, we attempt to enrich theoretical conversation at the nexus of resource dependence theory and venture governance.

LITERATURE REVIEW

Our research question asks how venture CEOs can effectively engage in strategy making with their boards. We define ventures as professionally funded, privately owned young firms (Garg, 2013). These firms often rely on technical innovation and compete in nascent markets (Beckman & Burton, 2008; Furr, Cavarretta, & Garg, 2012; Santos & Eisenhardt, 2009). Venture executives and investors usually seek high growth and lucrative exits, such as initial public offerings (IPOs) and acquisitions, for these "high potential" firms (Guler, 2007; Pahnke et al., 2015a). Venture boards are initially small, and grow at each investment round as new investors and independent executives with specific expertise are added by the existing board (Bagley & Dauchy, 2008; Lerner, 1995; see also Garg & Furr, 2017). CEOs and directors may have prior professional ties, but rarely have friendship or family ties. Family members are rarely employed in ventures. Like all boards, venture boards differ from traditional groups because of their inverted-pyramid power structure—i.e., *members* of the board "supervise" CEOs (Garg, 2013). Overall, ventures are widespread and economically important as engines of innovation (Kortum & Lerner, 2000). For example, major corporations such as Genentech, Intel, Apple, Amazon, Google, Alibaba, and Facebook all began life as ventures.

There are several relevant strands of the corporate governance literature in relation to our topic. *Agency theory* focuses on the canonical problem of principals who contract with agents to work on their behalf, and incur agency costs because the interests of principals and agents diverge (Eisenhardt, 1989a). Agency theory is, thus, a theory of contracts. In the corporate governance literature, Jensen and Meckling's (1976) conception of agency theory is particularly influential. This view centers on the separation of ownership and control that is typical in mature public firms. Here, dispersed shareholders own, but do not operate, the firm (Berle & Means, 1932). CEOs (i.e., agents) are assumed to have goals and risk preferences that at least partially conflict with those of the owner, and may act in their own self-interest (Eisenhardt, 1989a). The primary role of the board is to address this "agency problem" by controlling potentially misaligned CEOs via monitoring and incentives (Fama & Jensen, 1983). Monitoring is often measured by structural and demographic antecedents such as percentage of outside directors and average director tenure, while incentives are often measured via compensation such as equity ownership and incentive pay (Dalton et al., 2007; Schulze, Lubatkin, Dino, & Buchholtz, 2001). In sum, ownership, monitoring, and incentives shape strategy making and firm performance.

Agency theory has been applied to ventures. Like agency research in public firms, some work has focused on monitoring (Garg, 2013; Lerner, 1995; see also Garg & Furr, 2017 for a recent review). For example, since ventures face significant risks, venture boards often track venture progress (Sapienza & Gupta, 1994). Other research has highlighted that venture CEOs are often well aligned with their firms, given their substantial financial incentives and psychological identification (Arthurs & Busenitz, 2003; Garg, 2013). This is particularly true for CEOs who are founders of young firms (Wasserman, 2006). Agency-theoretic and related research has also pointed to the potential misalignment of directors (Cable & Shane, 1997; Garg, 2014). For example, directors may push ventures toward premature IPOs to improve their own prospects of raising future venture funds (Gompers, 1996), and permit unfavorable IPO pricing to gain the support of investment bankers for future IPOs for other portfolio firms (Arthurs, Hoskisson, Busenitz, & Johnson, 2008).

A second strand is the *behavioral perspective* (Westphal & Zajac, 2013). This approach takes a "socially informed" view of the CEO–board relationship (Westphal & Zajac, 2013). Often relying on social-psychological theories, this research has focused on the relationships among CEOs and directors, and how their behaviors are shaped by social context and past experience. It has typically taken a microsocial view of how "average" CEOs and directors act, but has often lacked interest in firm performance. For example, several studies have considered the advice of board members, showing that CEOs are likely to seek advice from directors when they have friendship ties with them (Westphal, 1999), when directors have relevant knowledge (Carpenter & Westphal, 2001), and when directors are CEOs with cooperative boards at their own firms (McDonald & Westphal, 2010). Directors' advice is less impactful when CEOs are narcissistic (Zhu & Chen, 2015). When performance has been considered, the emphasis has often been on negative behaviors that damage the firm (Hambrick et al., 2008). For example, directors may engage in harmful ingratiation behaviors (Park, Westphal, & Stern, 2011).

The behavioral perspective has been used in several studies of ventures. For example, survey work has examined general antecedent processes such as CEOs' ratings of board interactions and director activities including fundraising, and CEO beliefs about the value of board members (Gabrielsson & Huse, 2002; Rosenstein et al., 1993). Although the behavioral perspective is not focused on the strategy-making process per se, its insights regarding advice-seeking behaviors by CEOs seem broadly relevant.

Finally, *resource dependence theory* assumes that firms depend on external resources, and suggests various strategies, such as alliances, joint ventures, and executive placements, to obtain those resources (Pfeffer & Salancik, 1978; Wry et al., 2013). In the corporate governance literature, resource dependence conceptualizes board members as providers of resources such as advice, financing, and social connections (Boyd, 1990; Hillman et al., 2009). In particular, directors with relevant expertise may give useful advice, influence strategy, and improve firm performance (Kor & Misangyi, 2008; Lungeanu & Zajac, 2015; Rindova, 1999). For instance, McDonald, Westphal, and Graebner (2008) found that boards with acquisition experience improve focal firms' acquisition performance. Board expertise is, however, situational. For example, Krause, Semadeni, and Cannella (2013) found that firms with external directors who are chief operating officers improve declining operational performance, but limit increasing performance. Finally, research has begun to recognize that board advice is not always available, even when expertise exists (Hillman et al., 2008; Shropshire, 2010). Directors may not be motivated to help (Garg, Li, & Shaw, 2017a), or may have conflicts of interests (Diestre, Rajagopalan, & Dutta, 2015).

Resource dependence has been applied to venture boards (Garg & Furr, 2017). Research has confirmed that boards can be a critical source of advice (Zahra & Filatotchev, 2004; Zhang, Baden-Fuller, & Pool, 2011), and are likely to be involved in strategy (Fried et al., 1998). Directors can help manage relationships with other firms (Beckman et al., 2014; Graebner & Eisenhardt, 2004), gain financial resources (Hallen & Eisenhardt, 2012), signal prestige (Chen, Hambrick, & Pollock, 2008; Stuart, Hoang, & Hybels, 1999), and improve performance (Daily, McDougall, Covin, & Dalton, 2002; Vandenbroucke, Knockaert, & Ucbasaran, 2014). Yet, venture directors may also have conflicts of interest (Forbes, Korsgaard, & Sapienza, 2009; Garg, 2014); their advice can thus be damaging, especially when the conflicts relate to strategic outcomes such as innovation (Pahnke et al., 2015b).

Recent work on ventures has gone back to the original conception of resource dependence as an exchange theory in which there is a tradeoff of resources versus power (Pfeffer & Salancik, 1978). For example, Wasserman (2016) studied the entrepreneur's choice between gaining the resources needed for growth versus retaining power. Similarly, Katila et al. (2008) identified that ventures have resource providers such as corporate venture capitalists with attractive financial and complementary resources, but misaligned incentives (the so-called "sharks dilemma"). Ventures can mitigate the resource versus power tradeoff *ex ante* by taking resources only when they can protect their intellectual property (Diestre & Rajagopalan, 2012; Katila et al., 2008) or retain control (Wasserman, 2016).

Together, the corporate governance literature has clarified that venture CEOs are often well aligned with their firms. It has indicated that directors may provide useful resources and improve venture performance, but can have damaging conflicts of interest. Overall, this work has suggested that structural variables such as incentives, ownership, and board composition may influence the strategy-making process and the CEO–board relationship. Yet, while important, these perspectives have been theoretically focused on antecedent structural conditions, and distant from actual strategy-making behaviors. Moreover, these perspectives have recognized the possibility of misaligned directors, but have lacked theoretical insight into how venture CEOs, who often have limited power, cope with such directors. For example, agency theory does not address how venture CEOs might realistically curb director opportunism. Similarly, resource dependence theory does not deal with how CEOs actually gain resources, such as advice, from directors. The behavioral perspective comes closer in considering potentially relevant micro-social behaviors such as social comparison and ingratiation, but does not tie these to a larger understanding of strategy-making process or superior firm performance. Together, these perspectives leave open the behaviors of venture CEOs who effectively (or not) engage in the strategy-making process with their boards and shape the CEO–board relationship. We address this.

METHODS

Given the limited theory and evidence regarding our research question, we use an inductive multiple-case method (Eisenhardt, Graebner, & Sonenshein, 2016). This method is also suitable when the research seeks to answer a process question such as ours, and when variance occurs in the data (Langley & Abdallah, 2011). Multiple cases can be more useful than single cases for theory development because replication across cases can enable more accurate, parsimonious, and generalizable theory (Eisenhardt & Graebner, 2007). Our embedded design has multiple levels of analysis (e.g., firm, strategy-making process, CEO–director dyad), which will enhance the richness and accuracy of related theory (Yin, 2008). In contrast, interpretivist studies often rely on descriptions of a single case, and aim to develop an elaborated process model to capture the focal case (e.g., Corley & Gioia, 2004; see also Eisenhardt et al., 2016), rather than relying on multiple cases to build testable theory, as is our aim.

Our setting is the information technology sector. We chose this sector because its rapid product cycles, high degree of rivalry, and high velocity make strategy making critical and likely board-level activity during our study. Consistent with theoretical sampling, we selected study ventures in which our focal phenomenon of strategy making was likely to occur. Specifically, we selected ventures that were actively engaged in strategy making at the time of our study. We also chose ventures with revenue and products to increase further the likelihood of meaningful board-level strategy making, and not simply early-stage product development. We also selected ventures with first-time CEOs to increase the likely range of behaviors, and thereby improve the likelihood of inducting more complete and generalizable theory.

Our sample consists of four ventures (privately owned, professionally funded young firms), each of which was engaged in strategy making. Since common patterns emerged, particularly among the ventures with an effective strategy-making process, this sample size approaches theoretical saturation (Eisenhardt, 1989b). Sample size is an advantage of our study—i.e., it is rare to observe multiple board meetings, and conduct waves of interviews with senior executives and directors in even one firm. Our data from four firms represents a useful increase in richness and variation over a single case.

Table 1 summarizes the ventures' key characteristics and boards. All names and identifying information have been disguised. At the time of the study, the ventures were about five years old. All were founded on the West Coast of the United States, and received similar funding from top 20 U.S. venture capital (VC) firms. While they were all regarded as promising at the outset of our study, they were unprofitable and had limited cash, as is typical of VC-funded ventures. Our sample boards were typical venture boards. Each board had five to seven members, including outside directors who were professional investors in the venture, or independent executive directors with sector knowledge. All had prior operating and board experience. Each board also had at least one inside director, including the CEO. As is typical of venture boards, composition changed at investment rounds as the board added new members, such as representatives of new investors. As expected, there were no friendship or family ties, and no changes in board composition during our study.

The CEOs were also typical of venture CEOs (see Table 2). Like many venture CEOs beyond the earliest stages of the firm, they had minority equity ownership (Hallen, 2008; Wasserman, 2006). They were about the same age, well educated, and had similar experience in senior management positions. None had prior social or professional relationships with any director, and none was board chair. No family members were involved. At the outset of our study, all CEOs were positively described by their directors. All CEOs and directors had been at their respective firms for at least a year, and so knew each other and the firm. Fortuitously, two CEOs were founders and two were not, and two had venture experience while two did not. This variation adds to the potential theoretical generalizability of our study.

In sum, and given our research question, we chose firms in which we would be likely to obtain variance in the focal strategy-making process (as noted above) while studying otherwise typical ventures and accounting for variables that were not of theoretical interest (such as sector). Fortuitously, one CEO (Brian) shifted from an ineffective to effective strategy-making process during our study, enabling better insight into causality.

Data Sources

We used a longitudinal, multi-source data collection approach. Our primary data collection covered

TABLE 1
Sample Firms and Data Summary (Beginning of Study)

	Altima	Beetle	Cooper	Dodge
Board size	6	5	6	7
Outside directors	3 VC-directors; 1 independent director	2 VC-directors; 1 independent director	3 VC-directors; 1 independent director	2 VC-directors; 2 independent directors
Inside directors	CEO; founder-CTO	CEO; founder-president	CEO; founder-CTO	CEO; founder-nonexec. chair; VP
Founding year	2003	2005	2003	2002
Funding	\$30m; 4 rounds top 20 VC	\$21.5m; 2 rounds top 20 VC	\$30m; 3 rounds top 20 VC	\$30m; 5 rounds top 20 VC
Remaining cash (\$m)	2	12.5	7	2
Profitable?	No	No	No	No
No. of board meetings observed	3	4	4	5
No. of interview waves	4	4	4	5
No. of interviews	19	27	21	26

the 12 months from January to December 2009. We collected ongoing, real-time data from June to December to limit post hoc rationalization. We collected archival and retrospective data from January to May to complement our real-time data and extend our time frame. We extended data collection by another 24 months to measure post-study outcomes. We used multiple data sources—i.e., board meeting observations, semi-structured interviews, and archival data (Table 1). Data from multiple sources, informants, and points in time strengthen the accuracy of construct measures and the emergent framework (Jick, 1979). The small size of ventures made it easier to observe executive and board behaviors in rich detail, while frequent CEO–board interactions (e.g., monthly board meetings) and strategy changes compressed the strategy-making process, again making the behaviors and outcomes easier to observe.

A key strength of our study is the extensive personal observation of board meetings, which provided very rare and yet essential data. The first author observed every board meeting at each firm over six months, with an average of four meetings per firm. Each board meeting lasted about three hours. This author sat where he could see the CEO, directors, and presentation screen, and yet be discreet. He took complete notes on the discussion and tracked nonverbal behaviors, using periodic timestamps, and then transcribed the notes immediately after the meeting.

A second strength is our rare longitudinal and in-depth access to CEOs, directors, and key top management team (TMT) members. We conducted four waves of semi-structured interviews at three firms (five waves at the fourth) to track the strategy-making process at each venture. Our 93 interviews typically lasted between 30 and 90 minutes each. The initial interviews provided a history of the major events in the prior six months, an understanding of the relationships among key actors, and a baseline view. For example, we asked how the informant became involved with the firm, and open-ended questions about recent events, firm strengths and weaknesses, board meeting activities, and so on. We then conducted waves of interviews over the next six months. These later interviews focused on interactions outside the board meetings (a) among the outside directors, and (b) between the CEO and each outside director. We also asked about the most recent board meeting and strategy-making progress since the prior interview. We recorded the interviews and transcribed them within the following 72 hours.

A key concern was whether 12 months is sufficient to study the strategy-making process. We mitigated this concern by studying ventures in a rapidly changing industry. Empirical research on strategic decision making in similarly fast-paced industries (Judge & Miller, 1991) and ventures (Eisenhardt, 1989c) has indicated that strategy making can occur in as little as two months, suggesting that our study length is sufficient. Further, our empirical evidence is consistent with this view as we observed a revamping of the strategy in several firms in much less than 12 months. We also assessed outcomes both 12 and 24 months later. Finally, our informants confirmed that the behaviors we observed were typical of the strategy-making process at their firms.

We also collected archival data, including firm documents (e.g., board meeting slides, email exchanges among CEOs and directors), and background information on the firms, executive teams, board members, and firm performance from company sources and major technology news websites

TABLE 2
CEO Characteristics (Beginning of Study)

	Andy	Brian	Charlie	Dane
Firm name	Altima	Beetle	Cooper	Dodge
Founder/nonfounder	Nonfounder	Founder	Founder	Nonfounder
Tenure as CEO (years)	3	1.5	3	2
Ownership %	7	16	5	7
Age	42	40	0	46
Education	BS(EE); MBA	BS(EE); MBA	MS(CS); MBA	BBA; MBA
Functional experience	General management	Sales & marketing	General management	Business development
Description by Directors	Intelligent, motivates team, sets clear goals	Organizational leader, self-aware, receptive	Strategic, good internal manager, committed to the company	Intelligent, good judge of talent, good salesman
Venture experience?	No	Yes	No	Yes

and blogs (e.g., TechCrunch, GigaOm, ZDNet). Thus, we obtained a rich blend of longitudinal data sources, including rare observational data on board meetings and in-depth data from key actors.

Data Analysis

We began by writing individual case histories (Eisenhardt, 1989b). We triangulated data from various sources, emphasizing themes supported by different sources and confirmed by several informants. We followed up with e-mails and calls to fill in details. Each case history is between 55 and 75 single-spaced pages. The first section outlines the venture's background, strengths, weaknesses, and recent strategic issues, and contains descriptions of the directors and CEOs. The second section tracks the strategy-making process by which the CEO and the board in each firm developed a new strategy, including facets such as target customers, products, monetization, supporting partnerships, and acquisitions. We emphasized event sequences and actions that were corroborated by multiple informants. The third section summarizes observations of board meetings.

We dealt with possible bias by triangulating data from multiple informants and types of data—interviews, observations, quantitative data such as counts, and archival material. Given confidentiality restrictions, we conducted most of the coding ourselves. To further address bias, we coded the data independently and developed each case analysis, and then converged via discussion and revisiting the raw data as necessary to resolve the very few conflicts.[2] We gained feedback on our emergent analysis from several informants, and from CEOs and board members who were not in our study. We also engaged in peer debriefing with colleagues (Lincoln & Guba, 1985).

We conducted a cross-case analysis (Eisenhardt & Graebner, 2007) with tables and other cell designs to compare cases (Miles & Huberman, 1994). We iterated among case pairs to sharpen similarities and differences. We then formed tentative relationships between constructs. We refined these relationships via replication logic (Yin, 2008), frequently revisiting each case to verify constructs, theoretical logic, and relationships. This iteration between theory and data sharpened the construct definitions and measures, theoretical relationships between constructs, and underlying logical arguments. As the theoretical frame grew clearer, we compared it with the literature to highlight similarities and differences from prior research, strengthen internal validity, and refine constructs, relationships, and measures.

Although a variance focus in a process study contrasts with some other process research that have lacked such variation (Langley, 1999; Langley & Abdallah, 2011), variance is consistent with our research question on the effectiveness of the strategy-making process, the naturally occurring variance in our data, and the many studies that have used an inductive, multi-case method, such as ours, in which variance is common (e.g., Baker & Nelson, 2005; Battilana & Dorado, 2010; Bingham & Davis, 2012; Davis & Eisenhardt, 2011; Graebner, 2009; Martin & Eisenhardt, 2010; Zott & Huy, 2007). Fortuitously, one CEO (Brian) changed his approach mid-study, adding to the causal insights. Overall, our framework captures meaningful variation in the strategy-making process and outcomes, and includes causal theoretical arguments supported by logic, data, and prior research. However, since this is a theory-building study, we did not test our emergent theoretical framework.

Our focal outcome variable is the effectiveness of the board-level strategy-making process. Given our embedded design (Yin, 2008), we assessed this variable at the strategy-making and firm levels. We also triangulated the data via multiple measures to develop a more robust measure (Appendix A). Overall, our measurement approach combines qualitative and quantitative assessments of the progress and effectiveness of the strategy-making process at multiple levels of analysis by multiple informants, and uses contextually relevant indicators that have also been used in prior research. Thus, we have obtained a richly triangulated and robust measure of performance (See Table 3).

There is striking variation in the effectiveness of the strategy-making process across the ventures. For example, Dane (CEO of Dodge) and his board made no real progress on developing their new strategy. Two directors resigned soon after our study, citing unhappiness with the strategy-making process. A third director said, "I'm still not clear on what Dane is really thinking about." The firm was floundering 24 months later—online traffic had declined by half, and users expressed disappointment in comments such as "Is Dodge still relevant?" and "Dodge has really dropped off my radar." Dane was replaced, and the firm was put up for sale but had no buyers. In

[2] We also used a third party for some coding, but were restricted in such use due to the highly confidential nature of our data. The very few differences in the coding were addressed through discussion.

TABLE 3
Effectiveness of Board-level Strategy-making process

CEO (firm)	*Overall*	Progress on strategy making	Speed of strategy making	Outcomes[a] (12 months post-study)	Outcomes[a,b] (24 months post-study)	No. of related strategic issues addressed	Representative quotes
Andy (Altima)	*High*	Completed New strategy adopted	4 months	Task-related • Gained rapid customer adoption with new strategy • *New York Times* and *Gartner* named Altima the leader in its sector and recognized its strategy as the sector's best Satisfaction-related • Directors remained involved	Sold the firm at premium to a mature global, public-listed firm	3	"We don't feel like we're being managed, we feel like we're part of the dialogue. . . Andy is really a role model." (Dir)
Brian (Beetle)	*Moderate*	Completed New strategy adopted	9 months	Task-related • Gained rapid customer adoption with new strategy • More coverage and recognition on major technology news websites and blogs Satisfaction-related • Directors remained involved	Raised additional $56 million in two rounds at higher valuation from existing and new prominent investors	1	"Brian embraced the feedback he received. He really got on top of the issues. He was really introspective and thoughtful about them and, I think, made good progress against them." (Dir)
Charlie (Cooper)	*Low*	Incomplete Old strategy rejected, but no new strategy chosen	12 months and counting	Task-related • Users declined by 30% • Reduced coverage on major t echnology news websites and blogs Satisfaction-related • One director stopped engaging in strategy process	Sold part of Cooper to a small, private firm; rebooted with a new name; and pursued a strategy discussed previously	0	"It;s a lot of strategy discussion with not a lot of outcome and probably more confusion generated than there should be." (Dir)
Dane (Dodge)	*Low*	Not yet started Deliberate distractions by CEO, limited progress	12 months and counting	Task-related • Online traffic declined 55% • Rising number of negative comments about the firm's direction on various technology blogs Satisfaction-related • Two directors resigned due to frustration with the strategy-making process	Firm unsuccessfully tried to find a buyer; the CEO was then replaced	0	"I'm still not clear on what Dane is really thinking about... The board is not going to close the strategy decision for him. He needs to come with recommendation instead of incremental five-, ten-minute discussion here and there." (Dir)

[a] Sources: (1) Company websites, and (2) major technology news websites and blogs (e.g., TechCrunch, Crunchbase, GigaOm, and ZDNet).
[b] Sources: SEC Edgar Online, Venture Expert

contrast, Andy (CEO of Altima) and his board completed a very successful strategy-making process in four months. The leading industry publication rated Altima as the sector leader because of its new strategy. Altima was acquired by a large public firm, which cited the new strategy as justification for a premium price. The directors praised Andy's strategy-making process. As one said, "He is really a role model." A particularly useful case was that of Brian (CEO of Beetle), who changed from following an ineffective to an effective process during our study, thereby enabling better exploration of causality. We now turn to our emergent theoretical framework to explain this wide variation.

EMERGENT THEORETICAL FRAMEWORK

Our research question asks: How do venture CEOs effectively engage in strategy making with their boards? Our emergent framework argues that venture CEOs with an effective strategy-making process (hereinafter referred to as "effective CEOs") engage in four behaviors that both capture useful advice from directors (resources) and yet maintain control over the strategy-making process (power) (see Figure 1). In so doing, they *mitigate* the resource versus power tradeoff that venture CEOs often face. The framework relies on a logic of "divide and conquer," such that venture CEOs structure the attention of their boards through unique roles and discussion formats to gain useful advice while still retaining power. We turn now to each process behavior, and its evidence and logic.

Dyadic Interactions and Unique Roles

A key insight of our emergent framework is that more effective CEOs (i.e., venture CEOs with more effective strategy-making processes) such as Andy and Brian engaged with their directors in dyadic and unique relationships. Thus, they launched the strategy-making process by having dyadic interactions with each director and by cultivating a unique role for each. These CEOs continued this approach throughout the strategy-making process. In contrast, less effective CEOs, such as Charlie and Dane, conceptualized the board as a group of mostly undifferentiated members.

We assessed whether a CEO used dyadic interactions and unique advice roles in several ways. First, we measured the number of one-on-one meetings between the CEO and each director during the strategy-making process. Second, we measured the percentage of directors with unique advice roles on the board, as identified by at least two informants. Third, we complemented these data with representative quotes. See Table 4 for a summary.

Andy, CEO of Altima, illustrates. Altima's product enables customers to scale up their Web-based applications. Like many ventures, the firm struggled with poor sales. At the September board meeting, the directors expressed interest in new strategies. D1 described his openness, "I'm not wedded to any particular path for value creation." D2 advised that both "incremental and discontinuous paths" should be considered. Thus, the board began revamping the firm's strategy.

FIGURE 1
Emergent Framework of Board-level Strategy-making process in Ventures

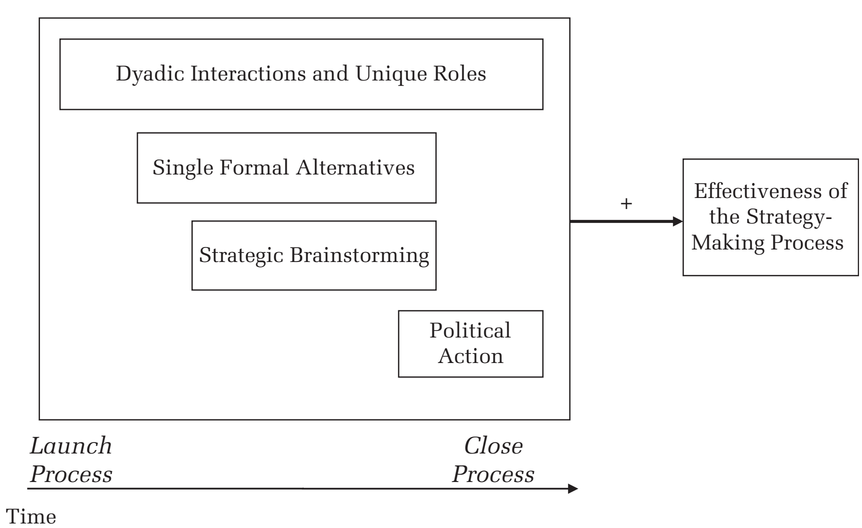

TABLE 4
Dyadic Interactions and Unique Roles

CEO (firm)	*Overall*	No. of dyadic meetings with directors for strategy making	Directors with unique roles (%)	Director roles	Representative quotes
Andy (Altima)	*High*	D1: 2 D2: 1 D3: 4 D4: 3	100	- D1: Strategy - D2: operations - D3: Technology partnerships - D4: Interpretation of the reactions of D1 and D2	"Andy is able to ask hard questions. . . I feel like I'm always having the right level of discussion with Andy as opposed to getting into the minutiae or speaking with too little frequency." (D1) "It's more me leveraging D2 . . . than me going to him and saying, hey, I just wanted to give you an update and hear what you had to say." (CEO)
Brian (Beetle)	*Moderate*	D1: 3 D2: 2 D3: 3	100	- D1: Strategy - D2: Operations - D3: Partner introductions	"Brian actually calls me more frequently now to talk about issues and to engage me as a thought partner." (D2) "I now usually have three or four things I want to get out and talk about, and the director usually has three or four things he wants to talk about." (CEO)
Charlie (Cooper)	*Low*	D1: 4 D2: 0 D3: 0 D4: 0	25	- D1: Board meeting management, introductions - D2: No role - D3: No role - D4: No role	"I thought I could help them and try to guide them on the product side. I think I could definitely have more impact but we have not found the perfect way to make that happen." (D2) "If Charlie wants something and he reaches out to me, I try to be responsive." (D3) "I'd be more than happy to spend more time [with Charlie]. I've got other companies I'm spending huge amounts of time with."(D4)
Dane (Dodge)	*Low*	D1: 1 D2: 0 D3: 0 D4: 0	25	- D1: Financing, compensation, M&A - D2: No role - D3: No role - D4: no role	"I'd like to be more involved and more helping. . . [but] the request needs to come from Dane." (D4) "I'm always available and I wouldn't hesitate to [take] a call from Dane." (D3)

Andy launched this strategy-making process by engaging the directors in dyadic, role-centered interactions according to their distinct expertise. As noted in Table 4, 100% of the directors had specific roles and interacted at least once alone with the CEO in relation to strategy during our study. For example, Andy interacted with D1 primarily on overall strategy. This director was particularly knowledgeable about Altima's overall sector, and had deep involvement in several related firms. Andy particularly sought his insights on product positioning and monetization. Andy also met one-on-one with D2.

With this director, who had the most operating experience among the board members, Andy focused on sales and organizational structure. With D3, who had close relationships with people at many large technology firms, Andy kept abreast of partnership opportunities as part of Altima's strategy. Finally, Andy created a role for D4 as an interpreter of the advice and thinking of the other directors, which proved very helpful in Andy's understanding of the board.

Following these initial dyadic, role-centered interactions in launching the strategy-making process, Andy continued to engage in these dyadic interactions. For example, after D1 challenged Andy's strategy, Andy took a "deep dive" with D1 to clarify his ideas. Andy reflected on the four-hour meeting:

> I think we were further with our strategy than D1 had thought. D1 thought it was going to be a brainstorming, but it ended up being a lot of us sharing with him and getting his reflections. . .It was a good meeting because it got us all on the same page. He got a better degree of comfort that we were headed in the right direction and that he was able to give us his thoughts.

These ongoing dyadic interactions helped Andy to reinforce the directors' unique roles. For example, Andy repeatedly engaged D3 on the topic of partnerships. Yet Andy also recognized D3's tendency to digress to topics unrelated to his role, as he said "in general D3 likes more detail, whether it's technology or customer deals or problems." Thus, when D3 veered off into other topics beyond the role, Andy typically steered the conversation back to possible ties with other firms.

In contrast, less effective CEOs, such as Charlie and Dane, did not use dyadic interactions and unique roles, despite their directors' relevant expertise and willingness to engage. Instead, they saw the board as group of largely undifferentiated members and interacted with them almost exclusively in group settings. For example, Charlie, CEO of Cooper, interacted with his board primarily at board meetings using what he termed a "group problem-solving" style, and had only one director with an identifiable role. Cooper had evolved from a popular open-source product to an online video service. It attracted users to its high-quality content, and generated advertising revenue. With its award-winning technology, Cooper had significant cost advantages. However, with increasing competition, Cooper found it difficult to grow using the current strategy. As D4 noted, "They have to scale fairly fast or they'll run out of money. They've got to figure out how to make all that work." Thus, the board began to focus on the strategy-making process and revamping the firm's strategy.

This need for strategy making first surfaced in March, and crystallized at the June board meeting when the board approved a 35% lower revenue plan. After the meeting, two directors contacted Charlie to express their interest in strategy. One (D3) later emailed Charlie to ask, "Do we have the right strategy?" Yet, although these directors reached out, were willing to meet, and had relevant knowledge, Charlie did not follow up with dyadic meetings. As D4 noted, "I'd be more than happy to spend more time. I've got other companies I'm spending huge amounts of time with." Rather, Charlie favored board meeting interactions with group brainstorming on strategy.

Charlie also did not cultivate unique roles for his directors. For example, he failed to capitalize on D2's strong product-management skills. A frustrated D2 lamented, "I thought I could help them and try to guide them on the product side." Charlie's only dyadic interactions during our study were with D1 to discuss board meeting management, and sometimes obtain introductions. Charlie recalled the interaction in July, "D1 said, 'Just to let you know, I'm sensing that some of the board members are getting a bit anxious.' And so we talked about that and how we are going to handle the board meeting." Aside from a few similar interactions with D1, Charlie worked with his board solely in board meetings.

Similarly, Dane, the CEO of Dodge, conceptualized the board as a group without unique sources of expertise among them. Thus, Dane rarely had one-on-one interactions with board members outside of board meetings, and did not cultivate unique director roles. In fact, Dane ignored the board whenever possible and avoided strategy-making discussions even at board meetings. In other words, Dane never engaged in ongoing dyadic, role-centered interactions with the directors, unlike Andy and Brian (see below). Some directors repeatedly reached out to Dane to bounce potential ideas about strategy off him, but Dane was always unavailable to meet with them. He preferred to run Dodge as he wished, without the board's counsel. As D4 said, "I haven't had really any long conversation with Dane. I sense that he doesn't really want them—he wants to do what he wants to do." As Dane explained, "My strategy for managing the board is that I tell them how it's going to be, and frankly, they don't bother me. And in almost every situation where I want something, I get it."

Finally, Brian, CEO of Beetle, represents a particularly insightful case because he made a significant change in his approach to strategy making during our study. Beetle sells financial "software as a service" at a low-middle price point. As our study began, sales were 50% below target. At the March board meeting, Brian proposed improving sales through tactical changes such as a better selling process. However, some directors were not satisfied. As D1 explained, "I thought we're 'stuck in the middle' strategically and that's a huge problem." Another advocated a strategy of high-end products. Thus, the board began to focus on the strategy-making process and revamping the firm's strategy.

As the strategy-making process came to the fore, Brian viewed his board as a group of largely undifferentiated members, just as Charlie and Dane did. Like Dane, he resisted seeking their input and avoided the board as much as possible. However, after the directors repeatedly voiced their concerns about strategy during the April meeting, Brian reconsidered his approach and dramatically changed it. He explained his transition as follows:

> My modus operandi was to keep the board at arm's length and really not deal with them... Give them some of the data, show that things are going well and just sort of appease them. But they got antsy, they're questioning this, they're questioning that and I needed to get them more as a collaborative part of the process.

Thus, Brian began to engage his directors via dyadic interactions and unique roles, much as Andy had done. For example, he started with one-on-one meetings with D1, whom Brian regarded as the best strategist on the board. Consistent with this director's expertise, Brian focused their meetings on overall strategy, and began to grasp the director's view that poor product differentiation was driving weak sales, slow implementation, and high customer churn. He focused his one-on-one interactions with D2 on internal operations. They discussed, for example, ways to salvage the current strategy with better operations, and the operational implications if Beetle shifted to a high-end strategy. Similarly, Brian had dyadic meetings with D3 to obtain his advice on potential partners and customers under different strategic scenarios. Thus, Brian took advantage of D3's extensive network of industry contacts. Brian also probed D3's perspective on the wisdom of a high-end strategy.

Like Andy, Brian continued these dyadic, role-centered interactions throughout the strategy-making process. While these interactions helped Brian to gain advice, they were also opportunities to build rapport and strengthen unique advice roles. For instance, after Brian was repeatedly pushed by D1 for changes in the firm's approach to professional services, Brian held a dyadic meeting with D1 that played to his strategy-centric role on the board. During the meeting, Brain realized that D1's suggestion had novel strategic implications, but he also explained to the director that he needed to sequence that request among many other priorities: "Your point is absolutely right, I get it. But you've got to give me some time." Similarly, Brian also had one-on-one meetings with D3 to talk through partnerships that the director could initiate and that fell within this director's unique expertise. Finally, Brian's transition to holding substantive ongoing dyadic, role-centered interactions was positively recognized by directors, as D2 acknowledged, "Brian calls me more frequently now to talk about issues and to engage me as a thought partner."

Why is it effective for CEOs to use dyadic interactions strategy-making process? One reason pertains to better advice. Dyadic interactions enable closer consideration of a specific director's ideas, while avoiding the normal digressions and turn-taking that occur in group meetings (Kerr & Tindale, 2004; Korsgaard, Schweiger, & Sapienza, 1995). Since unique roles are typically based on distinctive expertise, they enable the CEO to gain deep input into specific aspects of strategy, allowing more rapid and complete understanding of the focal issues. They also set mutual expectations about the content of interactions, and thus help directors to prepare for meetings with the CEO. Dyadic, role-based interactions are also likely to flatter directors (Stern & Westphal, 2010) and build interpersonal rapport (Brooks, Gino, & Schweitzer, 2015), which makes it easier and "safer" to have productive conversations. One-on-one interactions also avoid unproductive status contests (Bendersky & Hays, 2012) among directors, as sometimes occur in board meetings (Garg, Li, & Shaw, 2017b). A Beetle director (D1) confirmed the value of viewing the CEO's viewing the board as a set of dyadic relationships: "We have far more concrete stuff that comes out of one-on-one interactions." By contrast, Charlie's director (D2) noted the challenges of working with Charlie, who viewed the board as an undifferentiated group, "I think I could definitely have more impact but we have not found the perfect way to make that happen."

A second reason for the effectiveness of the dyadic, role-centered approach to strategy making is increasing CEO power. Using this approach, CEOs occupy a brokerage position in which they possess superior information—i.e., only the CEO knows what every director is thinking. Prior corporate governance research on public firms has criticized boards such as these, where CEOs control information (Lorsch & MacIver, 1989; Mace, 1971; McNulty & Pettigrew, 1999). Yet this work has overlooked the fact that ventures often lack the entrenched power dynamics of public firm boards, and instead have powerful directors with often dominant personalities (Feld & Ramsinghani, 2013). Without securing their own power base, venture CEOs risk losing control of their firms as directors fill perceived leadership voids. Moreover, controlling superior information also has the symbolic benefit of conveying an image of CEO competence to directors. Although CEOs could abuse this approach, most venture CEOs (including ours) are well aligned with the interests of their firms (Arthurs & Busenitz, 2003; Garg, 2013). Importantly, this approach has an instrumental benefit of improving strategy making because CEOs can synthesize the diverse inputs of highly knowledgeable directors while diffusing pressure from one or several directors for a particular strategy.

Single Formal Alternatives

Thus far, our framework has emphasized strategy making outside the boardroom via dyadic, role-centered interactions between the venture CEO and directors. However, effective CEOs such as Andy and Brian also met with their directors in formal board meetings. Here, too, their approach to strategy making differed from that of less effective CEOs. In particular, they and their TMTs developed their preferred strategy alternative outside of these group meetings, and then proposed a single formal alternative to the board. Thus, they focused the board meeting debate on a single strategy alternative.

We assessed whether CEOs proposed single formal alternatives in several ways. First, we considered the percentage of board meetings at which the CEO proposed a single strategy alternative. Second, we assessed the percentage of board meetings at which the CEO suggested multiple alternatives. Finally, we complemented these data with representative quotes (see Table 5).

Andy, CEO of Altima, illustrates. As described earlier, Andy regularly engaged with his directors in dyadic interactions according to their unique roles. However, when the need for a new strategy emerged, he also began working on it with his TMT. They developed several alternative strategies, such as leveraging the large user base of a recent acquisition, harnessing a novel technology, and drastically simplifying the current product. However, instead of bringing these multiple alternatives to the board, Andy and his team formally proposed the single alternative that they preferred at the October board meeting—i.e., build a simpler product that integrates the acquired firm's technology.

The board members extensively questioned Andy, often according to their unique cultivated roles. For example, drawing analogies from other firms, D2 identified operating problems such as "incentives in the sales organization," while D4 noted that "the management team thought they had a good plan," but he and the other directors then strongly criticized it. After the board meeting, Andy and his TMT worked to address these objections. In doing research on other firms that the directors had mentioned, the TMT uncovered new information, such as possible sales changes and factual mistakes of the directors. The TMT also carefully considered how to leverage the acquired firm's large user base more creatively, which the directors had flagged as a significant opportunity. In this period, Andy also held ongoing dyadic, role-centered interactions with directors (including the strongly opposed D1) to better understand their ideas. Through these dyadic interactions, Andy realized that several directors had conflicts of interest between Altima and their other venture investments. These conflicts of interest appeared to influence their preferences, to the detriment of Altima. At the November board meeting, Andy then presented a revised version of the TMT's strategy alternative. This updated single alternative still focused on using Altima's technology in a simpler product, but also incorporated the directors' insights around leveraging the acquired firm's user base.

Again, several directors challenged this alternative. The director with a strategy role (D1) argued that, while Andy's alternative was a high-customization and low-volume strategy, the opposite strategy (i.e., low-customization and high-volume) was potentially better. The TMT had not considered this strategy, and so the director's challenge led the TMT to reassess with further input from ongoing dyadic, role-centered interactions. They then proposed a more refined version of the alternative at the next board meeting. As Andy said:

> The discussion that D1 raised, while it was somewhat uncomfortable, was good because it really tested us. It really pushed the team into saying "ok, are we really doing the right thing here? Are we missing this high-velocity business? What's there, what's going on?"

TABLE 5
Single Formal Alternatives

CEO (firm)	*Overall*	Board meetings at which CEO proposed a single alternative (%)	Board meetings at which CEO suggested multiple alternatives (%)	Representative quotes
Andy (Altima)	*High*	100	0	"I need to be more convinced of my decision than the board because at the end of the day the directors can still fire me. But, I think the directors have to be more convincing too because I'm going to come to the table with a much more defined perspective." (CEO)
		CEO initially proposed an alternative, and then repeatedly refined it for subsequent board meetings		"I really enjoy the board meetings because we never talk about things that are extraneous. We always get to the heart of the matter and go right into it." (D2)
Brian (Beetle)	*Moderate*	Early: 0 Late: 100	0	"It's my decision. . .I've got to do what I'm comfortable with. . .if I'm looking at them as a fortune-teller telling me what the future is like, then I'm shirking my role and I'm not really stepping up." (CEO)
		Late: CEO initially proposed an alternative, and then refined it for subsequent board meetings		"I feel like we were on the pivotal issues and we made forward progress as far as we could have in a board meeting." (D1)
Charlie (Cooper)	*Low*	0	100	"The board is a problem-solving group on things that are all fuzzy and uncertain." (CEO)
		CEO repeatedly suggested multiple alternatives, but never a single alternative		"I wondered if we should even be having the strategy discussion before Charlie has conviction, which I don't think he does." (D1)
				"It's easy for us to say, 'Do this, do that or do the next thing.' And so if a CEO comes to the board with 'I'm not sure what the answer is, here are some alternatives,' I think the feedback they're going to get is going to be all over the map, and it's going to do more to confuse them than it is to help them." (D4)
Dane (Dodge)	*Low*	0	0	"One of the ways I've managed the board is that they know that I'm a desired commodity. . .and I have subtle ways of reminding them that." (CEO)
		CEO avoided strategy making by creating distractions such as financing paperwork, threats to resign, TMT compensation, opportunistic hiring of friends	(CEO avoided strategy making)	"He would have this speed board meeting. . .It goes real quick, no time to hesitate and ask questions. I'm somewhat of an expert on [...] but I couldn't figure out what was going on" (D4)

Finally, Andy considered several other decisions that supported his new strategy, for which he also proposed single formal alternatives. For instance, for a small but strategic merger and acquisition (M&A), he proposed a single recommendation at the board meeting and then iterated to improve this alternative through dyadic interactions. Describing his general approach of presenting a single formal alternative to the board, Andy said, "I don't go present tradeoffs among multiple alternatives to them... I say, 'I believe we have to run this way, are you with me?'" In fact, he never formally presented multiple alternatives at board meetings during our study (Table 5). They were always single alternatives.

In contrast, less effective CEOs proposed either multiple alternatives to their boards (Charlie) or no alternatives at all (Dane). As noted earlier, Charlie conceptualized the board as a problem-solving group, and so typically presented several strategy alternatives to the board for broad discussion. As a former strategy consultant, he was experienced with leading group discussions on strategy, and anticipated that he would generate creative "brainstorming" with the board with his alternatives as starting points. As he said, "The board is a problem-solving group on things that are all fuzzy and uncertain." At the July board meeting, Charlie launched the discussion with two strategy alternatives that he and his team had developed: bundling third-party services and expanding to international markets. He anticipated a creative "brainstorming," with these rough alternatives as starting points for the conversation.

In contrast, the directors took Charlie's interest in brainstorming around alternatives in board meetings as a sign of weakness. As one director (D4) complained, "The management has to take responsibility. The management needs to create some focus and make some decisions." In addition, Charlie, like Andy, faced the board's objections about his ideas. However, unlike Andy, who responded by deflecting the discussion so that he could refine his proposed alternative offline with his TMT, Charlie (consistent with his "problem-solving group" view of the board) discussed the objections during the meeting. However, since Charlie did not have time to reflect, his response was, as he admitted, "half-baked." While Charlie saw this as a normal part of brainstorming, several directors were unimpressed, including one (D3) who called Charlie's thoughts "a cascading set of miracles."

Charlie continued this approach of multiple strategy alternatives at later board meetings. At the September board meeting, he proposed a strategy alternative of being a "media utility" as a "starting point" for discussion, not as his preferred decision. In the interim, Charlie had no dyadic, role-centered interactions to, for instance, review the discussion from the prior board meeting. As D4 said, "We give him lots of input in the board meetings and he says, 'Thank you for your input,' and goes off and does his thing. I'm not sure he's listening very well." At the September board meeting, the directors were intrigued by several aspects of being a media utility, and raised many questions about customers, rivals, and resources. However, the directors did not have enough time to complete the discussion, and so they offered directions for further TMT work without knowing several firm-specific details that were relevant. The wide-ranging discussion ended up lacking depth. As one director (D4) later told us, "It was a typical board meeting... It ended up being kind of a discussion you might have over dinner about the state of the world with opinions being thrown back and forth all over the place." Another director (D3) clearly pinpointed Charlie's problem as "Don't solicit 'inspiration' from us because you'll get too much information."

At the November board meeting, Charlie suggested two new alternatives and one revised alternative for broad group discussion. However, again, Charlie never presented his preferred single alternative. Furthermore, the directors still interpreted Charlie's preference for problem solving with multiple alternatives as weakness. As D1 mused, "I wondered if we should even be having the strategy discussion before Charlie has conviction, which I don't think he does."

Like Charlie, Dane, CEO of Dodge, also used an ineffective board-level strategy-making process. Dodge had leveraged its original online business into a rapidly growing one. However, then performance waned, and the directors began to question the long-term viability of the strategy. For instance, D1 asked Dane, "What will you preserve and what will you build on? In other words, what will be the source of your advantage?" Thus, like the other firms, the board began focusing on the strategy-making process to revamp the firm's strategy.

This strategy issue surfaced in March, and crystallized in June as Dane wrapped up a successful equity round. The board wanted to know Dane's plans for a new strategy. However, unlike the CEOs who began by setting the stage for strategy making with ongoing dyadic interactions in unique roles with the directors, Dane avoided his directors. He blamed his lack of progress toward a new strategy on technology contracts negotiated by his predecessor. However, the board saw this as an excuse since the contracts were no longer germane. As D2 noted, "Dane needs to stop complaining about the past and start looking towards the future."

As time went on, Dane neither proposed single formal alternatives, as per Andy and Brian, nor suggested multiple alternatives, as did Charlie. Instead, he consciously distracted the board by raising so-called "urgent" issues. In board meetings between July and October, Dane focused on operational details and a last-minute bid for a nonstrategic M&A deal that failed. Dane also distracted the board with the "urgent" issue of employee morale when a key executive resigned. He then brought up the need for higher compensation, including for himself. As we learned from our interviews with Dane, he did not really believe there was a serious morale problem and had no intention of quitting. Nonetheless, Dane told board members that he was unhappy and might quit, and so focused the board's attention on retaining him. He explained this deception to us: "One of the ways I've managed the board is that they know that I'm a desired commodity. . .and I have subtle ways of reminding them that."

In the board meetings between October and December, Dane continued to distract the board with nonstrategic issues. For example, Dane pressed the board to opportunistically approve hiring of two expensive sales people who were his friends, while ignoring the board's repeated suggestion to hire senior technical people. Overall, these distractions consumed the board's attention during board meetings, and enabled Dane to avoid board engagement on strategy making. As D1 commented, "We have many pressing issues and we don't talk much about strategic issues, to be perfectly honest, with Dane and the board."

Why is proposing a single formal alternative effective? One reason again pertains to better advice. A single formal alternative focuses the board's attention during board meetings. In response, the board may engage in "distant" search for a radical idea or "local" search for incremental improvements. However, there is still a core alternative to which ideas are tied. The result of this focus is more actionable input for the CEO in strategy making. Despite the benefits of multiple alternatives for TMTs (Eisenhardt et al., 1997; Janis, 1972), a focused approach is likely to be more effective at the board level, where directors have limited time to engage and the TMT has already vetted the alternative. By contrast, multiple alternatives diffuse the board's attention and limit the depth of their insights, especially given limited time and firm-specific knowledge. As D4 advised Charlie, "One option—come in with a strong point of view and action plans. Then let's discuss."

Yet, proposing a single formal alternative does not imply that effective venture CEOs avoid involving their boards in generating ideas. Rather (as described above), they engage in individual brainstorms by also holding ongoing dyadic, role-centered interactions. Such interactions can be as or more creative than group brainstorming (Kerr & Tindale, 2004; Nijstad, Stroebe, & Lodewijkx, 2003). Furthermore, CEOs engage in strategic brainstorming with the whole board (see subsequent section). Finally, distracting the board (as Dane did) obviously keeps the board from giving useful advice to the CEO.

A second reason for the effectiveness of proposing a single formal alternative is CEO power. A single formal alternative projects a CEO's confidence to the board. As Andy noted,

> I need to be more convinced of my decision than the board because at the end of the day the directors can still fire me. But I think the directors have to be more convincing too because I'm going to come to the table with a much more defined perspective.

By proposing a single formal alternative at the board meeting, the CEO also exerts greater control over the discussion, and excludes unwanted alternatives that can be harmful given the prevalent conflicts of interest on venture boards (Garg, 2013; Garg, 2014; Pahnke et al., 2015b). These conflicts occurred in every firm in our sample. For instance, although not in Altima's best interests, several directors tried to steer Altima's strategy away from the strategies of their other venture investments. Similarly, a Cooper director (D1) had extensive conflicts of interest with a very promising strategy alternative suggested by Charlie. He discouraged this alternative by emphasizing benefits of weaker alternatives. As he sheepishly acknowledged to us, "I guess it's conceivable that Cooper and my other portfolio company could be competitors. . .it can be an issue."

Strategic Brainstorming

Thus far, our framework has emphasized dyadic, role-centered interactions between the venture CEO and each director *outside* the boardroom, and focused debate on a single formal strategy alternative *inside* the boardroom. However, creative, group-level discussions also occur in an effective strategy-making process. That is, more effective CEOs, such as Andy and Brian, use group brainstorming outside of formal board meetings for creatively developing strategies. In contrast, less effective CEOs confine the strategy-making process to formal board meetings.

We assessed the use of strategic brainstorming in several ways. First, we computed the average percentage of time in board meetings that was allocated to the discussion of revamping the strategy. Second, we measured the total number of strategic brainstorming sessions organized by the CEO with the board for strategy making during our study. Third, we included representative quotes from the interviews. See Table 6 for a summary.

TABLE 6
Strategic Brainstorming

CEO (firm)	*Overall*	Board meeting time on strategy making (%)	Total no. of strategic brainstorming sessions	Representative quotes
Andy (Altima)	*High*	20	4	"My board meetings are really more about updates, you know, the health of the company, letting them see what's going on. In some cases we get inputs on specific areas of strategy, but you know I think it is not the kind of meeting where we expect a debate or discussion." (CEO)
				"I think that special meeting went well. Andy had spent a fair amount of time on strategy and they wanted to update us and get our thoughts on what we thought of where they were going with the product and the go-to-market plan" (D4)
Brian (Beetle)	*Moderate*	Early: 60	2	"Board meetings are extremely limited as a venue to change and do much of anything. The real conversations happen far away from the board meetings." (D1)
		Late: 35		Early: "I feel a hunger for them to engage with us at a strategic level, but I don't know how to do it effectively with them coming in from the outside and engaging every six weeks." (CEO)
Charlie (Cooper)	*Low*	70	1	"I need to find a way to shepherd the board more effectively through the different discussion points." (CEO)
			(But inserted a TMT compensation discussion at the beginning)	"We always have this free-flow brainstorming format [in board meetings] and there are points being made. However, they never really all come together." (D2)
Dane (Dodge)	*Low*	5	0	"Dane still wants to be in control even in the way he runs the agenda with the board meeting and all that. . .He doesn't have very open brainstorming-type exercises." (D1)
			(Despite requests from the board)	"We don't have a lot of interaction except in the board meeting and the board meetings just seem to be somewhat formal, it's all formal structure." (D4)

Andy illustrates. As mentioned earlier, Andy began the strategy-making process with dyadic, role-centered interactions with directors and always presented single formal alternatives at board meetings. However, he also held four strategic brainstorming sessions with the board that were interleaved with these two types of interactions. These sessions allowed Andy to gain the benefits of group discussion of strategy. For example, when the directors raised concerns about Altima's strategy at the November board meeting, Andy stayed with his meeting agenda of operational updates, and avoided extensive discussion on strategy. When D1 tried to shift the board meeting to strategy, and even declared that "I strongly feel about this," Andy nonetheless continued to deflect strategy discussion at the board meeting by asserting that he needed more time to assess the director's ideas. As Andy noted, "My board meetings are really more about updates, you know, the health of the company, letting them see what's going on."

However, soon afterward Andy scheduled a strategic brainstorming session for the entire board for the sole purpose of discussing strategy, including this director's ideas. In the meantime, the directors had an opportunity to think more about D1's ideas. Likewise, Andy had more time to consider the directors' views with his TMT. In addition, Andy held a dyadic, role-centered meeting with D4 before the strategy session to interpret the D1's strong reactions. D4 helped a perplexed Andy to recognize that the purpose of the questions that D1 and other directors were raising was simply to dial up the contrast between the extremes of high touch and rapid turnover, and better sensitize Andy to the consequences of the differences. As Andy realized, "the input was meant to be taken directionally, not literally."

At this strategic brainstorming session, the directors had adequate time to explore varying views and information. The discussion led to useful advice on the overall strategy that brought in specific ideas about potential acquisitions and partnerships. As D3 described:

> It was a very productive meeting. The objective of the meeting was to figure out as a group what is going on and how Altima fit in. It was an open discussion and much more free-flowing than the regular structure we have in our board meetings. It was not really a board meeting. It was a discussion with directors. So, Andy was very open, and he just threw out some slides and said "ok guys, this is it, let's discuss."

This approach of engaging in strategic brainstorming outside of formal board meetings was typical for Andy, as he organized several other special strategy sessions during our study. For example, he conducted a lengthy conference call meeting with the board to discuss an M&A opportunity that was part of the revamped strategy.

In contrast, Charlie did not engage in focused strategic brainstorming. Instead, he interacted with the board in formal board meetings, where he mixed strategy making and operational updates. As noted above, Charlie saw his board meetings as collaborative discussions in a "problem-solving group." He planned his board meetings to include operational issues and strategic brainstorming, rather than having dedicated strategic brainstorming sessions. Although Charlie routinely created agendas with time allocations, the directors often went back and forth between the operational issues that usually came up early in the board meeting and strategy. Without unique roles and ongoing dyadic interactions, directors used the board meetings as their key opportunities to speak, and conversation tended to go in diverse directions. As D2 lamented, "We always have this free-flow brainstorming format and there are points being made. But they never really all come together." Charlie found the limited depth of insights disappointing as well. As he said after one board meeting, "I need to find a way to shepherd the board more effectively through the different discussion points."

Finally, Brian represents an intriguing example. He began like Charlie, who mixed strategy and operations in formal board meetings, but then became like Andy, who held strategic brainstorming sessions outside formal board meetings. Brian began the strategy-making process by mixing operational updates and strategy discussions at both the July and September board meetings. Like Charlie, Brian made no substantive progress on creating the strategy during these meetings. The directors often misunderstood the issues and made wandering comments that were superficial, scattered, and drifted off-point to operational issues. As Brian admitted, "I'm struggling to let the board engage. . .I feel a hunger for them to engage with us at a strategic level, but I don't know how to do it effectively with them coming in from the outside and engaging every six weeks."

Brian then reassessed and changed his approach to strategy making. He began engaging in strategic brainstorming outside the formal board meetings. In the first dedicated brainstorming session, Brian focused on the strategic implications of high-end products. Similar discussions had failed in two prior board meetings that included operational updates. In contrast with these failed attempts, this strategic brainstorming session considered only strategy. This session was also helped by a role-centered dyadic interaction in which Brian convinced D1 to refrain from pressing for professional services. Brian recalled an exchange that indicated progress during this strategy session:

> D1 was taking us down a path that we shouldn't do high-end deals. . .I reframed it and then D2 thought about it. . .D2 actually took the conversation back and said, "Well, I need more data there because that does sound right because you should be able to close those high-end deals."

After the strategy session, Brian followed up on this newfound momentum via a one-on-one meeting with D1 and D2. Thus, the strategic brainstorming session was important in breaking the impasse on strategy making that had occurred during the prior weeks. D2 summarized the new progress as follows: “It was all heading in the right direction. They were thinking about metrics... the one subtlety was that D1 and I both were encouraging them to think about how to take it one level up.” Brian concurred as he noted how the strategy session illuminated the path forward:

> What that [disagreement between D1 and D2] points to is not like this person is right, this person is wrong. It points out that we are not driving clarity. We are not presenting our environment, our data in a way that drives clarity... And because we are not driving clarity, people are knee-jerking and jumping to some conclusions that might not be correct, but the burden is on us to figure that out.

Why are strategic brainstorming sessions effective? Once again, one reason pertains to better advice. Creating strategy and reviewing operations require directors to switch between different cognitive states. On the one hand, reviewing operational updates in board meetings (required for fiduciary reasons) entails directors looking backward over a short-term period and considering specific metrics for well-defined problems. On the other, strategy making requires directors to look forward over a long-term period and consider uncertain information about ambiguous problems. Psychological research has recognized the difficulty of switching between very different tasks (Vandierendonck, Liefooghe, & Verbruggen, 2010). These switches are time-consuming, effortful, and physically tiring. For example, Hamilton Vohs, Sellier, and Meyvis (2011) found that even if individuals are able to switch cognitive states, the quality of their contributions is likely to suffer because switching highly taxes the executive control function of the brain. The resulting fatigue diminishes acuity. Moreover, a cognitive switch between operations and strategy is particularly onerous because it involves three cognitive dimensions (i.e., backward vs. forward time orientations, short-term vs. long-term time frames, and well-defined vs. ambiguous problems). While breaks during board meetings might help, we observed that they have limited benefit because venture directors often continue the discussions “offline” during those breaks. Moreover, when both operational and strategic issues are on the agenda, directors are likely to gravitate to operational details that are easier to address (and often urgent in the high-velocity environment of ventures). Thus, separate strategic brainstorming sessions limit cognitive switching and keep directors focused, enabling them to think more clearly and offer better strategic advice.

A second reason is related to greater CEO power. When venture CEOs use separate strategic brainstorming sessions, they are better able to pace the strategy discussion and thus create a more competent image. Board meetings also often require extensive preparations by CEOs and TMTs on business updates, especially since board meetings are occasions of formal evaluation of the firm and the CEO. Thus, detailed discussions of strategy are better handled separately in strategic brainstorming events for which CEOs have more time to prepare and engage. By contrast, when engaging extensively on strategy issues in a formal board meeting, CEOs may appear less competent because they are less prepared and because their board meeting agenda is often derailed. Further, since they are not bogged down by operating details, separate strategic brainstorming sessions can generate a virtuous social dynamic that redirects the board members’ attention from evaluating the CEO to outshining peer directors in being helpful for the CEO. By contrast, when CEOs attempt strategy sessions during formal board meetings, they often mix in the usual operating updates that remind directors of their monitoring responsibility (Sundaramurthy & Lewis, 2003). The negativity inherent in monitoring operational updates may spill into the strategy discussion (Lowenstein & Lerner, 2003). This can narrow the scope of attention (thereby lowering creativity), limit cooperation, and make power and conflict more salient. Thus, by holding strategic brainstorming apart from regular board meetings in which operational updates occur, CEOs can appear more competent, exploit the generative social dynamics of creative groups, and limit the salience of power and conflict.

Overall, more effective CEOs engaged in dyadic and role-centered interactions, proposed single formal alternatives, and arranged for strategic brainstorming outside the board meetings—each of which was likely to generate helpful advice while maintaining CEO power. In contrast, the less effective CEOs either focused on multiple alternatives in formal board meetings for strategy making (Charlie) or avoided strategy altogether (Dane). Neither of the less effective CEOs used dedicated strategic brainstorming sessions for their boards, except for one weak attempt by Charlie (Table 6).

Political Action to Close the Strategy-Making Process

More effective venture CEOs, such as Andy and Brian, engaged in an unexpected use of political tactics to close off discussion and end the strategy-making process. Thus, while these CEOs rarely engaged in political action early in the strategy-making process, and preferred open exchange, they became much more political (particularly via alliances) at the end of the process.

We measured the CEOs' use of political action in several ways. First, we assessed their use of external and internal personal alliances. Second, we considered their strategic use of information. Third, we assessed their use of external endorsements. Fourth, we included representative quotes from the interviews. See Table 7 for a summary.

Andy illustrates. As discussed earlier, Andy began the strategy-making process with dyadic, role-centered interactions with directors that were ongoing; led strategic brainstorming sessions; and formally proposed single alternatives at board meetings. However, after three months of iterations to create the strategy, Andy (and his TMT) were satisfied with the new strategy and worried that the board was moving too slowly. They wanted closure. As Andy said, "I think that it (the issue of strategy) will come up again and again. But I don't intend to come back to it." Thus, Andy engaged in political action to reach that closure.

First, Andy hired a strategy expert. Jeff had served as a senior executive at several successful firms in Altima's sector. However, more importantly, Jeff had also successfully worked with several of Altima's directors, who trusted his judgment. Jeff also agreed with Andy's proposed strategy. Thus, although the stated purpose of hiring Jeff was "to raise the profile of the company," Andy actually used Jeff as an ally to persuade the board to approve Andy's proposed strategy. Jeff did just that in group meetings and in one-on-one conversations with directors. Jeff was particularly effective with one director who was very opposed to Andy's choice. As Andy noted, "Jeff helped convince D1 that my decision is the right answer for us. . .That went a long way in changing the director's mind."

Second, Andy nurtured an internal ally—i.e., the director with technology expertise. This director, D3, was helpful because he agreed with Andy on the decision, and, importantly, because he had no conflicts of interest. In contrast, several other directors had investments in Altima's potential rivals. Andy's proposed strategy alternative, as well as related strategic M&A decisions, would likely bring Altima into more direct competition with these firms. Although the conflicted directors never admitted their conflicts, they pressed to have Altima refocus its strategy in a direction that would avoid their other portfolio companies. However, such a strategy seemed poor for Altima. Thus, Andy developed his relationship with the unconflicted director. This director came through by repeatedly defending Andy's proposed strategy alternative. As expected, he credibly defended the strategy. More importantly, he subtly, yet clearly, reminded the directors of their fiduciary duty to Altima in ways that he could do as a peer director, but that Andy could not. As this ally, D3, said:

> There are some pieces of the ecosystem around the company where the other directors have a stake. One could say that there's sometimes a degree of conflict in being in both firms. My only focus in this area is Altima.

Andy also strategically used information to develop an analysis that supported his strategic alternative. His managers conducted a quasi-experiment to show greater market demand for Altima's products (per his proposed alternative) than for other alternatives. However, when informing the board, Andy did not clarify that these products were being promoted by the sales team at that time. Andy also used external endorsements, such as positive news articles and congratulatory comments by industry leaders, to sway the board. With the aid of these and other political actions, Andy gained closure for his preferred strategy—i.e., focusing Altima on its core technology, integrating the acquired firm's technology, and exploiting the acquired firm's user base.

Like Andy, Brian also used political action at the end of the strategy-making process. After initially avoiding dyadic interactions, Brian launched the strategy-making process with dyadic, role-centered interactions. He continued the strategy-making process by iterating among presenting single alternatives at board meetings; ongoing dyadic, role-centered interactions; and strategic brainstorming sessions. However, as the process dragged on, Brian (and his TMT) became frustrated by the delay, especially since rivals were closing in. Thus, while Brian did not initially use political action, he reversed his course to end the process.

Among his first changes was using personal alliances. Initially, Brian had hired two external experts (i.e., sales expert and executive coach), but did not use them as allies. In contrast, Brian later hired a marketing expert whom he used as an ally. He chose this expert for two reasons: several directors trusted the expert, and the expert agreed with Brian's proposed strategy. Brian wanted to pursue multiple

TABLE 7
Political Action to Close the Strategy-making process

CEO (firm)	*Overall*	External alliances?	Internal alliances?	Strategic use of information	External endorsements	Representative quotes
Andy (Altima)	*High* (close strategy making)	Yes: High-status strategy expert	Yes: D3	Strategically reported data; e.g., quasi-experiment	Yes: Press, industry leaders	"When I knew Jeff was available I asked him to come to help, but a good side benefit of that is that he keeps D1 apprised. And Jeff's impression of the company has been very positive and so he says that our strategy is good and it's working. I think when D1 hears that from Jeff who has had two successful exits, it gives him more conviction that we're doing the right thing" (CEO) "D1 and D2 have some conflicting relationships, and that sometimes complicates things. Andy has managed through that [with my help]." (D3)
Brian (Beetle)	*Moderate* (close strategy making)	Early: Two experts but used sparingly Late: High-status marketing expert	Yes: D1	Transitioned from sharing raw data to strategic framing of analysis	Yes: Press	"At some point I feel like I let them in too close and now they're starting to interfere, right. . .I could definitely sense that from a balance perspective that maybe it tipped the other way." (CEO) Early: "This amount of data and too much granularity is also bad...you know, you have pretty limited time." (D3)
Charlie (Cooper)	*Low* (close strategy making)	No	No	Engaged in data-less debate about potential direction of industry evolution	No	"The more you open up the more they see sort of the sausage-making and the more sausage-making board members see, the worse essentially for the business. So my strategy going forward would be to show less of the sausage-making and more of the sausage." (CEO) "Charlie always tries to hedge. He never makes the full decision." (D2)
Dane (Dodge)	*Moderate* (advance self-interest)	No: Removed marketing expert who challenged him	No	Provided lot of data on firm's operations, but little data and analysis for strategy making	Yes: Ratings in the sector	"He used the board to again get approval for his push for another expensive and potentially risky move, which is hiring marketing folks—highly compensated, highly experienced marketing folks." (D4) "I basically said, 'You're going to do what I need to do or I'm leaving.' It's pretty simple. . .it's actually important to manage your board simply because they can make your life miserable and they can make it really easy. . . if I were a founder, I'd probably manage the board the same way." (CEO)

customer segments, but several directors favored picking one. This expert reframed Brian's proposed alternative as embedding Beetle's software in multiple payment platforms, which added multiple customer segments in a less conspicuous way. This expert then presented the reframing of the alternative to the board. They were swayed. For example, the most contentious director (D1) said, "What you said really resonates with me. Earlier there was always a tension between the low-end and the high-end. Embedding gets rid of that tension."

Brian also shifted from openly offering substantial information to providing strategically selected information that supported his preferred strategy. Previously, when Brian had often shared raw data in the spirit of transparency and collaboration, the directors sometimes focused too much on details. While this was occasionally useful, it became counterproductive as the new strategy became apparent. As Brian noted, they were "picking at numbers that were meaningless and pointless." Like Andy, Brian shifted toward more political action, such as strategically framing information. Brian reflected on his transition as follows: "Before, the board presentations were 'Here are the numbers' and now the board presentations are 'Here's the story of what's going on.'" After Brian's transition, the directors were pleased and better able to help. For example, D3 commended Brian: "It was the right level of detail. I thought we were talking about the right issues." With additional political actions, such as external endorsements from the press, Brian led the strategy-making process to closure.

Like Andy and Brian, Dane also used political action. However, unlike Andy and Brian, Dane used such action throughout our study period to distract the board from strategy making, rather than to close it. For example, Dane diverted the board's attention via extensive information about day-to-day operations and so-called "urgent" issues, while avoiding information relevant to strategy making. To avoid questions from the board, he also tightly controlled information and board agendas. In addition, he aggressively lobbied the board to cancel a consulting contract with the former vice president of marketing because this vice president was "too involved." As Dane told us, he actually wanted to eliminate this executive because he disagreed with Dane's leadership. Overall, Dane used political action to consolidate his power and so advance his own goals, such as higher compensation and hiring friends, and to avoid strategy making with the board.

Why is political action effective? One reason is that political action can unexpectedly yield creative advice from board members at late stages of the strategy-making process. We observed that the CEOs' allies often reframed or elaborated the strategy in novel ways. This cognitive stimulation helped directors to gain new insights regarding the proposed alternative. For example, Brian's external ally, a well-regarded expert, reframed Brian's alternative in an unexpected way that enabled the directors to offer surprising new insights. Similarly, Andy's internal director-ally was able to tactfully remind other directors of their fiduciary responsibility to Altima, and so stimulate them into creating insightful contributions that improved Andy's proposed alternative.

A second reason is enhanced CEO power. Closure of the strategy-making process can be difficult. Consistent with prior work (Hallen & Eisenhardt, 2012), we observed that directors often react to the uncertainty that accompanies venture strategies in high-velocity environments by prolonging the process, such as by asking for more information. As one CEO reflected based on his conversations with peer CEOs, "Board members have a fiduciary responsibility to always be on the conservative side. . .They look at the glass half empty systematically." Political action such as alliances and external endorsements increases the CEO's power and legitimacy (Menon & Pfeffer, 2003) to close the strategy-making process. Likewise, symbolic behaviors such as strategic use of information boost directors' confidence in the new strategy. Thus, the CEO's political action late in the strategy-making process promotes confidence among the directors, reduces their anxiety, and thus accelerates closure. Of course, hiding information, enlisting allies, and other political actions may not be ideal in many contexts. However, when there is time pressure, rapid industry change, substantial uncertainty, and director procrastination, all of which commonly occur in ventures, political action may be the best way to end the strategy-making process with a viable strategy that keeps the firm moving ahead. As one Cooper director (D4) noted, "The worst decision is no decision at all."

DISCUSSION

By relying on a rare view into the inner workings of four venture boards, we make several theoretical contributions at the nexus of resource dependence theory and venture governance. Specifically, we clarify the resource versus power tradeoff at the heart of the venture CEO–board relationship. We add a valuable process component to resource dependence theory by identifying the key behaviors of venture CEOs who resolve the resource versus power tradeoff during the strategy-making process. Finally, we shift the focus of the venture CEO–board relationship to the CEO, thereby offering a fresh view of this relationship within resource dependence. We also suggest implications for agency theory and the behavioral perspective on corporate governance.

Resource Versus Power: A Fundamental Tradeoff in the Corporate Governance of Ventures

We contribute by clarifying the *resource versus power tradeoff* as a fundamental tension in venture governance. The original conception of resource dependence as an exchange theory recognized this tension (Emerson, 1962; Pfeffer & Salancik, 1978); however, most governance research using the resource dependence lens has neglected this tradeoff, and instead emphasized the "resource-provisioning" role of boards (Beckman et al., 2014; Hillman et al., 2009). Recent work on ventures has returned to the original conception of the theory by anticipating the resource versus power tradeoff. It highlights the *ex ante* (and structural) approach of avoidance—i.e., staying out of exchange relationships when entrepreneurs anticipate an unfavorable power balance with resource providers (Diestre & Rajagopalan, 2012; Katila et al., 2008; Wasserman, 2016).

We contribute to resource dependence as a venture governance perspective by putting the resource versus power tradeoff at the center of the venture CEO–board relationship, and by indicating how entrepreneurs resolve (rather than avoid) this tradeoff with an *ex post* (and process) approach. Like the well-examined agency problem of the "separation of ownership and control" that is central to public firm governance (Berle & Means, 1932), we observe that the resource versus power tradeoff is a fundamental—albeit underexamined—problem that is central to venture governance and can hinder the board's provision of valuable resources.

A Process Theory of Board-level Strategy Making in Ventures

We also contribute a valuable process component to resource dependence theory by identifying the key behaviors of venture CEOs who are able to resolve the resource versus power tradeoff with their boards during the strategy-making process. Prior research using resource dependence has linked board composition variables such as size and functional expertise to outcomes such as performance (Beckman et al., 2014; Hillman et al., 2009). However, this work has neglected the actual behaviors of CEOs and board members during the strategy-making process. Behaviors are a "black box." In contrast, we pinpoint "gaining advice without losing power" as the core challenge for venture CEOs in engaging their boards for strategy making, and identify an emergent framework of four process behaviors that resolve this challenge. Our framework relies on a logic of "divide and conquer," such that venture CEOs structure the attention of their boards to gain useful advice while retaining power.

Our emergent framework (Figure 1) indicates that venture CEOs with an effective strategy-making process (simply "effective CEOs" for brevity) engage in four key behaviors. First, they launch the strategy-making process with dyadic interactions with each director in unique roles, and continue this behavior throughout the process. This allows CEOs to focus their directors' attention and gain relevant advice from each of them. Simultaneously, this approach maintains CEO power by enabling CEOs to occupy brokerage positions for information that also enhance their perceived and often actual competence, and constrain the influence of wayward directors who might pursue their own interests.

Second, effective CEOs propose only single alternatives in formal board meetings, and avoid multiple alternatives or brainstorming many possibilities. These CEOs may update their alternatives offline with their TMTs as needed, but they formally propose only one to the board for approval. This focuses board attention, and enables CEOs to obtain actionable advice aided by group insights from their busy directors. This behavior also helps CEOs to retain power by controlling the agenda, and thwarting directors who might otherwise advocate self-serving or uninformed strategies.

Third, effective CEOs brainstorm strategies with their boards in dedicated strategy meetings that avoid short-term topics such as operations reviews. This separation improves directors' strategic advice by avoiding directors' cognitive switching between short-term, backward-looking, and detailed operational issues and long-term, forward-looking strategic possibilities, which psychological research has indicated is ineffective (Hamilton et al., 2011; Vandierendonck et al., 2010). This separation also helps CEOs to retain power as they better showcase their competence, and to engage directors in an enjoyable activity that creates a social dynamic in which directors want to stand out as being helpful and wise.

Finally, effective CEOs end the strategy-making process using political tactics, especially allying with specific directors and other executives. This behavior improves advice because these alliances can become occasions that stimulate creative thinking. It also helps venture CEOs to retain power by employing tactics (especially alliances) that strengthen their positions, isolate divergent directors, and thus expedite ending the strategy-making process.

Overall, effective venture CEOs resolve the resource versus power tradeoff during the strategy-making process with behaviors that draw out superior advice, avoid power loss, and improve the likelihood of high firm outcomes. As noted above, the unifying logic is "divide and conquer." That is, venture CEOs "divide" their board into individuals with unique roles and allies, "divide" discussions with directors into diverse favorable formats, and "conquer" by inserting themselves as the orchestrators at the center. Thus, our theoretical framework contributes a much-needed process component to resource dependence theory in the venture context, and complements the existing emphasis on the structural and demographic characteristics of boards.

A Fresh Vision of the Venture CEO–Board Relationship

We also contribute a fresh vision of the venture CEO–board relationship within resource dependence. First, we take the perspective of the *venture CEO,* not the board. We point to these CEOs as often well aligned with firm goals, and by contrast, venture directors as busy and perhaps wayward actors whom venture CEOs need to channel to be useful. In contrast, prior research on corporate governance within resource dependence has taken the perspective of the *board*—i.e., the board's ability to provide useful resources (Beckman et al., 2014; Fried et al., 1998; Gulati & Higgins, 2003; Hillman et al., 2009). Yet, as we observe, the venture CEO is ultimately the actor who elicits useful advice and other resources from the board, and resolves the resource versus power tradeoff.

Second, we reframe the venture CEO–board relationship as *CEO–director dyads*, not a CEO–group relationship. Of course, venture CEOs engage in group interactions with directors, but our framework suggests that the more fundamental unit of analysis is the CEO–director dyad. Further, a dyadic relationship is consistent with resource dependence as an exchange theory—i.e., the CEO–director dyad is the relevant exchange relationship. This framing contrasts with the frequent portrayal of corporate boards as groups (Forbes & Milliken, 1999), and empirical studies that have measured boards using aggregate group properties such as board size, average tenure, and functional diversity (Haynes & Hillman, 2011; McDonald et al., 2008; Tuggle, Schnatterly, & Johnson, 2010). Finally, we note that conceptualizing the board as a group (as less effective CEOs do) diminishes the likelihood of CEOs capturing the idiosyncratic resources of each director.

In sum, we contribute to resource dependence as a venture governance perspective by (a) clarifying the resource versus power tradeoff at the heart of the venture CEO–board relationship, (b) indicating the behaviors within an effective strategy-making process, and (c) emphasizing the CEO (not board) perspective and the CEO–board relationship as a dyad (not a group). Since the resource versus power tradeoff is core to the original conception of resource dependence (Pfeffer & Salancik, 1978; Wry et al., 2013), our framework may also have insights for resource dependence beyond venture governance. This is an area for future research.

Implications for Corporate Governance

We conducted our study by being agnostic and open to our data, but unexpectedly found that our emergent framework contributed primarily to resource dependence. However, we also uncovered implications for agency theory and the behavioral perspective. Agency theory (Jensen & Meckling, 1976) focuses on CEO misalignment, and the board's control of CEOs via monitoring and incentives. Our study calls into question key assumptions in agency theory (Fama & Jensen, 1983)—i.e., director as principal and CEO as agent. Instead, we found this traditional conceptualization of principal and agent to be *flipped* in ventures, such that CEOs are often well aligned (more like principals) and directors less so (more like wayward agents). As we further saw, venture CEOs (as principals) often lack the tools of agency theory (i.e., ability to monitor and provide incentives for their directors). This suggests both an added assumption for agency theory—i.e., principal must be able to monitor or provide incentives—and the need for a new agency theory "toolbox" in ventures.

Our research also suggests extensions to the behavioral perspective on corporate governance (Westphal & Zajac, 2013). Often relying on social psychological theories, studies in this stream have usually focused on single behaviors at a time, and not on how these behaviors can improve firm performance. Although the behaviors that we observed also rest on social-psychological insights, our study shifts the emphasis from examining isolated behaviors to a *process view* that interlinks multiple behaviors over time in the CEO–board relationship. We further tie this process to performance, which is a central concern of venture CEOs and boards. This begins to pave the way for a behavioral perspective on the CEO–board relationship that is less atomistic, more dynamic, and more focused on firm performance.

Boundary Conditions

As in all research, boundary conditions are relevant to theoretical generalizability.[3] Our inducted framework assumes that CEOs are well aligned, that board members have valuable advice but are busy and perhaps misaligned, and that strategy matters. These assumptions fit many ventures; however, they may also fit some other firms, such as some public ones. For example, Boivie, Lange, McDonald, and Westphal (2011) found that the CEOs of some public firms have high firm identification, such that our framework may be relevant. Similarly, empirical evidence has indicated that many directors in public firms are too busy to allocate significant time to their board duties (Charan, 2005; Lorsch & MacIver, 1989). This also suggests the relevance of our framework beyond ventures. Finally, since our framework is relevant when strategy matters, it likely fits best with firms competing in highly competitive, nascent or high-velocity markets, where shifts in strategy are critical and necessary (Davis, Eisenhardt, & Bingham, 2009; Ozcan & Eisenhardt, 2009). In sum, our framework is likely to generalize to firms operating in strategically demanding markets with well-aligned CEOs and busy or misaligned directors.

An intriguing possibility is that our framework may not be needed once CEOs generate trust. Indeed, interpersonal trust facilitates CEO–board engagement (Huse & Zattoni, 2008; Westphal, 1999). However, trust may not always protect the firm's interests. For example, Hernandez Sanders, and Tuschke (2014) found that risks posed by rivals tied indirectly through directors are unlikely to be overcome through trust. A meta-analysis of interpersonal trust research found that trust does not always lead to cooperative behaviors when conflicting interests are present (Balliet & Van Lange, 2013). Further, beliefs about trustworthiness can be incorrect, and thus harmful (Graebner, 2009). Even if trust emerges, the cognitive limits of directors make focusing their advice relevant, even if power is not an issue. Thus, while trust is helpful, it likely does not invalidate our framework.

Finally, our framework is unlikely to apply to most traditional groups, including TMTs. These groups have a pyramid power structure in which the leader is the "boss" of the members. In contrast, boards have an inverted pyramid—i.e., CEO works for the members. This inverted power structure leads to CEOs' concern with retaining power, and may explain why behaviors associated with effective TMTs, such as posing multiple alternatives, tracking real-time information, and consensus with qualification, did not emerge at the board level in our study.

[3] We appreciate our reviewers' suggestions to consider the generalizability of our theoretical framework to other types of firms beyond ventures, its implications for trust, and its generalizability to other types of groups.

CONCLUSION

We began by noting that venture board members may be neutral at best, or even destroy value. This provocative view implies critical challenges for venture CEOs. With our rare look inside four ventures, we clarify the resource versus power tradeoff in venture boards, and develop an emergent process framework for venture CEOs to resolve this tradeoff and achieve effective strategy making. More broadly, we answer the calls of governance scholars who have long advocated an inductive approach to uncover effective board processes (Finkelstein & Mooney, 2003; Hambrick et al., 2008; Pugliese et al., 2009). The next step is to conduct careful empirical examinations of our framework with larger samples, and across types of firms and geographies.

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APPENDIX A: EFFECTIVENESS OF THE STRATEGY-MAKING PROCESS

To measure the effectiveness of the strategy-making process, we used several contextually relevant qualitative and quantitative indicators at multiple levels of analysis, at different points in time, and obtained from multiple informants. First, we synthesized directors' and CEOs' qualitative assessments of the progress and effectiveness of the strategy-making process.

Second, we assessed the speed of the process from when the need for a new strategy became apparent until the new strategy (if any) was chosen by the board. Speed is a key source of competitive advantage for ventures (Chen et al., 2010; Katila, Chen, & Piezunka, 2012). Prior research has shown that a faster process is typically more effective than a slower one for ventures in high-velocity industries such as information technology, which is also our research context (Eisenhardt, 1989b; Judge & Miller, 1991), because of high rivalry that puts laggards behind.

Third, we assessed the outcome of the strategy-making process 12 months after our study ended. We follow prior research (Forbes & Milliken, 1999; Gladstein, 1984) which has recognized that effective strategy-making processes are likely to yield (a) better task-related outcomes (e.g., as reflected in adoption by users or customers, and in comments by media) and (b) better satisfaction among the board members (e.g., as reflected in their continued involvement). Many venture directors usually "buy" board seats in their investment agreement, and rarely exit the board until a liquidity event such as M&A or IPO (Bagley & Dauchy, 2008; Feld & Ramsinghani, 2013). We also gathered the firm-level outcome data, such as on IPO, acquisitions, and financing, both 12 and 24 months after our study ended. Consistent with prior research in organizations and entrepreneurial finance (Hochberg, Ljungqvist, & Liu, 2007; Stuart et al., 1999), we measured high venture performance by liquidity events such as IPO, acquisition by a large public firm, and new equity financing at higher valuations. Some of these indicators are objective (e.g., acquisition and equity financing), while others were coded from archival and informant data by an independent coder.

Fourth, we assessed the number of board-level decisions (e.g., acquisitions, partnerships) that supported the new strategy during the study. Again, the ability to make multiple decisions quickly suggests a more effective process, especially for ventures in high-velocity markets where delay can be fatal. Overall, our triangulated approach increases the likelihood of accurate measurement and our measures converge for each firm.