Towards Explaining the Tasks and Roles of the Boards of Directors

The Role of Contextual, Behavioural and Social Identification Factors

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Towards Explaining the Tasks and Roles of the Boards of Directors: The Role of Contextual, Behavioural and Social Identification Factors

Key words: Board of directors, Corporate governance, Board tasks, Board roles, Conflict, Institutional framework, Board behaviour, Social identification

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Dedicated to my parents Sergei and Elena
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CONTENTS

1 INTRODUCTION................................................................................................. 1
  1.1. Corporate governance and the board of directors .............................................. 1
  1.2. Outlining the research area ............................................................................. 2
  1.3. Aim, objective and Research Questions .......................................................... 4
  1.4. Russia and Finland as contexts ........................................................................ 4
  1.5. Structure of the thesis .................................................................................... 5

2 THEORETICAL FRAMEWORK........................................................................ 6
  2.1. Board tasks and roles ...................................................................................... 6
      2.1.1. The board’s monitoring and internal tasks and roles ............................. 9
      2.1.2. The board’s resource provision and external tasks and roles .......... 10
  2.2. Overview of the theoretical background and previous research ....................... 12
      2.2.1. The evolution of corporate governance theories ................................. 13
  2.3. Theoretical frameworks used in the thesis ..................................................... 15
      2.3.1. The institutional perspective ............................................................... 15
      2.3.2. The behavioural perspective ............................................................ 17
      2.3.3. The social identity perspective ......................................................... 20
  2.4. Summary ...................................................................................................... 21

3 METHOD ...................................................................................................... 24
  3.1. The sample .................................................................................................... 24
  3.2. The data collection process ............................................................................ 26
      3.2.1. The questionnaire ............................................................................ 27
  3.3. Data analysis .................................................................................................. 30

4 SUMMARIES OF THE PAPERS ................................................................ 31
  4.1. Paper 1: Institutional background as a determinant of boards of directors’
      internal and external roles: The case of Russia .............................................. 31
  4.2. Paper 2: Board of directors’ tasks: the effect of board capital and conflict
       among the board members ............................................................................ 32
  4.3. Paper 3: Board members’ social identifications and board tasks .................... 34

5 DISCUSSION ............................................................................................... 37
  5.1. Main findings and contributions .................................................................... 37
      5.1.1. Re–visiting the research questions .................................................... 38
  5.2. Limitations and suggestions for further research ............................................. 40
5.3. Managerial implications ................................................................. 43

6 REFERENCES ...................................................................................... 44

APPENDICES

Appendix 1 RESEARCH QUESTIONNAIRE .............................................. 53
Appendix 2 THE PAPERS ................................................................. 67

TABLES

Table 1 The classification of board tasks and roles used in the thesis .......... 12
Table 2 The description of the sample ................................................... 26
Table 3 The operationalisation of constructs ........................................... 28

FIGURES

Figure 1 The summary of the thesis ....................................................... 23
1 INTRODUCTION

1.1. Corporate governance and the board of directors

During the last several decades, corporate governance in general and particularly the board of directors have received increasing attention and become a much debated issue among practitioners and researchers (Shleifer and Vishny, 1997; Lorsch, 1995; Zingales and Rajan, 2000). Indeed, both the Enron and WorldCom fiascos, along with the financial crisis of 2008 were attributed to the inefficiency of corporate governance controls and malpractices of the board of directors. As a result, several European leaders have proclaimed that the international markets need more oversight, more transparency and better standards, including greater global regulation of capital markets (Clarke and Chanlat, 2009:18). Consequently, the Anglo–American form of governance, concerned mostly with the relationship between shareholders and managers, has come increasingly under criticism from the academic community. This criticism has led to the proposal of alternative and broader definitions of corporate governance.

Several ways exist to exert governance over a corporation. Firstly, there is the concentrated ownership structure, where the controlling owner(s) may have personal involvement in the running of the company. Secondly, there is the takeover market, where a company may be taken over by its rivals if it is performing poorly. Thirdly, company and international laws and regulations protect and enforce shareholder interests and thereby exert governance of corporations. Finally, and arguably most importantly, is the board of directors: an organisational body that in most countries is expected to hire, fire and compensate the CEO or the top manager, to set objectives for the firm, and to ask discerning questions (Huse 2007:15–16). Within corporate governance, the board of directors is considered to be the most important organizational body located at the apex of the corporate organizational structure and exerting control over that organization (Fama and Jensen, 1983).

Past examinations of boards of directors primarily dealt with the composition of the board and its effects on corporate financial performance. In these inquiries researchers examined the relationship between corporate financial performance, measured by sales, operating income, ROE, ROA and excess value ratio and board-level characteristics, such as board size, board members’ stock ownership, percentage of members considered outside directors and CEO duality1 (see e.g. Zahra and Pearce 1989; Dalton, Daily, Ellestrand and Johnson, 1998, for reviews). Baysinger and Butler (1985) found the ratio of outside directors to inside directors to be positively related to corporate financial performance. This finding was supported in studies by Lorsch and MacIver (1989), Mizruchi (1983) and Zahra and Pearce (1989). However, several concurrent studies found no correlation between the ratio of outside directors and corporate financial performance (see e.g. Kesner, Victor and Lamont, 1986; Zahra and Stanton, 1988).

Another research strand focuses on the board tasks and roles and the firm–external and firm–internal factors that may affect them. The tasks and roles studied include what the board does or is responsible for doing both inside and outside the board room. This includes monitoring and providing advice and counsel to the CEO. Zahra and Pearce (1989) provided an extensive overview of board studies done in the 1970s and

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1 When the CEO is also the Chair person
80s. They argued that studies examining only board composition do not provide an adequate picture of how the board roles are carried out. They pointed out that external contingencies, interactions among the board members during and outside of board meetings and internal contingencies such as firm life cycle have an impact on board roles and should receive adequate attention from the researchers. Consequently, they argued that there was a need to use mid-range theories that look beyond the superficial relationship between board composition and corporate financial performance to understand how and why the directors are involved in board roles. These suggestions have subsequently guided academics interested in enhancing our knowledge about the functioning of the board of directors.

1.2. Outlining the research area

In recent years, boards have become more active (Adams, Hermalin and Weisbach, 2010). They are complex, open-system organisational bodies that have the potential to influence and be influenced by the management, the organisation and its surroundings (Aguilera and Jackson, 2003). Boards are subjects to various challenges and tensions coming from both inside and outside of the board. The tensions may manifest themselves on several levels, including the macro-level (i.e. resulting from the board’s or firm’s context), group-level (resulting from the dynamics within the board) and the individual level (resulting from individuals’ personal traits and preferences).

The board is the apex of any organisation and one of its important contact channels to the external environment (Fama and Jensen, 1983). Hence, on the macro-level, the board may be impacted by tensions occurring in its environment. The firm’s context has also been termed as external contingencies by some researchers (e.g. Zahra and Pearce, 1989). Regardless of the term used, academics seem to agree that in order to understand the boards of directors, research should focus on the firm’s context (Pye and Pettigrew, 2005).

Contextual, or firm–external factors have been identified to have a decisive impact on corporate governance variations in general (Aguilera and Jackson, 2003) and on board tasks in particular (Huse, 2005). The usual contextual factors studied are national, geographical and cultural, industrial, environmental factors. Ownership factors pertaining to the concentration of ownership and the type of owners are also commonly studied (Huse, 2005). Aguilera and Jackson (2003) argue that corporate governance designs and conceptualisations are embedded in the social context that exists around the organisation. In order to examine the influence of contextual factors on board roles, several studies have chosen the setting of a transitioning economy (see e.g. Peng and Heath, 1996; McCarthy and Puffer, 2003; Judge and Naoumova, 2004). The large-scale and fast-paced institutional changes of transitioning economies often result in tensions between the remnants of the old system and emergence of the new system. These tensions may be manifested in the board of directors. Hence, the setting of a transitioning economy may allow for a vivid analysis of how the contextual factors impact board roles. Many authors agree that the institutional context matters and that the prevailing traditions, values and culture have an impact on corporate governance systems (Judge and Naoumova, 2004; McCarthy and Puffer, 2002). However, there is only scant research into how the co-existing institutions of the former planned economies and the newly introduced market economies affect board roles.

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2 e.g. institutional settings
Another important challenge facing the directors concerns board–internal behaviour and dynamics (Zahra and Pearce, 1989). There is today a consensus among researchers that in order to understand boards and their potential impact on the firm, one needs to look at board dynamics: how the board members interact and how their behaviour contributes to carrying out the actual board tasks. In this paper board behaviour is viewed broadly and refers to the behaviour and processes inside and outside of the boardroom. Examples include directors’ commitment and efforts in their work, as well as tensions and conflicts among the directors. The board operates within an interactive atmosphere, where a large amount of information is exchanged among the board members during decision making processes and board meetings. Therefore, as any other group of individuals, the board is likely susceptible to intra-group conflicts and tensions (De Dreu and Weingart, 2003; Dalton et al., 1998; Huse, 2005, 2007). Forbes and Milliken (1999) conceptualise boards as strategic decision-making groups impacted by internal processes. Their conceptual framework has led them to employ cognitive theories to understand board tasks. They argue that the board working style, along with the presence and use of knowledge and skills of the board members matter in predicting board behaviour.

Hillman and Dalziel (2003) identify the board capital as another set of determinants of the extent to which the board is involved in its tasks. The board capital consists of human capital and external social capital of the board members. Board human capital includes the directors’ knowledge and skills while board external social capital consists of their social networks. Huse (2007) identified the board decision–making culture as the main predictor of board task performance. Recently, Minichilli, Zattoni and Zona (2009) empirically showed that critical debate and mutual commitment among the board members are better predictors or board tasks than the demographic characteristics of the board members classically employed in board research. Similarly, Gabriésson and Winlund (2000) and Gabriésson (2007) identify board involvement as an important determinant of board tasks. Other studies examine intra-group tensions resulting from cognitive conflicts among the board members (Minichilli et al., 2009; Zona and Zattoni, 2007), effort norms (Zona and Zattoni, 2007) and background diversity (Minichilli et al., 2009).

In spite of the recent contributions to the literature, our knowledge of board behaviour and the factors that affect it remain rather limited. This is especially true in relation to tensions that may hinder the dynamics of the board, such as disagreements and conflicts among the board members. Moreover, the often-studied cognitive (task-related) and affective (personality-related) conflicts among the board members are considered to have a direct (Forbes and Milliken, 1999; Minichilli et al., 2009) or mediating (Wan and Ong, 2005) effect on board task involvement. Since conflicts may distract group members from performing a task (Jehn, 1994, 1995; DeDreu and Weingart, 2003), conflicts potentially increase tension among the board members and affect their involvement in board tasks. Such thinking suggests an intervening role of cognitive and affective conflicts in explaining the tasks of the boards of directors. However, these intervening or moderating effects have received only limited attention from researchers.

The examination of board behaviour for a richer understanding of board tasks has prompted researchers to look into motivational aspects of the board members. Apart from directors’ ability, an important question to answer is what is driving the board members to become engaged in their work (McNulty, Roberts and Stiles, 2005). Whereas board composition, board independence from the management, monetary incentives and the board decision–making culture affect director’s engagement
(Golden–Biddle and Rao 1997), the involvement in board tasks may also be influenced by directors’ identification with the focal organisation. Social identification refers to the social categories, which directors identify with (e.g. ethnicity and political affiliation) and help to define the person’s identity.

A better understanding of board tasks may lie in understanding a director’s multiple identities and identifications as predictors of that individual’s behaviour (Hillman, Nicholson and Shropshire, 2008). On the one hand, identities and identifications of an individual can be aligned or compatible with one another, in which case the multiplicity of identities may be beneficial for the organisation. On the other hand, conflicting or competing identities may be an important source of tensions, conflicts and competing demands in the individual’s thinking and behaviour (McCall and Simmons, 1978; Hillman et al., 2008). In this case, multiple competing identities and identifications may negatively alter an individual's behaviour and hence his or her enactment of and involvement in board tasks (Hillman et al., 2008). The notion of directors’ identification with the organisation and other internal and external actors is rather new in board research and only a few empirical studies have been carried out. Moreover, empirical investigations into the directors’ social identification have revolved around the directors’ identification with the focal organisation, overlooking other relevant and salient social identifications, including identification with the shareholders and customers.

1.3. Aim, objective and Research Questions

Against the background of the discussion above, the aim of the thesis is to illustrate the kinds of tasks and roles the boards of directors perform in medium and large corporations and demonstrate how contextual, group and individual level factors influence the extent to which the board is involved in these tasks from three distinct, but interrelated perspectives: institutional, behavioural and social identification. These perspectives provide a broad analytical base for analysing the tasks of the boards of directors and together illustrate some of the most important challenges and tensions the boards are faced with in their everyday work on contextual, group and individual levels. More specifically, this thesis addresses three research questions. The effects of a firm’s institutional context are examined by research question a), the behavioural aspect of board tasks is considered by research question b) and directors’ social identification is explored in research question c).

a) How does the institutional context of a country influence the roles carried out by the board of directors?

b) How do board behaviour and board capital impact the tasks carried out by the board of directors?

c) How and to what extent do the social identifications of board members influence the tasks carried out by the board of directors?

1.4. Russia and Finland as contexts

The contexts of this study are Russia and Finland. Corporate governance mechanisms in Russia are especially interesting as they are the result of a large-scale institutional experiment performed by the Russian government in the early 1990s with the vigorous
support of international financial institutions (Yakovlev, 2004). Russia’s economic transitions during the last decades offer vivid illustrations of how institutional background and its heterogeneity may be reflected in why and to what extent the boards are involved in their roles. While the system of corporate governance in Finland is currently undergoing a transition from a Continental European model to an Anglo–American corporate governance system, the Finnish context is more established and homogeneous. The Finnish setting warrants greater transparency and enforces more stringent information disclosure requirements for firms. It is therefore easier to get access to the data for more in–depth empirical studies of board–level phenomena. Therefore, the Finnish context was chosen for empirical investigations.

1.5. Structure of the thesis

This thesis consists of five chapters. The present chapter introduced the topics of corporate governance, board of directors and their tasks and roles. It also presented the overall aim of the thesis and more precise research questions to be answered. Chapter two reviews the theoretical framework of the thesis, concentrating on how the theories relate to one another and help explain tasks and roles of the board of directors. Among the theoretical foundations behind the determinants of board tasks and roles, I discuss the institutional context of a country and how it impacts on the board roles. This thesis also offers explanations of how board capital and board behaviour may impact board tasks. Finally social identification of the board members as another important behavioural determinant of the board tasks will be examined. Chapter 3 introduces the methods, including the description of sample and data gathering process. Chapter 4 summarises the papers that form an integrated part of this doctoral thesis project. The last chapter discusses the main findings, managerial implications, limitations of this thesis and provides suggestions for further research.

Three papers are appended to this thesis. Paper one relates to the research question a). It portrays how the Russian institutional setting manifested in the time of the founding of the firm, its ownership structure and its governmental dependency is reflected in the board’s internal and external roles. Paper two relates to research question b) and exposes the effect of board capital and behaviour on the monitoring and resource provision tasks of the board. Finally, paper three relates to research question c) and examines the impact of the board members’ social identifications on board tasks.
2 THEORETICAL FRAMEWORK

This chapter introduces and discusses the theories used in this thesis to build a framework for analysing board tasks and roles. First I define these phenomena and then go through the theoretical foundations of board tasks and roles and their determinants that have been identified in the literature. After presenting some of the past research on board tasks, I identify how my study intends to contribute to our collective knowledge in this area.

2.1. Board tasks and roles

In previous research we can find several terms for what the board does, such as board roles (e.g. Zahra and Pearce 1989), board tasks, board activities, board involvement (Forbes and Milliken, 1999; Huse, 2005, 2007), board functions (Forbes and Milliken, 1999; Hillman and Dalziel, 2003), and board duties (Monks and Minow, 2004). These terms are often used interchangeably. According to Encyclopaedia Britannica, “a role is a comprehensive pattern of behaviour that is socially recognized, providing a means of identifying and placing an individual in a society. A role remains relatively stable even though different people occupy the position.” Mirriam–Webster’s definition of a task refers to a “usually assigned piece of work often to be finished within a certain time”, or even as “something hard or unpleasant that has to be done.” Continuing this logic in the context of boards of directors, we can argue that a board ‘role’ could be more socially defined either as what the society or environment is expecting the board to do, or as how the societal and institutional demands can be reflected in what the board does. The definition of the role of boards of directors remains relatively stable over time, unless it is purposely redefined by a given society or environment.

The board ‘task,’ however, is more of a functional concept and refers to a more specific set of actions or operations that the board members do by their own convictions or are made or asked to do by firm–internal actors such as management or employees or firm-external actors such as shareholders or stakeholders. A board task therefore depends more on the board members’ ability and willingness to carry out a particular piece of work and can therefore been seen as the product of their knowledge, skills, incentives and rationales.

Since the word ‘role’ is quite rich in meaning, several other semantic variations are possible. A ‘board role’ may also refer to the individual board member’s role that (s)he takes on during a board meeting. Alternatively, a ‘board’s role’ in the company may refer to how the board is perceived in a given company. The literature on the board of directors is not entirely clear on the distinction of these terms. Moreover, sometimes the term board role is used to denote a board task and vice versa. This creates certain complications for the conceptualisation of this phenomenon. For the purpose of this thesis, when discussing an article or case study, I have used the terms the authors originally used to describe the board’s actions. Hence, this thesis uses both the term ‘board tasks’ and ‘board roles’.

The institutional approach uses the term board roles and sees board roles as being influenced by the transitioning economy context, such that the context provides or defines the ‘rules of the game’ to which the board is expected to adhere. Using the term board roles was also more commonplace in research up until the early 2000s. The behavioural and social identification approaches refer to board tasks and address the
inner functioning of the board and interactions among board members. Board tasks also reflect the more recent advances in board literature. Within this thesis, the board tasks are seen as concepts reflecting a set of functional activities.

Board roles and tasks have been conceptualised in several different ways in the corporate governance literature, typically depending on the theoretical approach adopted. For example, Zahra and Pearce (1989) have identified three “critical” board roles—service, strategy and control. The legalistic perspective on the board defines the board as contributing to firm performance by carrying out their legally mandated responsibilities. This perspective has two primary roles for the board: service and control. The service role involves enhancing company reputation, establishing contacts with the external environment and giving counsel and advice to executives, whereas the control role requires evaluating company and CEO performance as well as exerting control over the actions of top management (Zahra and Pearce, 1989). The resource dependence perspective adds another role to the board: strategy. For those who hold this perspective, the board is viewed more broadly compared to legalistic scholars. They suggest that directors may be actively involved in the strategic arena through counsel and advice to the CEO, by initiating their own analyses, or by suggesting alternatives (Zahra and Pearce, 1989).

Stiles and Taylor (2001) provide another view on board role classification. They agree that the boards’ most critical roles are strategy and control, but they add another dimension, the institutional role. They propose that the board’s primary role in the corporation is to set the context of strategy. This is done by setting and actively reviewing the corporate definition, the question of what the primary business of the company is; through the gatekeeping function or actively assessing and reviewing and changing strategic proposals; through confidence-building or encouraging managers who can demonstrate good track records; and through the selection of directors, who succeed and whose example and strategic goals and achievements the board wants other directors or managers to follow (Stiles and Taylor, 2001: 31).

Their definition of the control dimension of board roles differs somewhat from previous definitions. The board is not viewed as a simple ‘policing’ agent of the management, but rather as a ‘diagnosing’ agent, “using the control systems of the firm to set new strategic direction through a process of identifying trends and new opportunities, focusing organisational attention by setting new strategic targets and performance goals” (Stiles and Taylor, 2001:61). The control systems include operational control (reviewing plans, budgets and corporate financial performance), strategic control (reviewing and commenting on strategic plans), monitoring of the environment and benchmarking, conversations with the stakeholders and finally assessing, disciplining and rewarding the top management. Finally, their definition of the institutional role of the board concerns the need for directors to help acquire critical resources and to serve a legitimating function for organisations. The board is a primary signalling source of an organisation’s intentions and purpose and is the ultimate source of power within an organisation. The board’s statements and behaviour have the power to confer legitimacy and authority upon the firm (Stiles and Taylor, 2001:87). The institutional role is the directors’ responsibility for establishing contacts with the external environment and building relationships with shareholders and other stakeholders.

Another conceptualisation of board roles originated in the Multinational Corporations (MNC), or International Business, literature. Leksell and Lindgren (1982), followed by Krieger (1988) and Björkman (1994, 1995) conceptualised the roles of the subsidiary boards as internal, external or legal. The internal roles include advice to local and
parent management, monitoring operating performance and approving subsidiary budgets and strategic plans. The external roles include facilitating contacts with local leaders and institutions and providing knowledge of local economic, political, and social conditions. The legal role includes director liability, supervising the subsidiary's ethical conduct, accommodating local legal pressures and ensuring compliance with local legal requirements (Krieger, 1988). MNC studies have a particular view on the interplay of the headquarters and subsidiary environments, because of the dual demands for national responsiveness and global integration (Doz and Prahalad, 1980). In these studies the subsidiary is seen to be under pressure of both the original, usually Western, headquarters environment and at the same time the local, non-Western, subsidiary environment. Björkman (1994) differentiated between internal control and external relations board roles. His study showed that in large and culturally and geographically distant markets, the board was involved in external relations roles because of the greater need for information and advice on local external conditions and internal control roles due to the fact that distant markets possess an overall greater challenge for internal coordination within an MNC.

Finally, Huse (2007) provided a broader conceptualisation of board tasks, referring to more functional sides of board activity and focusing on ‘external issues’, ‘internal issues’ and ‘decisions/strategy’. The external issues are related to the environment, markets, competitors and resource providers. Internal issues are related to managerial behaviour, organisational behaviour, sales development, costs and resources and employees. Strategic issues are proactive rather than reactive and concentrate on the future, rather than the past (Huse, 2007: 58). This conceptualisation allows for a more in–depth specification of board tasks, since it differentiates between the internal, external and strategic focus of the boards. For example whilst the output control task is primarily concerned with internal issues it can be seen as having an external focus because the board is acting on behalf of external stakeholders.

The proposed classification of board tasks includes a) output control tasks (how the firm outcomes meet set objectives), b) networking tasks (how people controlling or influencing resources that are important to the firm are co–opted or selected as board members), c) internal control tasks (how the CEO and top management are monitored), d) advisory tasks (when directors act as consultants to the management), e) decision control tasks (how the directors ratify and control important strategic decisions and allocate resources), and f) collaboration and mentoring tasks (how the directors are collaborating with the management in shaping the content, context and conduct of strategy) (Huse, 2007; McNulty and Pettigrew, 1999).

As already noted, the corporate governance and board literature is not clear on the distinction of board roles and board tasks. The recent trend in the literature has been to concentrate on board tasks. In this thesis, I draw on board task and role classifications proposed in previous research, from which two distinct but related sets of board tasks can be highlighted: monitoring and resource provision tasks, as well as the internal and external roles of the board. The monitoring–resource provision classification is taken from previous literature and encompasses most aspects of board work. In my view, the parallel classification of board roles into internal and external better reflects the institutional context and how it reflects in the board. This classification highlights the fact that the unstable or unfamiliar institutional setting may require the researcher to view the board role classification through different lenses. An important consideration in this case may not be how to better perform a particular monitoring task, but rather whether boards in such contexts are externally or internally oriented. This may further indicate how the company is emphasizing the internal or external roles of the board,
depending on whether the company is an active player within the network economy, draws heavily on personal networks and experiences varying degrees of environmental dependency or differences in ownership parameters.

2.1.1. The board’s monitoring and internal tasks and roles

The board’s monitoring and internal tasks and roles relate to the board’s legal duty to monitor management on behalf of the firm’s shareholders and to carry out this duty with sufficient loyalty and care (Monks and Minnow, 2004). Similarly, Zahra and Pearce (1989) defined the control role as evaluating company and CEO performance, ensuring corporate growth and protecting the shareholders’ interests. Krieger (1988) likewise defined the internal roles of the board to include monitoring operating performance and approving budgetary plans. Monitoring tasks have been analysed by researchers from a variety of disciplines, including finance, sociology, management and law.

Theoretically, the monitoring tasks are derived from agency theory, which elucidates the potential conflict of interests arising from the separation of ownership and control (Fama and Jensen, 1983). With professional managers who are not majority owners of the focal firm, there exists a potential threat that these managers - the ‘agents’ - will behave opportunistically towards their ‘principals’ - the owners (Jensen and Meckling, 1976). In this case, the primary mission of the board of directors is to make sure that the managers act in full accordance with the wishes of the owners and always work in the interests of the owners, as opposed to pursuing selfish, opportunistic interests.

The monitoring tasks have a clear theoretical linkage to firm performance. With the separation of ownership and control, there exists a threat that the hired managers will drive their own interests at the expense of corporate and owner interests, thereby creating agency costs. Monitoring those managers by the board of directors could reduce agency costs and positively affect firm outcomes. In addition to monitoring, the board is also expected to reduce agency costs by setting the appropriate incentives for the managers (Jensen and Meckling, 1976; Fama and Jensen, 1983).

Within the umbrella of board monitoring tasks, several specific sub–tasks are often discussed and they form the basis of the board-tasks classification used in this thesis. Board internal control tasks (Huse, 2007), including CEO control (Boyd, 1995) and remuneration (Conyon and Peck, 1998), share the obligation to ensure that the CEO and management operate in the interests of shareholders. In the context of the monitoring tasks, the focus of the board should be on how managers approach and enact their duties rather than on final outcomes. The attention is on control routines and behaviour and includes CEO evaluations (Huse, 2007:59).

Board output control includes monitoring of the financial outcomes of the firm. These evaluations are usually based on quantitative data. Output control tasks are somewhat different from the internal control tasks, as some of the board members have limited time resources or commitment to analyse and monitor the qualitative data regarding the processes inside the firm. Therefore, they will more likely concentrate on more easily identifiable performance criteria such as profits, turnover and other information which is available from company and industry reports (Huse, 2007:60). In the same manner, Krieger (1988) and Björkman (1994) identified the board’s monitoring roles to include advice to local and parent management, monitoring of operating performance and approving of subsidiary budgets and strategic plans (Krieger, 1988).
In addition to output and management control, monitoring tasks may also include a strategic dimension. Some research classifies such tasks as strategic tasks, or ‘board strategy roles’ (see e.g. Zahra and Pearce 1989; Stiles and Taylor, 2001). Others treat them as tasks that have to do with monitoring and control of particularly important strategic decisions and choices of the firm. Consequently, these tasks are not separated into their own unique category, but are rather a sub-set of monitoring tasks (e.g. Huse, 2007; Hillman and Dalziel, 2003). Huse (2007) and Minichilli et al. (2009) formulated a strategic control or decision control task of the board, where the board is involved in both evaluating and monitoring strategic decision making. Within this school of thought, the board’s strategy control tasks are grounded in agency theory. The board’s strategic evaluation tasks are concerned with ratifying and controlling important decisions, especially those decisions concerning strategy and allocation of resources. The board is also expected to set guidelines for evaluating past strategic choices (Zahra and Pearce, 1989). In this way, the board supports and reviews past strategic decisions and directions that have the potential to create value for the company and its shareholders. Generally strategic evaluation tasks are more qualitative and long-term than other monitoring tasks (Stiles and Taylor, 2001; Huse, 2007).

The aforementioned monitoring tasks primarily deal with what is going on inside the firm. They consider the board to be a governing body, monitoring, ratifying and controlling managerial decisions as well as reviewing firm performance. Regardless of whether the board is concerned with reviewing annual financial data of the firm or involved in evaluating a strategic merger abroad, it focuses on making sure that the firm performs in such a way that it creates value for and benefits all relevant stakeholders.

2.1.2. The board’s resource provision and external tasks and roles

A second set of tasks widely addressed in literature is the provision of resources, also known as resource provision tasks or external roles. This set of tasks is rooted in resource dependence theory (Boyd, 1990; Daily and Dalton, 1994; Hillman, Cannella and Paetzold, 2000; Pfeffer and Salancik, 1978). The scholars in this tradition see the board as a provider of resources to management, and ultimately to the firm and its owners. Resources themselves have been defined as anything that could be thought of as a strength of a given firm (Wernerfelt, 1984:172). This perspective started with the work of Pfeffer and Salancik (1978), who assert that when an organisation appoints individuals to a board, it expects these individuals to support the organization and to be concerned with its problems. Hillman and Dalziel (2003) classify the benefits that can be provided by the board to include: 1) advice and counsel, 2) legitimacy, 3) channels for communicating information between external organisations and the firm, and 4) preferential access to commitments or support from important elements outside the firm. Of the above, advice and counsel are internal and the rest are external and all are grounded in resource dependence theory.

The resource provision tasks also have a clear relationship to firm performance. Resources may help reduce the dependency of the organisation on external agents (Pfeffer and Salancik, 1978), lower transaction costs (Williamson, 1984), diminish uncertainty for the firm (Pfeffer 1972, 1973) and ultimately help the firm survive (Singh, House and Tucker, 1986). The resource dependence logic suggests that board provision of resources is directly related to firm outcomes (Hillman and Dalziel, 2003).

The term ‘resource provision tasks’ is an umbrella term for several more specific board tasks that form the basis for the board task classification used in this thesis. Huse
(2007) identified the *networking* and *advisory* tasks to be within the domain of resource provision. The board’s networking tasks include lobbying and giving the firm legitimacy. Therefore, people controlling or influencing resources that are important to the firm may be co-opted or selected as board members (Huse, 2007:59). The board’s advisory tasks presume that board members act like consultants to management, providing knowledge and competencies. A board that consists of directors who provide important, inimitable and non-substitutable resources may provide the firm with a sustainable competitive advantage (Huse, 2007:59).

Hillman and Dalziel (2003) have discussed the more specific board resource provision task to be *external legitimacy*, or boosting the public image of the firm, as well as linking the firm to important stakeholders or other important entities. Similarly, Krieger (1988) and Björkman (1994) define the *external roles* as supervising the ethical conduct of the firm, addressing public interest group pressure and ensuring legal compliance with the external requirements.

The board members are also concerned with administering *advice and counsel* (Mintzberg, 1983), as well as providing expertise and aiding in formulation of strategy or other important firm decisions (Judge and Zeithaml, 1992). This may include deciding on what constitutes the focus of the company. Moreover, the board has the power to influence capacity for innovation through selective screening of managerial decisions. Furthermore, the board contributes to strategy through ongoing evaluation of the company’s business definition and commitment to selected business strategies or sectors (Stiles and Taylor, 2001). The strategic participation task is grounded in resource dependence and stewardship theories. The former sees the board as an important contributor to the general stewardship of the company (Stiles and Taylor, 2001). Board members are expected to collaborate with the management in shaping the content, context and conduct of strategy (McNulty and Pettigrew, 1999) as well as formulating and implementing strategic decisions (Minichilli et al., 2009). This is achieved by mentoring and supporting the management in strategic decision making (Huse, 2007). The resource dependence theory argues that increasing the size and diversity of a board strengthens an organization’s link to its environment and makes it more capable of securing the needed critical resources (Pfeffer and Salancik, 1978; Stiles and Taylor, 2001).

In sum, the resource provision perspective considers the board to be primarily a provider of various, broadly defined resources, rather than a monitoring agent of the management and the firm on behalf of its stakeholders. The table below provides an overview of the board tasks classification used in my thesis. The roles and tasks specified in the table are not mutually exclusive, but are perceived through different theoretical lenses.
Table 1  The classification of board tasks and roles used in the thesis

<table>
<thead>
<tr>
<th>Paper Nr.</th>
<th>Name of the board tasks/roles</th>
<th>Content in brief</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Internal</td>
<td>Evaluating company and CEO performance, advice to management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supervising ethical conduct and legitimacy, channels of communication, advice to management</td>
</tr>
<tr>
<td>2.</td>
<td>Monitoring</td>
<td>Monitoring the CEO, the management and company output</td>
</tr>
<tr>
<td></td>
<td>Resource provision</td>
<td>Lobbying, enhancing public image, customer relationships, mentoring, advising</td>
</tr>
<tr>
<td>3.</td>
<td>External legitimacy</td>
<td>Enhancing public image, ethical approaches</td>
</tr>
<tr>
<td></td>
<td>Networking</td>
<td>Forming and utilising networks, forming customer relationships, lobbying</td>
</tr>
<tr>
<td></td>
<td>Advice and counsel</td>
<td>Identifying business opportunities, internationalisation and financial arrangements</td>
</tr>
<tr>
<td></td>
<td>Top management monitoring</td>
<td>Performance and remuneration of CEO and management</td>
</tr>
<tr>
<td></td>
<td>Financial monitoring</td>
<td>Monitoring the financial output</td>
</tr>
<tr>
<td></td>
<td>Strategic participation</td>
<td>Involvement in supervising strategy, mission and vision</td>
</tr>
<tr>
<td></td>
<td>Strategic evaluation</td>
<td>Evaluating strategic decisions</td>
</tr>
</tbody>
</table>

2.2. Overview of the theoretical background and previous research

Corporate governance scholars have used a myriad of theories and perspectives to analyse boards. Several classifications of these theories have been offered during past decades. For example, Zahra and Pearce (1989) have classified board studies into four distinct theoretical approaches: the legalistic view, resource dependence, class hegemony and agency theory. The legalistic approach suggests that boards contribute to the performance of their firms by carrying out their legally mandated responsibilities. According to this approach, boards are responsible for corporate leadership without actual interference in day–to–day operations, which are the duties assigned to the CEO and senior executives. The resource dependence perspective views the board as important ‘boundary spanners’ that make timely information available to executives. Furthermore, because of their prestige in their professions and communities, directors are able to extract resources for company operations (Zahra and Pearce, 1989). The class hegemony approach views boards as means of perpetuating the powers of the ruling capitalist elite, whereby only the most influential and prestigious individuals are invited to serve on boards. Finally the agency theory...
approach argues that agency relationships should be the focal point in analysing and studying corporate governance (Zahra and Pearce, 1989).

Huse (2007) provided a broader overview of theories utilised by board researchers. In addition to aforementioned theories, he included stakeholder and stewardship theories. In these theories managers are seen to act or are made to act in the interests of a broad array of stakeholders, rather than only the shareholders. Moreover, the managers are thought of being void of opportunistic behaviour and automatically want the best for the firm. Importantly, Huse (2007) included the institutional perspective in the study of boards, thereby addressing the questions of how and why certain organisational processes and structures are taken for granted in a certain institutional context. The key idea behind institutionalisation is that organisational actions reflect a pattern of doing things that evolves and become legitimised within an organisation over time (Huse, 2007:78).

### 2.2.1. The evolution of corporate governance theories

Classically, two theories—the resource dependence and agency theories—have been employed in the study of boards. The resource dependence theory explains how the external dependencies are reduced by linking the organisation to its external environment through networking and legitimacy (Huse, 2007:83). Resource dependence theory views the firm as an open system, affected by external organisations and other environmental factors (Pfeffer and Salancik, 1978). Recently, resource dependence theory has been expanded by contributions from the social network theory. It concentrates on the networking, door-opening, legitimacy and communication tasks of the board. It is partly through these mechanisms that boards reflect the environment of the firm (Hillman et al., 2000; Huse, 2007).

In practice, agency theory is considered to be the main theoretical perspective used in corporate governance (Huse, 2007). The focus of agency theory is on how principals or the owners of a firm can reduce agency costs. The separation of ownership and control, or when one party delegates day-to-day running of the company to another party, increases the potential for asymmetric information and managerial opportunism (Fama and Jensen, 1983). Asymmetric information focuses specifically on the fact that managers may have information that is not revealed to the owners leading to situations of moral hazard and adverse selection (Jensen and Meckling, 1976). Opportunism refers to the idea that individuals, who in this case are the managers, primarily look out for their own self interests. This implies that whenever possible, the agents will prefer to serve their own interests rather than the interests of the principals, or shareholders. Information asymmetry and opportunism imply that there will always be costs for principals associated with agents running the company on the principals’ behalf. Agency costs are the sum of monitoring costs, bonding costs and residual costs and reducing these agency costs is the main focus of agency theory (Jensen and Meckling, 1976). Monitoring costs are associated with the application of rules and guidelines, remuneration of the board of directors, and auditing costs. Bonding costs include constraining managerial decision-making and behaviour and includes so-called golden parachute guarantees included in some contracts (Jensen and Meckling, 1976). Finally, residual costs incurred from divergent principal and agent interests despite the use of monitoring and bonding can be decreased with the use of incentive mechanisms and allocation of stock ownership and stock options.

Agency theory has been criticised for its limited consideration of the complexity of board tasks and their determinants. Zahra and Pearce (1989) argue that, while agency
theory is a popular paradigm for board research, it falls short of adequately representing the tasks and motivations of directors. Agency theorists assume that the CEO will automatically act in a selfish, opportunistic manner. This, however, ignores the recent surge in social pressure for companies to contribute to the societies and communities around them. Failure to perform this important social responsibility role may undermine shareholders’ long-term interest. Additionally, agency theory studies have not been able to adequately show the extent to which the board members are actually involved in controlling the management nor their proficiency in this task. One of strongest presumptions of the agency scholars, that outside directors positively contribute to firm performance, has found only limited empirical support in the literature (Dalton et al., 1998).

Moreover, Roberts, McNulty and Stiles (2005) claim that the reliance on agency theory as the only theoretical framework in studies of corporate boards has led scholars and practitioners to assign too much emphasis on board control tasks and to assume board tasks to be a function of its independence from management. As a result, governance studies have focused on the board’s demographic variables with the assumption that they are easier to observe and are hence more reliable, and act as sufficiently powerful proxies for unobservable decision making processes (Minichilli et al., 2009). However, as has been recently argued, due to the complex interactive nature of board work, these easily observable demographic variables provide only a partial explanation of total board task performance (Daily, Dalton and Cannella, 2003; Forbes and Milliken, 1999). In addition to board demographics, it is the pro-active behaviour of board members that determines to what extent the board is involved in carrying out its tasks. Consequently, some have proposed applying theories from group and cognitive psychology to understand boards as decision-making groups (Forbes and Milliken, 1999). Huse (2007) has similarly turned our attention to the interactions in the boardroom and the board’s decision making culture.

In their review article on the roles of boards of directors, Adams et al. (2010) discussed the most recent developments in studies of the boards of directors. Concentrating on the agency perspective, their paper identifies failures of the board literature to recognise the endogeneity of governance structures, and more specifically the makeup and actions of the boards of directors. Connected to this, they posit that seemingly sensible and reasonable links between board composition and roles may in fact be attributed to the effect of some unobserved factor due to the board’s overall complexity. According to Adams et. al (2010), the literature previously relying solely on agency theory has now started to incorporate issues of expertise, trust, diversity, power, networks and group decision-making in their analyses. In current research, board dynamics, director personalities, backgrounds, skills, networks and monetary and non-monetary incentives as well as the interpersonal relationships with other directors and management have all started to play a larger role. Echoing Forbes and Miliken (1999) among many others, Adams et al. (2010) emphasize the importance of dynamics within boards. Up until now the actual working of the board has been a black box for researchers. Like other researchers who attempt to look inside the board (e.g. Huse, 2007; Minichilli et al., 2009), Adams at al. (2010) suggest that studies of boards of directors should concentrate on achieving an understanding of what goes on inside the boardroom and call for an inquiry into the behavioural aspects of board work.

Along with calls to study the actual functioning of the board, there is a growing tradition emphasizing the importance of contingency studies in corporate governance. Several contingent factors have been identified, such as industry and industrial environment (Huse, 2005), national, geographic and cultural differences (e.g. Peng and
Heath, 1996; Peng, 2003; McCarty and Puffer 2002; Puffer and McCarthy, 2003; Judge and Naoumova, 2004 and Huse, 2005), firm life cycle (Lynall, Golden and Hillman, 2003; Huse, 2005), as well as the more usual contingencies of firm size and CEO tenure and characteristics (e.g. Huse, 2005). The cultural and national characteristics have been particularly popular in the recent corporate governance literature due to several previously closed economies opening to the West and embracing the Western concepts in business and management. Adams et al. (2010) likewise suggest that the differing role of directors’ social networks and differences in corporate governance structures and processes should be studied in developing economies and compared to the Western world.

Finally, in search of how to engage the board members in their work, most recently research has pointed to the role and social identities literature. Much of the agency theory literature assumes that directors with a given characteristic (e.g. independent directors) are equally motivated to protect the interests of shareholders given their fiduciary obligations (Jensen and Meckling, 1976). Similarly, resource dependence scholars assume that if the board members have the needed human or external social capital to offer to the firm, they will invariably employ it to increase value in the firm. However, little work has been done to show that the enactment of board tasks is influenced by a director’s identification with the organisation (Hillman et al., 2008).

2.3. Theoretical frameworks used in the thesis

This section reviews institutional, behavioural and social identification frameworks for analysing board tasks. It concentrates on previous research and outlines how this thesis relates to and builds on existing knowledge. I specifically address the three research questions posed in Chapter 1.3 and review relevant studies done in each of those fields. Paper 1 looks into the variations of the institutional context and what effect that has on the board tasks, paper 2 extends that discussion and identifies board–internal factors of board capital and board behaviour that impact the board tasks. The third paper takes yet a different but complementary perspective on the tasks undertaken by the board, this time based on the social identification literature.

2.3.1. The institutional perspective

Institutional theory explains actions of organisations as not only stemming from the rational decision making processes of its actors, but also being subjected to the institutional context within which the organisations exist. In adapting its practises and structures in accordance with the social and institutional demands of a given context, an organisation attains social legitimacy.

As first identified by DiMaggio and Powel (1983) and Powell and DiMaggio (1991), institutional contexts create ‘institutional pressures’ for the company. An organisation needs to adapt to its institutional context and address all three of the identified institutional pressures: coercive pressure–government regulations and laws; normative pressure–cultural and societal expectations; and mimetic pressure–the need to copy other organisations in times of environmental uncertainty.

Later, Scott (1995) introduced the idea of three institutional pillars that together comprise the institutional setting of a context. The three pillars he identified are: the normative- values and conceptions of the preferred or the desirable and norms, specifying how things should be done; the cognitive-shared conceptions of social reality
and frames through which meaning is made; and the regulatory-rule–setting, monitoring and sanctioning activities (Scott, 1995). These three pillars provide “related but distinguishable bases of legitimacy” (Scott, 1995:47), with companies responding to these pressures by making certain strategic choices, such as compliance, co–optation and defiance (Peng, 2003).

Conforming to institutional pressures, the organisation may win social support and ensure its survival. This survival is not won by making more money or better products, but by following socially accepted conventions and being supported by the general society (Scott, 1987). If a company is a reflection of the institutional pressures towards that company, these pressures could also be reflected in the board of directors. As the board is an important unit of a company that often mediates the company’s connections to the external environment the board may be expected to be influenced by these institutional pressures. Examples of institutional pressures relate to board composition and tasks. For instance, an external regulatory pressure may be present when the laws and rules within a given context force the board to have a certain percentage of outsiders, or minorities as members. The institutional demands may also be reflected in board tasks. Additionally, an organization may imitate the board experiences and practices in a successful firm, looking for advantages in mimetic behaviour.

I use institutional theory to portray how and why institutional context may influence board tasks. Using an example of the Russian transitional economy, I explain how certain the new, recently introduced market economy, and old, planned economy, practices may urge the board to give varying weight to its internal and external roles. Due to the large-scale institutional changes the firm may choose between two primary strategic directions: the network–based strategy and the market–based strategy (Peng, 2003).

Due to the magnitude and recent nature of the institutional changes, transitional contexts provide a vivid illustration of how and why institutions impact firms. For organisational researchers, the transitions in these countries offer fascinating grounds to refine and test existing theories and to develop new ones (Peng and Heath, 1996; Boisot and Child, 1988). Corporate governance, and specifically the board of directors, represents a novelty for a transitional context, with little infrastructure to support it (Puffer and McCarthy, 2003). This suggests a relative lack of regulatory mechanisms to control the introduction and follow-up of the corporate governance system into a transitional economy. Consequently, the institutional setting of a transitional economy provides interesting examples of how the informal rules of the game and cultural and historical particularities may affect the tasks of the board of directors.

Several studies have explored the effect of a country’s institutional context on the prevailing corporate governance system and boards of directors specifically. Peng (2004) has analysed the outside directors and firm performance during institutional transitions. He found that, although corporate financial performance was not affected by the appointment of outside directors to the boards, there was a notable growth in sales. He attributed this positive effect to the conformity of the studied Chinese firms to the interplay among the regulative, normative and the cognitive pillars of the Chinese institutional context. Since there was no regulation for appointing outside directors to the board and few cognitive pressures, the growing number of outside directors was explained by the heightened normative demand for more outside directors in the Chinese press and scholarly opinion.
McCarthy and Puffer (2002) argued that the influence of the Russian institutional context on corporate governance system in the country is likely to be so strong as to evolve into its own unique model reflecting the country’s traditions and culture. They note more generally that international differences in corporate governance exist because of particular institutional and cultural variations. Following in the footsteps of North (1991), Peng and Heath (1996) showed that the institutional framework of a country is made up of both formal and informal rules. These two sets of rules are used to a different extent, depending on the institutional setting of a country and its stability. Due to a lack of stable formal rules of the game, informal rules, or coping mechanisms, are often chosen by the managers of firms in transitional economies (Peng and Heath, 1996). Similarly, Judge and Naoumova (2004) contended that when the formal rules of the game are established in a transitional setting, they often conflict with the prevailing informal rules. As a result, the formal rules and laws are routinely ignored and substituted by the informal rules of the game (Judge and Naoumova, 2004; Peng and Heath, 1996).

Despite the recent scholarly attention to corporate governance in Russia, only few studies specifically analyse the roles of Russian boards and their institutional determinants. In my first paper, I apply institutional theory with the aim of explaining the roles of the Russian boards. Against the background of the above discussion, I look into the specification and classification of the board roles from a Western point of view. On the basis of the pervasiveness of Russian’s institutional context, I argue that the roles of the board in Russian companies could be categorized somewhat differently compared to the classical Western case. The roles could be split into two categories, internal and external, based on the country’s dyadic system. In the transitioning Russian economy, both the former, centrally planned institutions and the new, market based institutions employ both internal and external forces that essentially ‘pull’ the board towards a network–based strategy, a market–based strategy or both. Due to a pronounced impact of the Russian government, as well as the pervasiveness of personal networks, I also argue that transitional contexts merit somewhat different sets of determinants to explain board roles. More specifically, the time of founding, ownership type and governmental dependency are seen to explain the varying weight given to internal and external board roles.

2.3.2. The behavioural perspective

Perhaps partly due to the pronounced impact of agency theory, a lot of research on boards has dealt with directors' demographics, such as outsiders or non-executives representation and directors’ stock ownership. It was originally argued that the usage of demographic variables is justified by the fact that they are more objective, more easily observable and quantifiable and hence more reliable than behavioural variables (Pfeffer, 1983). However, recent studies argue that, due to the limited amount of information conveyed by demographic variables and the presence of complex group dynamics in the boards of directors, behavioural variables can actually provide better explanations of board outcomes (Minichilli et al., 2009; Huse, 2005). Behavioural theories consider the interactions among actors to influence decision outcomes (Huse 2007:155). Interactions among the board members are processes that occur in the board and among the board members and can both promote and hinder a given group's outcomes. Since the board is made up of individuals who regularly communicate with each other both inside and outside the boardroom, interactions play an important role in understanding the board of directors. Mainstream theories often assume the rationality of the manager's decision making. However, because of the complex and dynamic business environment, managers may be forced to base their decisions on the
more easily available information, resulting in the managers’ bounded rationality (Hendry, 2002, 2005). Hence, these decisions cannot be considered to be the ultimate, optimal solutions; they merely reflect solutions to satisfy particular aspiration levels. These levels in turn depend on history and social environment. Furthermore, the behavioural approach emphasises subjective factors such as cognitive biases and incompetence as explanations for inefficient and ineffective decision making (Hendry, 2002). Hence, the limited competence and knowledge among managers may represent a more likely cause for organisational inefficiencies compared to opportunism as was previously proposed (Huse, 2007:159). Since behavioural perspective does not consider managers’ goal alignment by monetary incentives to be most important aim in an organization, it provides a different viewpoint on the organization than held in agency theory. I use the behavioural perspective to understand how the past experience, knowledge and capabilities of the board members, as well as the amount of affective and cognitive conflict among the board members affect the extent to which the board tasks are carried out.

Together with bounded rationality, the behavioural approach includes the satisficing behaviour, organisational routines and bargains among coalitions of actors. Satisficing behaviour refers to actors accepting choices or judgments that are good enough based on their most important current needs, rather than searching for optimal solutions. Organizational routines are codified memory of the organisation, embodying past experience, knowledge, beliefs, values, and capabilities of the organisation and its decision makers (Huse, 2007:159). On the one hand they conserve the cognitive abilities of board members and channel and limit conflict among them. On the other hand they may direct attention to selected aspects of identified problem situations. Finally, the political bargaining of actors refers to organisations as complex political systems with agents organised in coalitions (March, 1962). These coalitions can have different demands on the organisation and they may result in conflicts. Disagreements about organisational goals are dealt with in the context of on-going bargaining processes among coalitions that pursue conflicting goals, as opposed to objective alignment by economic incentives. Hence, at any time an organisation can be expected to have a certain number of prevailing conflicts (Huse, 2007:160).

Forbes and Milliken (1999) have proposed a conceptual model, where effort norms (or the group-level shared beliefs regarding the level of efforts individuals are expected to put towards the tasks), cognitive conflict (the task-based difference among the opinions and views of the board members), and the presence and use of skills and knowledge (functional and general knowledge of the board members) invariably impact board tasks. Huse (2005) identified the board decision-making culture as the primary determinant of board task performance, specifically the creativity, commitment and criticality of the board members. Milliken and Martins (1996) studied diversity as one of the important group behaviour determinants and concluded that diversity has an impact on affective, cognitive and communication processes. Finally, Minichilli et al. (2009) have empirically shown that the board members’ diversity, commitment, and critical debate are better indicators of board tasks than the usual demographic variables. Despite the recent attention to the board behaviour, more empirical work is needed to uncover how board behaviour and interactions among the board members impact the board tasks as well as what other positive or negative processes may exist among the board members (Forbes and Milliken, 1999; Hillman et al., 2008; Ravasi and Zattoni, 2006). For example, the board is prone to process losses (Forbes and Milliken, 1999) and other behavioural challenges that arise from several individuals working together as a group. One of the important challenges is conflict—the process resulting from the tension between group members because of real or perceived
differences in inputs or views (De Dreu, Harinck and Van Vianen, 1999; De Dreu and Weingart, 2003). Just like the board members’ commitment and efforts contribute to their work, conflict has been suggested to interfere with group dynamics because it may produce tension, antagonism and distract group members from performing the task (De Dreu and Weingart, 2003). This leads one to suggest that conflict may also be an important determinant of board tasks. To that end, Forbes and Milliken (1999) identified the cognitive conflict dimension and defined it as the difference in judgment among the board members and its effects on board tasks.

Whereas conflicts have received attention in the papers investigating top management teams, their potential impact on boards has not been extensively studied. The board may also be regarded as a group of individuals working toward a common goal. Hence, the literature on group dynamics may potentially contribute to board studies. Studies by Jehn (1994, 1995) unveiled the positive impact of cognitive (task–related) and negative impact of affective (personality–related) conflicts on group outcomes. Amason and Sapienza (1997) concurred with this view and found group size to be positively related to both cognitive and affective conflicts and group openness to be positively associated with cognitive conflicts and negatively associated with affective conflict. Other studies consider these two conflict types to be similar to each other and claim that both cognitive and affective conflicts are negatively related to group outcomes and satisfaction. Interestingly, a recent meta–analysis of conflict studies by DeDreu and Weingart (2003) shows that the negative impact of affective conflict has been established in the literature whilst the evidence of the positive impact of cognitive conflict is scarce. Furthermore, they claim that cognitive and affective conflicts are likely to be detrimental to group outcomes especially for complex and non–routine tasks (DeDreu and Weingart, 2003). A recent study of conflict on non–profit boards by Hamm–Kerwin and Doherty (2010) generally concurred with these propositions and found that cognitive and affective conflicts were negatively related to decision quality, directors’ commitment to board tasks and satisfaction of the directors with their group.

I hypothesise that conflicts on the board will have an impact on tasks that boards undertake. Conflicts have not been extensively studied within the context of boards of directors. I argue that conflicts are important due to the complex nature of the board tasks and the high amount of interaction that exists among the board members both inside and outside the boardroom (Huse, 2007:155). Also the increased responsibility and accountability of the board members during the last decades has potentially decreased the inactivity of the board members and has contributed to critical thinking and debate in the boardroom (Minichilli et al., 2009; Huse, 2005).

Along with the behavioural determinants, previous research has often analysed the directors’ knowledge, skills and networks as important indicators of board task involvement (see e.g. Hillman and Dalziel, 2003; Forbes and Milliken, 1999). Concentrating solely on behavioural variables and controlling for the demographic indicators may ignore the relevant board capital, which is particularly relevant to studies of boards as decision–making groups. The information carried by the demographic indicators may not capture the influence of the board members through their skills, backgrounds, networks and experiences. Hence I also hypothesise that the board capital is an important determinant of monitoring and resource provision board tasks. The board members can be expected to be more involved in their tasks and perform their tasks better if they are qualified and knowledgeable in governance practises, have relevant skills, experience and networks and possess adequate information about the firm and the field of business the firm is involved in.
2.3.3. The social identity perspective

Following the same micro-level discussion of board behaviour, one remaining question is why board members are active in board tasks, particularly the task of critically assessing the management of the firm (Hambrick, v. Werder and Zajac, 2008). In theory, each strategic decision should be well communicated to the board members and the board members should scrutinise it based on their knowledge, skills and experience. In practise, however, controversial or candid discussions may seldom take place in the boardroom due to groupthink or pluralistic ignorance (Hambrick et al., 2008). The question is then, what is driving the board members to become engaged in the boardroom (McNulty et al., 2005). Whereas agency theory may provide a glimpse of an answer to this question by analysing directors’ motivation, the level of engagement of the board members in their tasks depends also on their level of identification with a given organisation (Golden–Biddle and Rao, 1997; Hillman et al., 2008). Directors’ identities and identifications influence their behaviour in the boardroom, therefore the social identity approach contributes to advancing our understanding of boardroom processes (Hambrick et al., 2008).

Identity is essentially a self–referential description that provides contextually appropriate answers to the question “Who am I?” or “Who are we?” (Ashforth, Harrison and Corley, 2008). This concept of self can be roughly defined to consist of personal identity and social identity. Personal identity is defined as a person’s unique sense of self, a gestalt of idiosyncratic attributes, such as traits, abilities and interests (Postmes and Jetten 2006:260). Social identity is a part of an individual’s self-concept that is derived from his or her memberships within various social groups together with the value and emotional significance attached to those memberships (Tajfel, 1974:63). The distinguishing factor between the two is that social identities are shared by members and can be used to distinguish different groups of individuals, whereas personal identities are unique to the individual (Ashforth et al., 2008).

One facet of social identity is the individual’s organisational identification. For firms, a key concern is the individual’s identification as an organisational member (Foreman and Whetten, 2002). Dutton, Dukerich and Harquail (1994:239) define organisational identification as the degree to which a member identifies himself or herself with the same attributes that he or she believes define the organisation. Identity is one of the key foundational concepts that helps explain individuals’ interactions with and attitudes toward their environment (Ashforth et al., 2008). If individuals' identifications affect their behaviour it would follow that directors’ identifications affect board tasks as well (Hillman et al., 2008).

Within the ongoing search for a general corporate governance framework for analysis (Pye and Pettigrew, 2005), identification theory seems to be a promising avenue of research. The recent attention to board behaviour may be enhanced by employing the social identification perspective, as identification touches upon the drivers for individuals’ (here: board members) motivation and reasoning for acting in a certain way (here: being involved in various board tasks). Paper three employs this novel way of analysing the board of directors and studies the impact of the board of directors’ identification with the organisation, its shareholders and its customers on various board tasks.

Whereas both empirical and conceptual studies grounded in social identification theory are not novel within the organisational behaviour and management literature, there has been little research guided by the social identification theory within the corporate
governance field. In search of a solid framework for analysis, the corporate governance literature must look for new directions in trying to explain what is going on inside the board and the motivations behind these actions. Golden–Biddle and Rao (1997) provide an account of the interplay between an organisation's board of directors and top managers, highlighting the role of identity in shaping the directors' behaviours. They showed that the organisational identity, combined with the processes of identification and action, influence the construction and enactment of the directors' roles. They also posit that the directors' roles or tasks are not shaped only by their formal obligations, but are also influenced by the degree of directors' identification the organisation.

Van Knippenberg and van Schie (2000) have gone beyond organisational identification as the sole point of interest of social identification research. They identified workgroup identification of individual directors as being more important than organizational identification. This suggests that organisational behaviour studies require an analysis of multiple foci of identification, including identifications with other social groups inside and outside the organisation.

A recent conceptual piece by Hillman et al. (2008) readily addressed several calls for research. They analysed the impact of organisation, shareholders and customers identification on board monitoring and resource provision tasks. They argue that the degrees of directors' identification with the organisation, its shareholders and customers positively affect their involvement in all board tasks. Additionally, Hillman et al. (2008) studied the identification of the board members with being a (professional) director (i.e. identifying with what being a board member entails) and with being a CEO (i.e. identifying with what being a CEO entails). They found that the strength of identification with being a director positively impacts the board tasks studied whilst identification with being a CEO may actually decrease the board member's involvement in the monitoring tasks.

While some qualitative studies have been conducted in this field (see e.g. Golden–Biddle and Rao, 1997), to date, no study has quantitatively tested these relationships on large samples. In paper three, I address this relationship and argue that the organisational, shareholder and customer identifications positively impact the board's involvement in the monitoring, resource and strategic tasks. Their identification with these three actors positively impacts the directors' ability and willingness to contribute value to the focal firm. It can be expected that they contribute additional value to the firm by way of an increased level of engagement in the monitoring, resource and strategic tasks.

2.4. Summary

The aim of this study is to contribute to the literature on the boards of directors and to achieve a deeper understanding of the effects of the different board–internal and board–external determinants on board tasks. This is achieved by using three different perspectives: the institutional, behavioural and social identification perspective. To answer each of the research questions posed in this thesis, different theoretical lenses are used to analyse how the various factors impact the involvement of the directors in board tasks. The institutional perspective used in paper one concerns the external environment of the firm and provides an explanation of how and to what extent external actors and institutions are reflected in the roles of the board of directors. The behavioural perspective used in paper two considers board–internal characteristics of
directors and interactions that take place among them and consequently, how the enactment of board tasks depends on this. Finally paper three uses a social identity perspective and examines the strength of the board members’ social identifications and how these impact the enactment of board tasks. The diagram below summarizes the approaches described in this section and provides an overview of the thesis.
Figure 1: The summary of the thesis
3 METHOD

This thesis encompasses one conceptual paper (paper 1) and two empirical papers (papers 2 and 3). The empirical papers are based on data collected by a multidisciplinary project Value Creating Board: The Role of Boards and Management Teams in Maximizing Value Creation and Innovation. The project was conducted at the Hanken School of Economics, and funded by the Finnish Funding Agency for Technology and Innovation (TEKES) and several large private Finnish corporations. The project members included two professors, three post-doctoral researchers and three doctoral students. In addition, three research assistants were hired to help in the data collection and coding. The data was collected during the period of January–May 2009.

3.1. The sample

The target group was mid and large-size companies operating in Finland. We chose not to include representation and sales offices in our study because the boards seemed to lack significant tasks in these companies. This decision was prompted by several responses from the board chairpersons and CEOs of local sales and representation offices of foreign companies clearly stating that they could not complete the questionnaire as their boards were not involved in operational nor strategic decision making in Finland. The Finnish corporate world is under pressures for greater transparency and information disclosure requirements and it is therefore possible to gain access to empirical data for more in-depth studies of board-level phenomena. 

The Finnish context was chosen for our sample due to time and cost constraints. We chose the 500 largest companies in Finland based on the classification of the Finnish “Talouselämä” magazine. An additional 500 companies were chosen, giving a final prospective sample of 1000 companies with annual turnover of at least 38.5 million euro. The first step was to receive a list of the potential companies as participants in this study. We contacted the “Fonecta” agency that keeps a detailed record of all of the companies in Finland, including the key figures and contact information. 113 companies were not reached due to inaccurate or outdated information in the database, including changed addresses, changes of company structure, re-organisations, bankruptcies, company mergers and demergers. Some companies informed us that they do not wish to participate in our study. Therefore the total sample consisted of 887 companies, and we received responses for 92 of them, including 60 from the CEO (or president) and 32 from the chairperson. For 5 companies we received responses from both the CEO and the board chairperson.

Following the initial screening, we mailed the questionnaires to the CEOs and Board Chairpersons in January 2009. The questionnaires were accompanied by a letter stating the purpose of the project and how the results were going to be used. The letter also included the necessary contact information of persons in charge of the project. A reminder was sent to the companies during March 2009 and we finally received all the responses used in this study by May 2009. The questionnaire was tested with a professional board member prior to sending it to the companies. This way we ensured that the questionnaire was clear, easy to answer and did not create confusions for respondents. We then corrected the questionnaire in accordance to the pilot study respondent’s recommendations prior to sending it out.
The relatively limited response rate might be a source of sampling bias in this study. The questionnaires were addressed to CEOs and Board Chairpersons and such low number of responses may be indicative of the difficulty to access primary data on boards of directors (Daily et al., 2003; Pettigrew, 1992). The research on the board of directors has historically had a low response rate, since board members are busy professionals who are not permitted to reveal private information outside of the company (Minichilli et al., 2009; Pettigrew, 1992). Such relatively low response rates may cause concerns for the occurrence of Type I and Type II errors in hypotheses testing, especially in equations with several independent variables. Due to the limited number of observations, I had to use mean replacement technique in the analysis to deal with missing variables. The only variable in the thesis with a large number of missing values is the percentage of outsiders on the board, a control variable used in the two empirical papers.

Naturally, the power and significance of the study would be increased with more observations. Due to the limited time and resources, it was not possible to collect more observations. There was no difference in turnover rates and year of founding of the respondent vs. nonrespondent companies. Therefore, we assumed that our study does not suffer from nonrespondent bias. Table 2 (below) describes the study sample.
Table 2  The description of the sample

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Category</th>
<th>n / %</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company age, years</td>
<td>Average age</td>
<td>52.62</td>
<td>91</td>
</tr>
<tr>
<td>Company turnover, m. €</td>
<td>&lt; 50, 16.5 %</td>
<td>91</td>
<td></td>
</tr>
<tr>
<td></td>
<td>50-100, 39.5 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>101-400, 35.2 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 400, 8.8 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>&lt; 100, 19.8 %</td>
<td>91</td>
<td></td>
</tr>
<tr>
<td></td>
<td>100-500, 49.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>501-1000, 15.9 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 1000, 16.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>Industry and production</td>
<td>58.0 %</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Services, 30.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>High technology, 2.0 %</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Finance, 1.0 %</td>
<td></td>
<td></td>
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<tr>
<td>Incorporation</td>
<td>Listed, 12.0 %</td>
<td>91</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family owned, 19.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Privately owned, 53.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other, 7.0 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>Chairperson and Board, 20.6 %</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CEO and Management, 2.4 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finnish financial, 4.8 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign financial, 3.5 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finnish companies, 23.8 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign companies, 14.0 %</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Official body, 14.8 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other, 14.7 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO tenure, years</td>
<td>&lt; 5, 57.1 %</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5-10, 28.6 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 10, 14.3 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>Average size, 5.96</td>
<td>91</td>
<td></td>
</tr>
<tr>
<td>Outsider percentage</td>
<td>Average %, 83.0 %</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>CEO present on Board</td>
<td>Average %, 39.0 %</td>
<td>92</td>
<td></td>
</tr>
</tbody>
</table>

3.2. The data collection process

The questionnaire was constructed in English and then translated into Finnish. We then back–translated the questionnaire to English. All translations and back–translations were done externally by different individuals. The respondents were also
given a chance to answer the questionnaire in Finnish or English, as we put both versions on the project website. No respondents preferred to answer in English and so all the final coded responses were in Finnish. Finland is a country with two official languages, Finnish and Swedish, and we received one comment regretting the fact that the questionnaire was not available in Swedish. The respondent in question nevertheless answered the full questionnaire in Finnish thereby demonstrating his or her sufficient proficiency to deal with business issues in Finnish. Therefore I believe the survey language is not a cause of bias in this study.

Researchers are increasingly suggesting the usage of double–respondent surveys in order to improve the validity of the analysed relationships (Yang, Wang and Su, 2006; Pearce and Zahra, 1992). When both the dependent and independent variables are drawn from one source, this may potentially cause serious common method bias concerns (Podsakoff, MacKenzie, Lee and Podsakoff, 2003). For example, when the CEO or Board chairperson is asked to value their own capabilities and performance, overestimation of their achievements and downplaying of their shortcomings may decrease the reliability of the data. Our study attempted to collect data from both the CEO and the Board chairperson, thereby yielding double respondents for each firm. Unfortunately, we received only 5 usable matched responses. The number of matched responses was too low to draw statistically significant correlations from. In these cases, the answers from CEOs were preferred and the answers from Chairpersons were disregarded. There was no difference observed between their responses. The common method bias was dealt with by utilizing procedural techniques. Firstly, we collected the data on background factors from secondary sources, such as firms’ annual reports, websites and the external, independent Fonecta database. This approach has been used to decrease the potential common method bias (Pearce and Zahra, 1992). Secondly, the survey was sent with a cover letter, guaranteeing anonymity to the respondents in order to lessen the respondents’ inclination to offer socially desirable responses (Podsakoff et al., 2003). Thirdly, the wording of the questions was carefully chosen in order to avoid potential confusion and ambiguity of the concepts (Tourangeaus, Rips and Rasinski, 2000). Finally, the dependent and the independent variables were placed far apart from each other in a mixed order (Parkhe, 1993). I also tested for common method bias statistically, using a Harmann one–factor test in both empirical papers. According to this statistical test, the study does not suffer from common method bias. Moreover, paper two tests several interaction effects. Combining the statistical scales in interaction terms is known to decrease potential common method bias concerns (Atuahene–Gima and Li, 2004; Li and Atuahene-Gima, 2001; Brockner, Siegel, Daly, Tyler, and Martin, 1997).

3.2.1. The questionnaire

The questionnaire (see Appendix A) consisted of two main parts: one on the background information about the company (sections D–G) and another on the main concepts used in the studies (sections A–C). The background questionnaire included questions on the industry, size, market areas of the company, details about the owners of the company, details about the CEO tenure, board composition and ownership, board Chairperson and details on the frequency of board meetings. The first part of the questionnaire consisted of questions regarding the background of the respondent, the tasks of the board of directors, the main focus of the board during the last several years, the board members’ networks, details about the functioning of the board, its diversity and social identification. The latter part of the questionnaire concentrated on innovation issues, which were not a part of this thesis and hence will not be further
discussed. The operationalisations of the key variables are illustrated below in Table 3, whilst the actual questionnaire can be found in Appendix 1.

### Table 3  The operationalisation of constructs

<table>
<thead>
<tr>
<th>Construct name</th>
<th>Operationalisation</th>
<th>Adapted from</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring tasks</td>
<td>The board supervises or controls the CEO’s work, remuneration, succession, company’s operations, budget, liquidity and ethics: (1) disagree … (7) agree</td>
<td>Based on conceptual definitions by Hillman and Dalziel (2003), Zahra and Pearce (1989) and Carpenter and Westphal (2001)</td>
</tr>
<tr>
<td>Top management monitoring</td>
<td>The board controls the CEO’s work, remuneration, succession and top management work and remuneration: (1) disagree … (7) agree</td>
<td>Based on ‘behavioural control’ tasks from Minichilli et al. (2009) and ‘internal control’ tasks from Huse (2007)</td>
</tr>
<tr>
<td>Financial performance monitoring</td>
<td>The board controls the company’s operations, budget, liquidity and investments: (1) disagree … (7) agree</td>
<td>Based on ‘output control’ tasks from Minichilli et al. (2009) and Huse (2007)</td>
</tr>
<tr>
<td>Strategic evaluation</td>
<td>The board controls the company’s acquisitions, restructurings and operational rationalisations, new technological solutions: (1) disagree … (7) agree</td>
<td>Taken from ‘strategic control’ tasks from Minichilli et al. (2009) and ‘decision control’ tasks from Huse (2007)</td>
</tr>
<tr>
<td>Resource provision tasks</td>
<td>The board actively assists the management in forming and utilising networks and customer relationships, in lobbying, identifying business opportunities, enhancing the company’s public image, mentors and advises the management: (1) disagree … (7) agree</td>
<td>Based on conceptual definitions by Hillman and Dalziel (2003), Zahra and Pearce (1989) and Carpenter and Westphal (2001)</td>
</tr>
<tr>
<td>External legitimacy</td>
<td>The board actively assists the management in ethical approaches, enhancing the company’s image and mentoring: (1) disagree … (7) agree</td>
<td>Based on ‘networking’ tasks from Minichilli et al. (2009) and Huse (2007)</td>
</tr>
<tr>
<td>Networking</td>
<td>The board actively assists the management in forming and utilising networks, forming customer relationships and lobbying: (1) disagree … (7) agree</td>
<td>Taken from Minichilli et al. (2009) and Huse (2007)</td>
</tr>
<tr>
<td>Advice and counsel</td>
<td>The board actively assists the management in identifying business opportunities, in issues relations to renewal and innovation, internationalisation issues and financial arrangements: (1) disagree … (7) agree</td>
<td>Taken from ‘advice’ tasks from Minichilli et al. (2009) and ‘board advisory’ tasks from Huse (2007)</td>
</tr>
<tr>
<td>Construct name</td>
<td>Operationalisation</td>
<td>Adapted from</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Strategic participation</td>
<td>The board actively assists the management in proposing, implementing and supervising the company’s long–term, strategies, determines the mission, vision, values, organisational structure and partnerships: (1) disagree … (7) agree</td>
<td>Taken from Minichilli et al. (2009) and based on ‘collaboration and mentoring’ tasks from Huse (2007) and conceptual definitions from McNulty and Pettigrew (1999)</td>
</tr>
<tr>
<td>Human capital</td>
<td>The board has high levels of knowledge and expertise of the company’s activities, products and services, internal development needs, threats and opportunities in the industry, good governance and working practices: (1) disagree … (7) agree</td>
<td>Based on conceptual definitions of ‘board capital’ from Hillman and Dalziel (2003), and board members’ ‘knowledge and skills’ from Forbes and Milliken (1999)</td>
</tr>
<tr>
<td>External social capital</td>
<td>The board has significant contacts with shareholders, public administration, political decision–makers, trade unions and business partners: (1) disagree … (7) agree</td>
<td>Based on conceptual definitions of ‘board capital’ from Hillman and Dalziel (2003)</td>
</tr>
<tr>
<td>Cognitive conflict</td>
<td>Directors often have very different views on important issues discussed by the board, its strategic directions and different ways of thinking about and justifying issues: (1) disagree … (7) agree</td>
<td>Taken from Jehn (1994, 1995) and Parayitam and Dooley (2009)</td>
</tr>
<tr>
<td>Affective conflict</td>
<td>There are many disputes and tension among the board members and they are not ready to cooperate among themselves: (1) disagree … (7) agree</td>
<td>Taken from Buchholtz, Amason and Rutherrford.(2005) and Jehn (1994, 1995)</td>
</tr>
<tr>
<td>Organisational identification</td>
<td>Board members always speak of “us” rather than “them” when talking about the company, consider its’ successes to be own as well, consider feedback directed at the company to be feedback directed to themselves: (1) disagree … (7) agree</td>
<td>Taken from Mael (1988), Ashforth (1990) and Mael and Ashforth (1992)</td>
</tr>
<tr>
<td>Shareholders identification</td>
<td>Board members always speak of “us” rather than “them” when talking about the company, consider its’ successes to be own as well, consider feedback directed at the company to be feedback directed to themselves: (1) disagree … (7) agree</td>
<td>Taken from Mael (1988), Ashforth (1990) and Mael and Ashforth (1992)</td>
</tr>
</tbody>
</table>
Construct name | Operationalisation | Adapted from
---|---|---
Customers identification | Board members always speak of “us” rather than “them” when talking about the company, consider its’ successes to be own as well, consider feedback directed at the company to be feedback directed to themselves: (1) disagree … (7) agree | Taken from Mael (1988), Ashforth (1990) and Mael and Ashforth (1992)

Each of the constructs described above were measured with a minimum of 3 items and a maximum of 10 items. Studies utilising constructs in statistical tests must ensure the construct validity. Construct validity is viewed as the extent to which an operational measure truly reflects the concept being investigated, or the extent to which operational variables used to observe covariation in and between constructs can be interpreted in terms of theoretical constructs (Calder, Philips and Tybout, 1982; Netemeyer, Bearden and Sharma, 2003). The measures in the questionnaire ensured construct validity by using operationalisations of the constructs from previous empirical, theoretical and conceptual literature. Conceptual work by Huse (2007) and empirical evaluation of these concepts in Minichilli et al. (2009) particularly inspired the top management monitoring, financial monitoring, strategic evaluation and participation, external legitimacy, networking and advice and counsel constructs. Conceptual work of Hillman and Dalziel (2003) and Forbes and Milliken (1999) was used in creating the human and external social capital constructs, as well as monitoring and resource provision tasks. Ashforth (1990) and Mael and Ashforth (1992) provided the operationalisations of all social identity constructs used in this thesis.

3.3. Data analysis

The questionnaire data was analyzed with the help of multiple regression analysis in the statistical program SPSS (ver 16.0). In addition to this, exploratory factor analysis (with Varimax rotation) was conducted to test for discriminant validity. For a factor to be included in the analysis, it had to satisfy the three conditions often used in statistical tests: the factor had to have an Eigenvalue over 1.0, the factor loadings had to be greater or equal to 0.50 and there had to be no significant cross-loadings. All factors chosen for the study satisfied the three conditions above.
4 SUMMARIES OF THE PAPERS

4.1. Paper 1: Institutional background as a determinant of boards of directors’ internal and external roles: The case of Russia


Data: Conceptual paper

The goal of this manuscript was to shed light on how and to what extent the institutional setting of a country influences the board roles. As organisational and social structures are embedded into the institutional context in which they exist, boards of directors are likely to be influenced by the organisation’s external institutional framework. This paper focuses on Russia as a transitional economy. The large scale of institutional changes occurring in Russia offer a more vivid picture of the impact of the institutional context on organisational structures. The paper focuses on the contextual variables of the time of founding, ownership type and governmental dependency, which are used to help explain the varying weight given to internal and external board roles. Depending on when the company was founded, which ownership structure it has and how dependent it is on the omnipresent Russian government, the board may stress different roles in order to cope with the environmental demands on the company.

Previous research has focused on the so-called “usual suspects” in Russian corporate governance, such as the size of the board, the insider–to–outsider ratio, CEO duality and directors’ share ownership (see e.g. Dolgopyatova, 2004). Important studies were also conducted on the Russian institutional context and the performance of Russian companies (Dolgopyatova, 2004; Judge, Naoumova and Koutzevol, 2003; Puffer and McCarthy, 2007). However, less attention has been paid to the question of why companies differ in terms of the roles played by their boards of directors. Researching board roles may offer important insights into Russian corporate governance and its development over-time. Russian companies exhibit different levels of environmental dependency. Compared to more recently founded companies, an older enterprise with strong roots in the planned economy is still likely to favour a reliance on well-established networks within the external environment due to a certain amount of organisational inertia (Stinchcombe, 1965; Scott, 1995). Networks have been historically important in Russia, creating a pervasive network economy in the Soviet era that is still an important part of society today (Puffer and McCarthy, 2007; McCarthy and Puffer, 2008).

The paper makes several propositions. First, the paper proposes that, compared to more recently founded companies, companies founded during the planned economy era are likely to give stronger weight to external board roles. The paper builds on the framework of institutional theory and specifically touches upon concepts of organisational inertia and path dependency (Bebchuk and Roe, 1999; Stinchcombe, 1965) as well as the pervasiveness of the informal rules of the game despite changes in the formal rules of the game (North, 1991). The paper argues that older organisations, or the ones founded during the Soviet era are likely to concentrate on the external board roles. Owing to a history of omnipresent personal networks and ‘blat’ during the Soviet era, those companies are likely to keep to their familiar path. This consequently leaves less space for embracing the transitional context and market–based transactions
among actors. More recently founded companies are less likely to be subjects to Soviet–inspired organisational inertia and path dependency.

Furthermore, due to poorly functioning regulatory and enforcement systems, ownership is inclined to become concentrated in order for the owners to affect control over their investments. Control of the company through the board, or the board's internal roles, may be more salient for companies with external ownership. In this case however the ownership may have to be concentrated as it gives the owner(s) enough power to affect internal control through the board. In the event of managerial ownership the internal roles of the boards may be less relevant, as the owners participate in the day–to–day business of the company. To further illustrate the influence of institutional context on organisational structures, the paper proposes that governmental ownership of a firm or a firm's dependence on the government for other reasons may stress the board's external roles. This may be because the government has a particularly strong and pervasive system of control through its 'siloviki'–a large and dense network of around 6000 people with direct connections to the highest government officials (Puffer and McCarthy, 2007).

Finally, the paper proposes that companies with foreign ownership are likely to put strong weight on both the internal and external roles of the board. Relative to their Russian counterparts, foreign owners need to put more effort in controlling their investments due to a potentially unfriendly and closed institutional setting. Moreover, due to the importance of personal networks in Russia, foreign owners are likely to seek to build a necessary network base for themselves. Hence, the boards of such companies may actively pursue external roles. This is similar to research on MNCs, where the external role is used to provide the needed link between the subsidiary and the turbulent host country environments (Kriger, 1988; Björkman, 1994).

4.2. Paper 2: Board of directors’ tasks: the effect of board capital and conflict among the board members

Data: Quantitative questionnaire, sample of 92 Finnish firms collected in 2009

Researchers are increasingly suggesting that the interaction inside and outside the boardroom is what matters for explaining board tasks and outcomes (Roberts et al., 2005; Huse, 2007). Although many conceptual models have been suggested, empirical evidence of board behaviour and its impact on board tasks is still limited (e.g. Minichilli et al., 2009). Recently, there have been calls for studies that emphasizes the importance of behavioural research on the board of directors as a fruitful approach to explaining the board tasks and ultimately firm performance (Hambrick et al., 2008). Answering this call for “opening the black box” of board behaviour and board capital, in my second article I analyse the effect of board human and external social capital on board monitoring and resource tasks. Additionally, I test the moderating impact of affective and cognitive conflicts among the board members on the relationship between board human and external social capital on the monitoring and resource provision tasks.

I developed and tested three sets of hypotheses. Hypothesis 1a claims that the human capital, or the directors’ skills, knowledge and expertise are positively related to the monitoring tasks. Hypothesis 1b claims that the directors’ human capital is likewise positively associated with the resource provisions tasks of the board. The variable of human capital was chosen because, unlike the usual demographic characteristics studied, such as outsider percentage, the board’s human capital is more indicative of
board’s ability to perform its tasks (Hillman and Dalziel, 2003). Hypothesis 1c holds that the external social capital of the board, i.e. directors’ networks is positively associated with the monitoring tasks of the board. Hypothesis 1d claims that the external social capital is positively associated with the resource provision tasks of the board. External social capital includes the directors’ actual or potential ties to external organizations and their general embeddedness in social networks (Hillman and Dalziel, 2003). External social capital of the board contributes positively to resource provision, as the board members have more external experience and sources of information to draw upon when advising the focal firm’s management on a course of action. Moreover, a positive association between the board’s external social capital and monitoring tasks may be indicative of the so–called reverse co–optation phenomenon. Initially, the board members are seen as vehicles to co–opt the firm’s external stakeholders. But as that relationship evolves, the firm’s stakeholders may use the board as a mechanism to drive their interests through in the focal firm. This way the external environment may also co–opt the firm through the board. The results of my study indicated full support for hypotheses 1a, 1b, 1c and 1d.

The second set of hypotheses deals with cognitive and affective conflicts among the board members. It is hypothesized that the cognitive conflict (Hypothesis 2a) and the affective conflict (Hypothesis 2b) negatively moderate the relationship between board’s human capital and its monitoring tasks. Further, it is claimed that the same negative moderating effect of cognitive (Hypothesis 2c) and affective (Hypothesis 2d) conflicts persists for the association between board human capital and the resource provision tasks. These hypotheses are based on two earlier lines of research. Firstly, according to the information–processing perspective (Galbraith, 1974), any further complexity added to already complex tasks will be detrimental for the group. As cognitive conflict increases cognitive load and therefore the volume of information and alternatives to be processed, cognitive conflict is thought to decrease group functionality as well. As groups, boards are thought to be subjected to these negative information–overload consequences as well. Secondly, cognitive conflict is seen to be detrimental. Although some researchers have identified cognitive conflict as potentially improving group functioning within boards (Jehn, 1995), it has been more recently shown that both cognitive and affective conflicts render the group dysfunctional. Additionally, cognitive conflict may promote feelings of dissatisfaction, resentment and withdrawal (De Dreu and Weingart, 2003; Grissom, 2010; Hamm–Kerwin and Doherty, 2010). Recent investigations have found affective conflict to be especially detrimental to board tasks. Emotionally based affective conflict can provoke cynicism and avoidance, resulting in reduced decision quality and a decreased acceptance of group decisions (Buchholtz, Amason and Rutherford, 2005). Compared to a disharmonious board that can be characterised by interpersonal dislike, disagreements, lack of cooperation, dysfunctional atmosphere, lack of commitment and withdrawal (conflicts), a board which consists of a group of ‘friendss’ who get along well, are likely to agree on issues discussed and who function within an amicable atmosphere can be better suited for the sharing and utilizing of directors’ expertise within the context of the board’s monitoring and resource provision tasks.

In the course of the study, hypotheses 2a, 2b and 2c were rejected. Hypothesis 2d revealed a surprising finding: affective conflict positively moderated the impact of expertise on the resource provision tasks. This leads us to believe that affective conflict increases the impact of board human capital on the resource provision tasks. Perhaps affective conflict can funnel the directors’ activity away from conflict-prone interactions within a dysfunctional group and into some forms of personal contributions to the management outside of the board meetings.
The third set of hypotheses deals with cognitive and affective conflicts’ moderation of the relationship between board’s external social capital and monitoring and resource provision tasks. Like the predictions for board human capital, cognitive (Hypothesis 3a) and affective (Hypothesis 3b) conflicts are expected to negatively moderate the relationship between board external social capital and resource provision tasks. Coleman (1988) considers external social capital to be a particularly intangible and expensive resource. By utilising one’s personal networks, one automatically becomes indebted to those networks by having to ‘return the favour’ (Coleman, 1988). The acquiring, distributing and using of information through one’s external networks is costly, as it also requires an individual’s attention and draws the energy away from other activities. Therefore, within the setting of a dysfunctional group, cognitive and affective conflicts are expected to negatively moderate the relationship between the board’s external social capital and resource provision tasks. Hypotheses 3a and 3b were supported by the data collected.

For the monitoring tasks, however, board’s external social capital may have a different impact. The external social capital, social movement (a form of control exerted by the society), and stakeholder and institutional theories suggest that the board may be an instrument of external actors or stakeholders in ensuring value creation for these external actors. This idea rests on the social sanctioning mechanism proposed by Coleman (1988). A board with conflicts could potentially allow more external stakeholder influences and sanctions. A poorly functioning board may signal to the stakeholders that the company is underperforming and thereby offer more opportunities to be guided and constrained by social rules. Therefore, it is expected that the cognitive (Hypothesis 3c) and affective (Hypothesis 3d) conflicts may positively moderate the impact of board’s external social capital on the monitoring tasks. Hypothesis 3c was supported by the data collected, whereas hypothesis 3d was not. This allows us to conclude that cognitive conflict positively moderated the relationship between the board’s external social capital and the monitoring tasks, whereas affective conflict did not.

4.3. Paper 3: Board members’ social identifications and board tasks

Data: Quantitative questionnaire, sample of 92 Finnish firms collected in 2009

In an attempt to unveil what drives the board members to become engaged in their board work, research has expanded into behavioural theories, concentrating most recently on identity theory (Burke, 1980; Stryker, 1968) and social identity theory (Hogg, 1992, Tajfel, 1974). These views may help us understand what makes the board more effective because it recognizes individuals’ (here: board members) multiple identities and identifications as important predictors of their behaviour (Golden–Biddle and Rao, 1997; Hillman et al., 2008). The concept of salient identity states that depending on the situation at hand, an individual is likely to act based on the identity or identification that is most relevant to that situation. Applying this concept to board research, it is possible to deduce how and to what extent this identification will influence the board members’ behaviour and hence the tasks of the board of directors.

Previous research on identification often dealt with an employee’s identification with the organisation s(he) works for. Organisational identification is believed to directly affect employees’ attributes, behaviours and commitment to that organisation and ultimately create value for that organisation (Ashforth and Mael, 1996). In line with this arguments, I identify two other actor-groups, which are believed to be important
for the company and the board. These groups are: the shareholders and the customers of the focal organisation.

Additionally, this paper adopts a more specific classification of board tasks, suggested by Huse (2007). Within the domain of monitoring tasks, three specific tasks are singled out: top management monitoring, financial performance monitoring, and strategic evaluation. The resource tasks encompass external legitimacy, networking, advice and counsel and strategic participation. This specification allows for a broader definition of board work and addresses the issue of who the board wishes to address with its involvement in a particular task. This question seems to be excluded from the more general didactic classification of board responsibilities into monitoring and resource provision tasks (Huse, 2005).

I develop and test three sets of hypotheses. In hypothesis 1a, I argue that identification with the organisation positively impacts the (i) top management monitoring, (ii) financial monitoring and (iii) strategic evaluation tasks. Likewise, hypothesis 1b suggests that identification with the organisation positively impacts the (i) external legitimacy, (ii) networking, (iii) advice and counsel and (iv) strategic participation tasks. Since a positive organisational identification encourages the board members to hold the same goals as the organisation holds, the board that strongly identifies itself with the organisation is likely to participate more in monitoring the management as well as providing resources to the organisation (Hillman et al., 2008). The results indicated support for hypotheses 1a and 1b with the exception of top management monitoring (Hypothesis 1a (i)). We can conclude that identification with the organization positively impacts the involvement of the board in all studied tasks except for top management monitoring. In the additional analysis conducted, organisational identification was found to be positively associated with top management monitoring tasks initially, but the effect turned negative with further increases in organisational identification (inverted–U relationship). These findings suggest that organisational identification may make the board members less critical towards top management and as a result the monitoring task may suffer.

The second set of hypotheses (Hypotheses 2a) likewise suggests that the shareholder identification causes the board to be more involved in the (i) top management monitoring, (ii) financial monitoring and (iii) strategic evaluation tasks. Hypothesis 2b suggests that identification with the organisation positively impacts the (i) external legitimacy, (ii) networking, (iii) advice and counsel and (iv) strategic participation tasks. As the shareholders are especially interested in strict monitoring of the management, shareholders identification should positively impact the monitoring tasks. Similarly, the resource provision tasks should be positively affected, since the shareholders are the residual claimants of the company, interested in the performance and long–term survival of the enterprise. The results provided limited support for hypothesis 2a, as only the (i) top management monitoring seemed to be influenced by the shareholders identification. In hypothesis 2b, only (iv) strategic participation tasks were impacted by shareholders identification. However, the impact on strategic participation tasks was negative, suggesting that shareholders identification actually decreases the boards’ involvement in strategy. This may be because shareholders may prefer more direct, easily observable and quantifiable indicators of how well the firm is operating. Since strategic participation is a long–term and less quantifiable measure, boards that identify with the shareholders may be discouraged to get involved in this task.
In the third set of hypotheses, I argue that customers identification will positively impact the (i) external legitimacy, (ii) networking, (iii) advice and counsel and (iv) strategic participation tasks (Hypothesis 3a). Hypothesis 3b suggests that the (i) top management monitoring, (ii) financial monitoring and (iii) strategic evaluation tasks will likewise be positively associated with the customers identification. The board that strongly identifies itself with the customers is likely to be a vigilant monitor of the management to ensure that the customers’ interests and demands are being met. Similarly the resource provision tasks would be affected positively, as the board’s identification with customers is likely to encourage the provision of resources to the focal firm due to customers’ interest in the continual survival of the focal firm for the future and present resource exchange (Hillman et al., 2008). The results only showed support for the networking and strategic participation tasks (Hypothesis 3a (ii), (iv)). Based on our data, the board with stronger customer identification may promote resource exchange with the firm’s customers and try to make sure that the firm’s strategic decision making reflects the customers’ interests at all stages, including making sure the customers are retained.
5 DISCUSSION

5.1 Main findings and contributions

This thesis deals with the tasks carried out by boards of directors. The general aim of the thesis was to analyse what kinds of tasks the boards of directors perform in middle-size and large corporations and examine how contextual, group and individual level factors influence the involvement of the board in these tasks from three distinct, but interrelated perspectives: institutional, behavioural and social identification. Enactment of board tasks is connected to challenges and tensions in directors’ daily board work and these challenges may manifest themselves on several levels. Consequently, this thesis specifically addresses how the institutional background of a country, board behaviour and directors’ social identification impact board task involvement. This thesis answers the call for more studies explaining what drives the directors to be engaged in board tasks (see e.g. Hillman et al., 2008; McNulty et al., 2005). It has been argued in the literature that increased involvement in board tasks may influence firm performance (Hillman and Dalziel, 2003; Forbes and Milliken, 1999). Analysing this influence was not within the scope of this thesis and is left to the discretion of future research. This thesis addressed research calls for studies examining the phenomena that lie within the board and beyond the more crude input-output studies (Minichilli et al., 2009; Huse, 2005; Zahra and Pearce, 1989).

Recent literature has started to question some of the basic assumptions about corporate governance and the board of directors. This has occurred following recent waves of shareholder and stakeholder activism and the changing nature of the economy to being more knowledge-based (Huse, 2007). Building on the institutional, behavioural and the social identification perspectives, this thesis provides a framework for analysing board tasks that complements the classical agency perspective in the following ways: firstly, the framework complements the shareholder supremacy view as the only reason for the board’s involvement with specific tasks; secondly, the existence of the board and the firm in relative detachment from the national and institutional contexts within which they operate, and thirdly, the view that a board is a ‘black box’, subject to a selection of input demographic variables and producing quantifiable results, without addressing the socio-psychological and behavioural phenomena existing within the board and among its members. In order to understand corporate governance in a specific firm, it is necessary to identify and understand the primary factors that affect a firm. These include the board members, external and internal actors, processes, time and the context in which governance takes place (Huse, 2007:51; Pye and Pettigrew, 2005; Pye, 2005).

Corporate governance is about who and what really counts. It involves a deep understanding of interactions between coalitions of actors inside and outside the firm as well as inside and outside the board room (Huse, 2007:52). If one of the primary goals of the board of directors is value creation, we must inevitably ask ourselves the question: ‘for whom is the value being created?’ Is the firm meant to create value for the shareholders, the stakeholders or the firm itself, or perhaps a combination of all three? Within the context of the principle-agent relationship, the board’s calling is to mitigate value destruction by aligning the interests between principle(s), or shareholders, and agents, or management. Tending mostly to the shareholders’ interests may lead to short–termism (Ghoshal, 2005), where managers get more involved in managing the share price than the long-term viability of the company. Similarly, because of limited time and resources, excessive shareholder identification may have unexpected effects
on the board’s involvement in other tasks, such as those dealing with the company’s strategy. These tasks may therefore receive less attention from the directors and distract the board from concentrating on long-term value creation for the firm.

Additionally, the view that the primary task of boards is the protection of shareholder rights does not capture the complexity of the firm’s institutional context (Huse, 2007). As firms exist within their given contexts, understanding these frameworks and prevailing institutional norms may provide us with a more valid picture of board practises and structures. Firms are embedded in a larger social system and their existence needs to be legitimised by conforming to social rules, whereby organisations will, over time, tend to reflect norms and rules in their social environment (Huse, 2007:78; Scott, 1995; Meyer and Rowan, 1977). Since societal institutions have an impact on board structures and behaviour, ignoring this aspect may yield a one-sided view of board work.

This thesis questions the validity of treating the board as a ‘black box’ with quantifiable inputs and outputs. Boards are complex organisational bodies, which involve a lot of interaction among board members. Director behaviour and its influence on board decision making has been identified as an important predictor of board tasks (Huse 2007; Minichilli et al., 2009). Boards are prone to process losses and gains and are likely subject to inter-group tensions and are susceptible to the influence of internal and external social forces. Demographic research does not capture the complex interaction taking place within and without the board room between the board and the management, the board and the external environment nor among the members of the board. The thesis included three research questions presented in chapter 1.2. The findings and contributions of the thesis related to these research questions are discussed in section 5.1.1 below.

5.1.1. Re–visiting the research questions

In my first paper entitled “Institutional background as a determinant of boards of directors’ internal and external roles: The case of Russia” I addressed the issue of how the institutional context of the country impacts the board of directors in terms of the roles that it serves. This paper suggests that the board roles are often defined in accordance with the demands or the peculiarities of the institutional context of the country. Based on my findings, it can be concluded that both internal and external roles are likely to be important for the company within the Russian context. Given the Russian legacy and pervasiveness of social networks, along with the inevitable need for managers and companies to participate in them, it is to be expected that organisational structures will comply with such institutional pressures by orientating their boards of directors towards the external roles of the board. Likewise, due to the lack of sufficient regulations and enforcement, stakeholders of companies within such unstable transitioning settings favour more concentrated ownership in order to increase the degree of their direct control and their influence on the board. They therefore orient their boards more towards internal roles. Another important institutional peculiarity of the transitioning economies is the prolonged influence of the Russian government.

Due to a certain degree of institutional inertia and path dependency the government’s influence remains strong (McCarthy and Puffer, 2003; Peng, 2003). As this provides both a threat for businesses (expropriation, re-nationalisation) and an opportunity (via gaining preferential access to government officials), organisations are likely to orientate their boards more towards external roles, in order to attain the needed external and governmental contacts.
The contributions of this thesis by means of the first paper are threefold. Firstly, the thesis examines the question of how institutional context may influence the board roles. It specifically addresses the question of how the co-existent institutions of the former planned and the newly introduced market economy, within the context of Russia, affect board roles. It also addresses the mechanisms by which these external pressures are strengthened or weakened. The paper shows how both the formal and informal rules of society are imposed on the board of directors and what effect this has on the roles of the board. Secondly, the paper discusses how the often-held constant institutional framework may dictate the classification of and the reason for fulfilling the internal and external board roles. The institutional setting of a transitional economy is different and is subject to large-scale institutional changes. The transitioning environment then explains the variations in board roles with both domestic firms as well as foreign firms operating within the transitioning context. Splitting the conventional board role into three categories (strategy, control, and service, see e.g. Zahra and Pearce, 1989) may not be enough to capture the companies’ strategic responses and adaptations to institutional changes. Thirdly, the paper contributes to our knowledge of the board of directors in the setting of a transitioning economy.

The second research question in this thesis deals with how the board capital and conflicts impact the board’s monitoring and resource provision tasks. The second paper titled “Board of directors’ tasks: the effect of board capital and conflict among the board members” showed that the board’s human capital (the directors’ knowledge and skills) along with the board’s external social capital (networks) are two essential determinants of both the monitoring and resource provision tasks. As the board faces complex tasks for which it is also held accountable, the amount of information to be processed by the directors is often daunting. The paper proposed that both cognitive and affective conflicts may be detrimental to director’s involvement in nearly all board tasks. Conflicts were actually seen to be conducive to external stakeholder pressure, as reflected in the reported increased participation in the monitoring tasks. Conflicts seemed to lessen the effect of board capital for all other tasks. This was particularly true of the resource provision task.

The contributions of the thesis through the second paper are fourfold. Firstly, using the behavioural perspective, the paper builds on existing literature by empirically analysing the cognitive and affective conflict variables and their effects on board tasks. The behavioural perspective is one of the more prominent approaches to apply in research into boards of directors; however, empirical evaluations of conflicts within the boards are still scarce. Secondly, the paper considers conflicts as intervening, or moderating phenomena and shows that conflicts affect the impact of board human and external social capital on relevant board tasks. Thirdly, the study employs indicators of board human and external social capital, which are more adequately suited for portrayal of the board as a complex decision-making group than the often used demographic characteristics (Forbes and Milliken, 1999; Hillman and Dalziel, 2003). Fourthly, the paper utilizes multiple theoretical lenses to explain the board tasks and their determinants, recognising the impacts of both agency and resource dependence theories whilst not drawing exclusively on them for the analysis of the board tasks.

The third research question of the thesis is concerned with the impact of directors’ social identifications on the management monitoring, financial monitoring, external legitimacy, networking, advice and counsel, strategic participation and evaluation board tasks. These issues are addressed in the paper titled “Board members’ social identifications and board tasks”. The paper concludes that directors’ social identification has invariable impacts on board tasks. If social identification precedes
human action, it is also likely to precede board members’ behaviour, and consequently their involvement in board tasks. The paper found that organisational identification is the most important social identification for the board in terms of increased board task involvement. Shareholder and customers identifications did not seem to be associated with increased board task involvement.

The contributions of the thesis through the third paper are threefold. Firstly, it answers the calls for more studies on board tasks and directors’ engagement within and without the boardroom. The study shows that directors’ social identification affects behaviour and thus involvement in board tasks. Specifically, the paper empirically demonstrates that of the social identifications examined, the organisational identification of board members is the most powerful factor explaining the overall engagement of directors in board tasks. Secondly, the study shows that shareholder identification could distract the directors’ attention from long–term strategic involvement by overconcentration on immediate monitoring issues. Thirdly, by illustrating how social identification may affect directors’ involvement in board tasks, this thesis can be used to develop practicable strategies for boosting director involvement in board tasks. If one is able to influence or encourage specific group memberships or social identifications of the board members, by e.g. relevant director training and education, or by encouraging service on various committees, one may be able to able to influence director behaviour and thus their overall involvement in board tasks.

5.2. Limitations and suggestions for further research

This thesis investigates the factors that contribute to director participation in board tasks. It examines factors derived from institutional, behavioural and social identification perspectives and analyses their impact on board tasks. However, there is a myriad of factors that may influence the tasks undertaken by boards and hence this thesis should only be viewed as a step towards more fully explaining the tasks of the board of directors. There is no consensus regarding the design of boards and governance systems, as each system must remain contextually relevant (Huse, 2005). Some national variations have been explored in this thesis but not directly compared, with the inclusion of Russia as the setting for paper 1 and Finland for papers 2 and 3. The geographical differences likely found within the same national context have not been explored. Taking Russia as an example, it is likely that the board tasks will depend on geographical and cultural particularities within the country (see e.g. Aguilera and Jackson, 2003 on national variations). Being a home to a diverse collection of people from Vladivostok to St. Petersburg and Moscow, I have no doubt that Russia has considerable geographic and sub-cultural differences in what the boards are expected to do.

Moreover, the lifecycle of the firm is likely to have an impact on what the board is expected to do and who is elected to the board (Lynall et al., 2003). The lifecycle stages of a firm typically consist of an entrepreneurial stage, a collectivity stage, a formalisation and control stage and an elaboration of structure stage (Huse, 2005). Further, Lynall et al (2003) showed how board role expectations varied in the various stages, and that board composition would reflect the relative power of internal and external stakeholders at the time of board formation.

This thesis has also other important limitations to be corrected in future research, pertaining to the generalisability of findings. The institutional setting of a transitioning economy is fast paced. Due to such a turbulent environment, it is perilous to generalize
the concepts and relationships developed for a transitioning economy and even more so to try to apply them to a future manifestation of the same economy. Significant informal structures have the tendency to survive in spite of large-scale formal changes (North, 1991), and this view has dominated paper 1 of this thesis. However, it must be remembered that changes do occur due to the magnitude of the national institutional transformations. This criticism is applicable to the rest of the thesis, as it relies on cross-sectional data, which captures the situation at a given moment in time but does not capture the dynamism of social interactions and transformations. Additionally, paper 1 is conceptual and must be empirically tested to verify the propositions that are presented therein.

The second and third papers may contain common method bias, as the data collected was based on the perceptions of one respondent per firm. Although the wording of the questions was chosen so that the respondents would not feel any pressure to provide socially desirable answers, it is still possible that the responses were biased. In light of the recent waves of shareholder activism and the heightened attention on the boards of directors, it is conceivable that the respondents would rate the degree of the board's involvement in a given task higher than it actually is. One of the ways to control for method bias is to collect double respondents. Unfortunately, we were unable to collect a sufficient number of double respondents during the course of this study. It was therefore decided to focus on responses from the CEO or the board Chairperson as they are the persons who should be the most knowledgeable regarding the issues covered in this study.

Some operationalisations of the constructs might be further improved. For example, external social capital construct used in paper two is a relatively crude proxy for the actual external connections of the board members. Using their actual external connections may have yielded more reliable data. However, such an analysis may require a more in-depth examination of each observation, possibly even including personal interviews. In future research, the human capital dimension might also include the board members' reputation.

Social identification was measured as the average level of directors' identification with a particular social group. However, social identification is essentially an individual feature, unique to a particular individual. Some academics have suggested measuring social identification at an individual level (e.g. Hillman et al., 2008). We chose to measure the social identification of directors on an average level both due to time constraints and to the fact that individual behaviour might not be representative of the entire board and therefore may not be correlated to the board tasks or board outcomes. Unfortunately, this averaging technique may dilute the identification level and contributions of any individual director. Obtaining data on every director's identification level would have required investments that go beyond the scope and resources of this project.

This thesis identified a number of factors affecting director enactment of board tasks and raises a number of questions that would benefit from empirical research and replication. Firstly, the propositions in paper 1 should be developed and empirically tested. One issue that most certainly deserves more attention is the use of networks as a coping mechanism for the absence of sufficiently developed rules and regulations, as well as their usage for the company's personal and societal gain. Particular attention should be paid to how personal networks are used to avoid possible sanctions from the government, or to receive favourable treatment in business relations with the government. Whereas in Russia the unofficial contacts and friendships of influential
businessmen and government-affiliated actors is normal, it is likely that other countries are also subjects to such informal systems. In addressing these networks in other countries, the following questions should be raised: what kinds of networks are these; how are they formed and maintained; is there a political or business elite in which the board members circulate; how useful or harmful are these networks to the firm and society; if the actor becomes too embedded in a given network, does s/he also become limited and restricted to this particular network, thus missing out on possible benefits outside of it. Future research could also longitudinally track the dynamics of personal networks in the context of transitioning economies over time. As the regulatory base develops further and as the economy opens up, it is likely that the role of informal contacts diminishes and actors may resort to more formal resource exchanges and contracts.

Secondly, future research may find it fruitful to focus on board behaviour. Although some empirical studies are currently conducted on board behaviour more studies are certainly needed. Secondary data fails to detail director behavioural parameters and hence more studies should aim to document the actual behaviour of board members in meetings and during decision-making processes to more fully understand the inner workings of the board. Future studies should consider the interaction effect of board behaviour. Oftentimes, board behaviour and other board characteristics, such as demographics or knowledge and skills, are considered to have equally strong effects on board outcomes. However, it is likely that board behaviour moderates the effect of board characteristics on board tasks, as opposed to directly influencing the tasks. Another issue warranting deeper attention is conflict among board members. Researchers often analyse ‘positive’ determinants of board tasks, such as positive atmosphere, supporting colleagues, commitment and involvement (see e.g. Minichilli et al., 2009; Gabriëlsson and Winlund, 2000; Gabriëlsson, 2007). Interestingly, the negative effects of conflicts receive less attention within board research. This has led to a dearth of convincing empirical evidence regarding the impact of conflicts on board tasks. Currently, there are conflicting results regarding the impact of conflicts. More research is needed to determine the impact of conflicts within the context of boards of directors.

Thirdly, future research may benefit from a more in–depth analysis of the role and social identities of the board members. This direction is perhaps the newest within the field of board studies and it has the potential to answer many questions regarding directors’ motivation and their engagement in tasks that previous research has thus far been unable to answer. This thesis considered social identifications of the board members on an average level, but research is needed on the role identities and social identifications of directors on an individual level. This would entail gathering data from each board member individually and hence poses obvious difficulties for data collection. A logical way forward would be to conduct a qualitative exploratory study of the role and social identities and their interplay and impact on board tasks within the context of a limited number of boards.

Fourthly, future research must focus on developing new methods for measuring performance. As board composition and behaviour may not explain corporate financial performance, future studies should respond to the suggestions of Zahra and Pearce (1989) and apply midrange theories. In practice, this would involve relating board composition, structural and behavioural features to board level outcomes rather than firm level outcomes such as corporate financial performance. A further challenge is how to measure board task performance. Currently, board task performance is often measured by a proxy of board task involvement, investigating the extent to which a
given task is carried out by the board members. The logical argument is that, the more
a collection of highly experienced individuals are involved in a particular task, the
better this task is performed. This may be an incomplete proxy given that involvement
and performance are not perfectly correlated. Therefore using the involvement proxy
may bias the results. Hence, the next major challenge in board research is to develop
reliable measures for board task performance that could be collected from primary
sources.

5.3. Managerial implications

Practitioners are primarily interested in answering the questions of how to design an
effective board for a company, who to include, who not to include, how to deal with
boards, how to steer boards and how to make the most out of boards. Whilst a
contingency perspective will undoubtedly suggest that there is no single best way to
design a board of directors, this thesis has may offer some general managerial
recommendations.

My findings suggest that human and external social capital of the board members are
important determinants of board task involvement. Although dependence on the CEO
in the case of an insider-dominated board may potentially decrease the board’s
incentives to monitor, it may also result in more director involvement in the resource
provision task, owing to the insiders’ knowledge of the company and the field of
business. An important conclusion to be made for both practitioners and policy makers
is that one should go beyond the insider to outsider ratio when designing a corporate
board.

If organisational identification is a strong driver of board members to become engaged
in their work, practitioners should support this identification and promote it further.
Director training and education, service on a committee or being assigned a specific
task may increase a director’s identification with the organisation and help overcome
negative effects such as social loafing (Hillman et. al, 2008).

Another important issue to consider is that the board composition and task allocation
must be contextually appropriate. This may be especially salient when a company
expands to countries with different institutional settings. How the board works, what is
the ‘optimal mix’ of the board members, as well as what tasks the board performs is
dependent on the institutional context. For example, in turbulent environments
practitioners are not to underestimate the power of social relations. One may even
imagine a situation where the director’s actual functional knowledge is secondary to his
or her external networks. This knowledge will affect director appointments. Having
resourceful members on the board may help the company achieve a better fit within the
institutional environment and capitalize on possible benefits from the directors’
networks of economic and political actors.

The board of directors, their tasks, roles and behaviour is likely to remain high on the
research agenda for both academic and practitioner communities in the future, due to
their direct relevance for corporate practise and performance.
6 REFERENCES


THE VALUE-CREATING BOARD

Questionnaire for CEOs/Managing Directors and Chairmen of the Board, 15.1.2009

This questionnaire is part of a TEKES-funded project that examines the role of company boards in value creation and innovation. The research is part of an international project, co-ordinated in Finland by Hanken (the Swedish School of Economics and Business Administration) (see http://www.hanken.fi/public/en/valuecreatingboard).

The questionnaire consists of four main sections: A) Background information, B) Tasks of the Board of Directors, C) Functioning and composition of the Board of Directors, and D) Company strategy and renewal. Most of the questions are presented as statements, to which we ask you to express an opinion on the scale 1 – 7. Circle the number that corresponds to your opinion. Some of the statements are selected academic measures and some have been chosen to give a more practical view of the work of the Board of Directors. The questionnaire has been sent out to large number of companies. As a result, some of the questions may seem less relevant for your company and board. However, try to answer all the questions and provide any possible comments in the space provided in the end of the questionnaire. We hope that the statements will also stimulate ideas as far as the work of your own Board of Directors is concerned.

Please answer all of the questions – every answer is important to us to ensure the success of the research. All of your answers will be processed in complete confidence. We are using company codes to facilitate the internal processing of the questionnaires. If you are downloading this questionnaire through the internet, please write down your company name or the code number written on the original Finnish questionnaire under the logo in the upper right hand corner of this questionnaire. Please send your answers at the latest by the 31st March 2009, using the prepaid envelope or by sending them to Katja Peltola, Hanken, PO Box 479, 00101 Helsinki. You can also fax the completed questionnaire to the following number: +358 09 431 33275.

If you have any questions or comments relating to the questionnaire, please contact Dr. Annika Vatanen (annika.vatanen@hanken.fi), +358 40 3521 517. We are happy to answer your questions and receive your feedback.

A Background information

Please tick the box that best describes your position in this company, and then proceed to answering the other questions.

A1 Your role in this Board of Directors is:
   1) □ Chairman of the Board
   2) □ Member of the Board
   3) □ CEO/Managing Director

A2 Your gender................................................................................................................. □ Man □ Woman

A3 Your year of birth.......................................................................................................... _____________

A4 Your nationality............................................................................................................ _____________

A5 Your highest educational level is:
   1) □ doctoral degree
   2) □ licentiate degree
   3) □ master’s degree or MBA
   4) □ bachelor’s degree
   5) □ senior secondary school
   6) □ vocational degree or similar
   7) □ comprehensive school
A6 Of which industries do you have most experience?
1) ☐ industry and production
2) ☐ high technology industry
3) ☐ services
4) ☐ public administration
5) ☐ finance and asset management
6) ☐ training (e.g. universities)

A7 Your occupational background is:
1) ☐ senior management representative from this company
2) ☐ senior management representative from another company
3) ☐ politician
4) ☐ lawyer
5) ☐ banker
6) ☐ insurance sector representative
7) ☐ public corporation representative
8) ☐ academic (professor, researcher, teacher)
9) ☐ professional board member

A8 How long have you been a member of this Board of Directors ................................................................. ____ year(s)

A9 How many hours per month do you spend on the tasks of this Board of Directors? ......................................... c. ____ hours

A10 If you are/have been working in this company, for how long have you been working in this company? .. ____ year(s)

A11 How long experience have you had of Board of Directors work? ............................................................... ____ year(s)

A12 How many Board of Directors positions have you had in other companies to date? ...................... ____ board position(s)

A13 In how many companies are you serving at present
1) as Chairman of the Board? ................................................................. in ___ company(ies)
2) as Member of the Board? ................................................................. in ___ company(ies)
3) as CEO/Managing Director? .............................................................. in ___ company(ies)
4) as Management team member? ........................................................ in ___ company(ies)

A14 If you are the Chairman of the Board of this company, how long have you served in this position? .............. ____ year(s)

A15 In how many Boards of Directors in total have you worked in the capacity of Chairman of the Board? .. ____ board(s)

A16 Are you the founder of the company? ........................................................................................................... ☐ Yes ☐ No

A17 How large a share of the company’s share capital do you own? ................................................................. ____ per cent

A18 To what extent do you agree or disagree with the following statements (circle the number corresponding to your opinion):

<table>
<thead>
<tr>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) sharing the experience and expertise that I have accumulated throughout my career</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) interest towards the industry</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) ownership</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>4) personal growth &amp; development</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

B Tasks of the Board of Directors

To what extent do you agree or disagree with the following statements about the tasks of the Board of Directors in this particular company?

<table>
<thead>
<tr>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1 The tasks of the Board of Directors are clearly specified and stated</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>B2 The Board of Directors and its members have actively assisted the company’s management:</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>1) by acting as mentors to the CEO/Managing Director and the company’s senior management</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) in issues relating to strategy</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) in forming and utilising networks</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>
**B3** Which of the above-mentioned (B2) are, in your opinion, the three most important tasks? (List the task numbers below)

**B4** How has the Board of Directors, in your opinion, performed its most important tasks you listed above? Poorly Well

Task nr: 1 2 3 4 5 6 7

<table>
<thead>
<tr>
<th>Poorly</th>
<th>Well</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

**B5** In which of the in question B2 listed tasks should, in your opinion, the Board of Directors invest more? (List the task numbers below)

**B6** The Board of Directors has, to a significant extent, supervised/controlled the following factors:

<table>
<thead>
<tr>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

1. the Managing Director's work
2. the Managing Director's remuneration
3. the selection of the Managing Director's successor
4. the management team's work
5. the management team's remuneration scheme
6. the company's personnel and recruitment policy
7. the company's organisation and human resources
8. the company's operations
9. the company's budget
10. the company's liquidity
11. the company's investments
12. health & safety-related factors that are significant for the company
13. the ethics of the company's operations
14. social responsibility issues
15. environmental protection issues
16. well-being at work

**B7** The Board of Directors has clear criteria for controlling the following factors (choose and list task numbers from list B6 above):

**B8** Which of the tasks listed in B6 are, in your opinion, the Board's three most important control tasks? (List the task numbers)

**B9** How has the Board of Directors, in your opinion, performed its most important control tasks you listed above? Poorly Well

Task nr: 1 2 3 4 5 6 7

<table>
<thead>
<tr>
<th>Poorly</th>
<th>Well</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

**B10** In which of the in question B6 listed control tasks should, in your opinion, the Board of Directors invest more time? (List the task numbers below)
B11 The Board of Directors has to a significant extent participated in the following strategic tasks: Disagree Agree

1) made proposals on the company’s long-term strategies and main goals ........................................ 1 2 3 4 5 6 7
2) made decisions on the company’s long-term strategies and main goals ........................................ 1 2 3 4 5 6 7
3) implemented decisions on the company’s long-term strategies and main goals ............................... 1 2 3 4 5 6 7
4) supervised the follow-up of decisions relating to long-term strategies and main goals ........................ 1 2 3 4 5 6 7
5) evaluated company acquisitions .......................................................................................................... 1 2 3 4 5 6 7
6) evaluated restructurings and operational rationalisation efforts ......................................................... 1 2 3 4 5 6 7
7) evaluated new technological solutions ................................................................................................. 1 2 3 4 5 6 7

B12 In 2007 the Board of Directors focused on: Disagree Agree

1) strategic planning related to the immediate future ............................................................................... 1 2 3 4 5 6 7
2) 2-3 year strategic planning .................................................................................................................. 1 2 3 4 5 6 7
3) 3-5 year strategic planning .................................................................................................................. 1 2 3 4 5 6 7
4) preparing future visions and scenarios (over 5 years) ......................................................................... 1 2 3 4 5 6 7

B13 Our company’s Board of Directors has significant contacts with the following interest groups: Disagree Agree

1) shareholders ............................................................................................................................................. 1 2 3 4 5 6 7
2) public administration .............................................................................................................................. 1 2 3 4 5 6 7
3) political decision-makers ...................................................................................................................... 1 2 3 4 5 6 7
4) trade unions ............................................................................................................................................ 1 2 3 4 5 6 7
5) business partners ................................................................................................................................. 1 2 3 4 5 6 7

C Functioning and composition of the Board of Directors

C1 Is the CEO/Managing Director a Member of the Board of Directors? ........................................... □ Yes □ No

To what extent do you agree or disagree with the following statements about the CEO/Managing Director’s role?

(Please answer the questions also in the event that you yourself are the CEO/Managing Director) Disagree Agree

C2 In my opinion, the CEO/Managing Director’s role in the Board of Directors is significant/strong.......... 1 2 3 4 5 6 7

C3 In the work of the Board of Directors the division of roles is very clear:

1) between the Chairman of the Board and the CEO/Managing Director ............................................. 1 2 3 4 5 6 7
2) between the Chairman of the Board and the Board’s other members .............................................. 1 2 3 4 5 6 7
3) between the Board’s individual members (e.g. each has an own area of responsibility) .................... 1 2 3 4 5 6 7

To what extent do you agree or disagree with the following statements about the work of the Board of Directors?

C4 The content and agenda of the meetings of the Board of Directors are based mainly on: Disagree Agree

1) issues specified by law ............................................................................................................................. 1 2 3 4 5 6 7
2) routines and regular reports .................................................................................................................. 1 2 3 4 5 6 7
3) strategic analyses .................................................................................................................................... 1 2 3 4 5 6 7
4) temporary issues of a project nature .................................................................................................. 1 2 3 4 5 6 7

C5

1) Meetings of the Board of Directors follow the set agenda precisely ................................................. 1 2 3 4 5 6 7
2) The Board of Directors spends time on issues essential for the company’s success ....................... 1 2 3 4 5 6 7
3) The Board of Directors works using diverse operating practices (i.e. not only in the form of meetings) ......................................................................................................................... 1 2 3 4 5 6 7
4) Creative and innovative solutions are characteristic of the Board of Directors .............................. 1 2 3 4 5 6 7
5) The Board of Directors looks systematically into the future ............................................................... 1 2 3 4 5 6 7
6) The strengths of the members of the Board of Directors are well utilised in the board’s work .......... 1 2 3 4 5 6 7
7) The Board of Directors respects diversity and different styles of interaction .................................... 1 2 3 4 5 6 7
8) Differences in opinions on the Board of Directors focus on issues rather than on individuals........ 1 2 3 4 5 6 7
9) Board members who disagree respect each other’s viewpoints ...................................................... 1 2 3 4 5 6 7
10) Board decisions are settled amicably ................................................................................................. 1 2 3 4 5 6 7
11) There is constructive challenge of ideas, beliefs and assumptions on the Board of Directors .......... 1 2 3 4 5 6 7
12) In the Board of Directors there are many disputes between members .......................................... 1 2 3 4 5 6 7
13) In the Board of Directors there is a lot of tension between members when decisions are made ...... 1 2 3 4 5 6 7
14) Board members are not ready to co-operate among themselves ............................................... 1 2 3 4 5 6 7
To what extent do you agree or disagree with the following statements about the Members of the Board of Directors?

### C6 The Members of the Board of Directors:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) consider their board tasks to be important and allocate sufficient time for them</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) are always available when board work so demands</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) are always well prepared for meetings</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) actively seek information on the company’s operations in addition to information received from the company’s management</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) question and strive to improve the proposals made by management</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) present creative and innovative proposals in meetings</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>7) bring mutually complementary perspectives to meeting discussions</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>8) actively participate in discussions in board meetings</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>9) identify and utilise company-external interest groups</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>10) manage to create a good atmosphere in meetings</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>11) discuss issues openly in board meetings</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>12) are able to discuss issues constructively even when they represent different views</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>13) admit their mistakes</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>14) agree about the company’s future goals</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>15) complement each other well</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>16) get along well with each other</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>17) help each other with work</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

### C7 The Members of the Board of Directors:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) have good knowledge/expertise of the company’s main forms of activity/and the company’s products/services</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) have a high level of knowledge of the company’s internal development needs</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) have a high level of knowledge of the threats and opportunities relating to the company’s field of business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) have a high level of knowledge of good governance and working practices</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) have a high level of knowledge of international business and multicultural challenges</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) have extensive networks with strategically important actors/organizations</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>7) often have very different views on important issues discussed by the Board of Directors</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>8) often have very different views on what is best for the company</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>9) often have very different ways of thinking about and justifying issues</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

### C8 The Members of the Board of Directors:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) always speak of “us” rather than “them” when referring to the company</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) consider the company’s success to be their own success</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) support the company’s goals even if they conflict with the goals of other stakeholders</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) consider feedback directed at the company to be feedback directed at themselves</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) always speak of “us” rather than “them” when referring to shareholders</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) consider the shareholders’ success to be their own success</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>7) support the shareholders’ goals even if they conflict with the goals of other stakeholders</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>8) consider feedback directed at shareholders to be feedback directed at themselves</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>9) always speak of “us” rather than “them” when referring to strategic customers</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>10) consider the success of strategic customers as their own success</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>11) support strategic customers’ goals even if they conflict with the goals of other stakeholders</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>12) consider feedback directed at strategic customers to be feedback directed at themselves</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

### C9 There are significant differences among board members in terms of

<table>
<thead>
<tr>
<th>Difference</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) work experience and work background</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) educational background</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) international experience</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) personality</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) ways of thinking and operating</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) age</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>7) nationality</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>
C10 To what extent do you agree or disagree with the following statements about the Chairman of this Board of Directors? Answer the questions also in the event that you yourself are the Chairman of the Board.

### The Chairman of the Board

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) is well prepared for board meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) leads and encourages the Board of Directors towards professional, effective actions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) encourages the Board of Directors towards unprejudiced and creative thinking and actions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4) facilitates discussion on difficult issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) is able to utilise the board members’ different expertise and backgrounds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6) respects diversity and tolerates different styles of interaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7) works in good cooperation with the CEO/Managing Director</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8) strives to develop the operating practices of the Board of Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9) makes good and analytical summaries of issues discussed by the Board of Directors</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

C11 How important do you consider the following characteristics of the Chairman of the Board to be, in general?

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Minor importance</th>
<th>High importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) good preparation for board meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) the ability to lead and encourage the Board of Directors towards professional, effective actions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) the ability to lead and encourage the Board of Directors towards unprejudiced and creative thinking and actions</td>
<td></td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>4) the ability to facilitate discussion on difficult issues</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) the ability to utilise the board members’ different expertise and backgrounds</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) the ability to get the board to work as a team</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>7) the ability to generate a sense of unity within the board</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>8) the ability to work in close cooperation with the CEO/Managing Director</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>9) respecting diversity and different styles of interaction</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>10) analytical ability</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>11) determination</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>12) creativity and flexibility</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>13) the ability to react fast to unanticipated changes</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

**D Company strategy and renewal**

To what extent do you agree or disagree with the following statements about the company’s strategic activity?

D1 The company’s key strategic goal is:

<table>
<thead>
<tr>
<th>Goal</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) company growth</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) generating dividends for shareholders</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) being a stable workplace for its employees</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) influencing society</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) industry leadership</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) corporate renewal and innovativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

D2 The company’s decision-making is best described by a:

<table>
<thead>
<tr>
<th>Perspective</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term, quarterly perspective</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term sustainable development perspective</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

D3 a) Our company now focuses on:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Disagree / Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) developing existing business operations (e.g. by promoting innovativeness)</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) divesting existing business operations (e.g. through innovative cost savings)</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) developing new business areas (e.g. through venturing activities)</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

b) Our company should in the future focus on:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Disagree / Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) developing existing business operations (e.g. by promoting innovativeness)</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) divesting existing business operations (e.g. through innovative cost savings)</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) developing new business areas (e.g. through venturing activities)</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>
D4 Over the last ten years, our company has renewed itself mainly through the following means:

<table>
<thead>
<tr>
<th>Means</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) through internal product development</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) through corporate acquisitions</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) through mergers</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) through new business – or product openings (e.g. venturing activity)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) through strategic partnerships</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) by rationalising and focusing its business operations</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

D5 The Board of Directors, management team versus business units are involved in the following strategic decisions:

<table>
<thead>
<tr>
<th>Decisions</th>
<th>a) Board of Directors</th>
<th>b) Management Team</th>
<th>c) Business Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) determination of company strategy</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) determination of company values</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) determination of company's business areas</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>4) determination of company's organisational structure</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>5) company renewal through mergers &amp; acquisitions</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>6) company renewal through internal business operations</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>7) company renewal through strategic partnerships</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>8) rationalising and focusing the firm’s business operations</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>9) managerial incentives and remuneration</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

D6 What has been the goal of the company’s acquisitions, strategic partnerships and new business openings made during the last five years?

In these activities, our company’s goal has been:

<table>
<thead>
<tr>
<th>Goals</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) turnover growth</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) adjustment to industry changes</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) access to new markets</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) expansion of product portfolio</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) new operating practices</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) improving the ability to innovate</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

To what extent do you agree or disagree with the following statements about the company’s renewal and innovativeness?

D7

<table>
<thead>
<tr>
<th>Statements</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Our company is innovative</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) Our company’s industry is dynamic and innovative</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) In our industry, innovations are characteristically small and gradual</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) During the last decade, our industry has been characterised by significant discontinuity</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) During the next five years, our industry will be characterised by significant discontinuity</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) During the coming decades, our industry will be affected by significant discontinuity</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

D8 The company’s acquisitions, strategic partnerships and new business openings made during the last five years have resulted in:

<table>
<thead>
<tr>
<th>Results</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) new operating practices</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) new products</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>
3) improved networks ................................................................. 1 2 3 4 5 6 7
4) service innovations ............................................................ 1 2 3 4 5 6 7
5) process innovations ............................................................ 1 2 3 4 5 6 7
6) organisational innovations ................................................... 1 2 3 4 5 6 7
7) market innovations ............................................................. 1 2 3 4 5 6 7

D9 Our company has

<table>
<thead>
<tr>
<th></th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>8) a renewal strategy</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>9) an innovation strategy</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>10) an innovation process</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>11) an innovation programme</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>12) an innovation team/teams</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>13) an innovation unit/units</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>14) an innovation manager/managers</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>15) an innovation board/management team</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>16) indicators &amp; measures to monitor our firm’s innovation activity</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

D10 I consider that our company

<table>
<thead>
<tr>
<th></th>
<th>Disagree / Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) in continuous, gradual innovations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) in substantial, radical innovations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

To what degree has your company been characterised, during the last two-three years, by:

D11 Product innovation High Low

<table>
<thead>
<tr>
<th></th>
<th>1 2 3 4 5 6 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) being the first company in the industry to introduce new products/services</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) developing new products/services for sale in new market areas</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) introducing new products/services for sale in the company’s present market areas</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>4) commercialising new products/services</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

D12 Process innovation High Low

<table>
<thead>
<tr>
<th></th>
<th>1 2 3 4 5 6 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) investing significantly in risky/innovative process technological research and development</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) being the first company in the industry to develop and present new technological solutions</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) being a pioneer of new process-technology solutions</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>4) copying other companies’ process technologies</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

D13 Organisational innovations High Low

<table>
<thead>
<tr>
<th></th>
<th>1 2 3 4 5 6 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) being the first company in the industry to develop innovative management systems</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) being the first company in the industry to introduce new business concepts and practices</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) making significant changes to its own organisational structure in order to promote innovations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>4) implementing personnel development programmes to promote creativity and innovations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

D14 Market innovations High Low

<table>
<thead>
<tr>
<th></th>
<th>1 2 3 4 5 6 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) entering new domestic markets</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>2) promoting the creation of new domestic companies</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>3) expanding operations to new industries domestically</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>4) supporting new domestic ventures</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>5) funding the start up of new domestic business activities</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>6) entering new foreign markets</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>7) expanding international operations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>8) supporting the start up of new business activities aimed at international operations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
<tr>
<td>9) funding new business activities for international operations</td>
<td>1 2 3 4 5 6 7</td>
</tr>
</tbody>
</table>

D15 In our company, renewal takes place and innovations arise:

<table>
<thead>
<tr>
<th></th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) alongside everyday work</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) as a result of measures to promote the company’s renewal and innovativeness</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) in cooperation with the scientific community</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) in cooperation with customers</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) in cooperation with technology partners</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) in cooperation with service providers (consultants, design agencies, etc.)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>7) in cooperation with open communities (“new communality”)</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>8) in cooperation with society and the general public</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>9) in cooperation with other companies</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>
D16. In our company's operations, the following factors promote our company's renewal and innovativeness:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) structures</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>2) strategy</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>3) company culture and values</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>4) management practices</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>5) operating practices and processes</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>6) expertise</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>7) remuneration schemes</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

If you have any general comments relating to the work of the company's Board of Directors or to the company's renewal and innovativeness, please write them here. You can also write general comments regarding the questionnaire here.

___________________________________________________________________________________________________
___________________________________________________________________________________________________
___________________________________________________________________________________________________
___________________________________________________________________________________________________
___________________________________________________________________________________________________
___________________________________________________________________________________________________
___________________________________________________________________________________________________

MANY THANKS FOR YOUR ANSWERS!

We are also seeking Members of Boards of Directors and CEOs/Managing Directors who would be willing to be interviewed during the first half of 2009. The interviews will cover themes similar to those handled in this questionnaire, with the idea of moving a step deeper in the understanding of the role of Board of Directors on value creation and innovation.

- I am willing to share my views and be interviewed (please insert name, position, company and contact details here):

___________________________________________________________________________________________________

- Thank you, I would rather not serve as an interviewee

- I recommend the following person to be interviewed (please insert name, position, company and contact details here):

___________________________________________________________________________________________________
THE VALUE-CREATING BOARD
Background information on the company and the work of the Board of Directors

This questionnaire complements the questionnaire of 15.11.2009 addressed to CEOs/Managing Directors and Chairmen of Boards of Directors, which examines the role of company boards in value creation and innovation.

This questionnaire asks for background information about the companies and boards participating in the research. The questionnaire can be completed either by the CEO/Managing Director or another person who knows the company's operations well. We are using company codes to facilitate the internal processing of the questionnaires. If you are downloading this questionnaire through the internet, please write down your company name or the code number written on the original Finnish questionnaire under the logo in the upper right hand corner of this questionnaire.

Please answer all of the questions – every answer is important to us to ensure the success of the research. All of your answers will be processed in complete confidence. Please send your answers at the latest by the 31st March 2009, together with the questionnaire addressed to the CEO/Managing Director and the Chairman of the Board using the prepaid envelope or by sending them to Katja Peltola, Hanken, PO Box 479, 00101 Helsinki, Finland. You can also fax the completed questionnaire to the following number: +358 09 431 33275.

If you have any questions or comments relating to the questionnaire, please contact Dr. Annika Vatanen (annika.vatanen@hanken.fi), +358 40 3521 517. We are happy to answer your questions and receive your feedback.

A Company information

A1 In what year was the company officially founded (regardless of corporate form)?.................................................. in ______

A2 Which of the following, in your opinion, best matches the company's main area of business?

1) ☐ industry and production
2) ☐ high technology industry
3) ☐ services
4) ☐ public administration
5) ☐ finance and asset management

A3 Is the company, in your opinion:

1) ☐ a listed company ................................................................. ☐ Yes ☐ No
2) ☐ a family-owned business ....................................................... ☐ Yes ☐ No
3) ☐ a privately owned limited company ....................................... ☐ Yes ☐ No

A4 How many employees did the company have on 31 December 2008? .......................................................... c.____ employees

A5 What was the company's turnover in 2008 (EUR million)? ................................................................. c. EUR ____ million

A6 In how many countries does the company operate (exports, production or R&D)? ............................................. c.____ countries

A7 What percentage of the company's employees work in Finland? .......................................................... c.____% in Finland

A8 What percentage of the company's operations is in Finland? .......................................................... c.____% of turnover

A9 How large a percentage of the company's turnover comes from exports? ..................................................... c.____% of turnover

A10 What are the company's main market areas?

☐ Europe
☐ Asia-Pacific
☐ Africa and the Middle-East
A11 To which geographical areas does the company export?
1) Europe
2) Asia-Pacific
3) Africa and the Middle-East
4) North America
5) South America
6) Russia and ex-Soviet countries

A12 In which geographical areas does the company have production?
1) Europe
2) Asia-Pacific
3) Africa and the Middle-East
4) North America
5) South America
6) Russia and ex-Soviet countries

A13 In which geographical areas does the company have research and development activities?
1) Europe
2) Asia-Pacific
3) Africa and the Middle-East
4) North America
5) South America
6) Russia and ex-Soviet countries

A14 The company's operating model is (select at most two of the following):
1) a company operating in Finland
2) a company operating in the EU area
3) a global structure organised by business/product area
4) a global structure organised geographically/regionally
5) a centralised global organisational structure

A15 Is the company part of a group? □ Yes □ No

A16 If yes, is the company the group's subsidiary? □ Yes □ No

A17 How long has the CEO/Managing Director worked in the company? c.____ years

A18 How long has the CEO/Managing Director worked in his/her present position? c.____ years

A19 Is the CEO/Managing Director a Member of the Board of Directors? □ Yes □ No

A20 Is the CEO/Managing Director also the Chairman of the Board of Directors? □ Yes □ No

A21 Is the CEO/Managing Director: □ Male □ Female

A22 Estimate the percentage ownership in the company of the following groups on 1 January 2009. Only answer if the company's corporate form is Ltd or Plc.
1) Chairman and Members of the Board of Directors and their immediate family c.____ per cent
2) CEO/Managing Director and Management Group and their immediate family c.____ per cent
3) Finnish banks, pension companies and other financial institutions c.____ per cent
4) Finnish companies (industrial ownership, parent companies) c.____ per cent
5) Foreign companies (industrial ownership, parent companies) c.____ per cent
6) Other Finnish private owners c.____ per cent
7) Other foreign private owners c.____ per cent
8) An official body (State, municipality etc.) c.____ per cent
B Composition of the Board of Directors

B1 How many regular full Members of the Board of Directors did the company have on 1 January 2009? ................................................................. ____ Members of the Board

B2 How many of the regular members of the company’s board
1) are full-time Members of the Board in this company? ........................................... ____ Members of the Board
2) work in the company? ...................................................................................... ____ Members of the Board
3) work in senior management positions in other companies? ................................... ____ Members of the Board
4) own the company’s shares? ............................................................................. ____ Members of the Board
5) belong to one or more owner families of this company? .................................... ____ Members of the Board
6) are women (in total)? ...................................................................................... ____ Members of the Board
7) are not Finnish with regard to their nationality? .............................................. ____ Members of the Board

B3 What other nationalities are represented on the Board of Directors in addition to Finns? _____________________________

B4 Is the composition of the Board of Directors assessed annually? ................................. □ Yes □ No

B5 When were changes last made to the composition of the Board of Directors? ............ in _______(year)

B6 Are Members of the Board of Directors paid monetary compensation for their board work? .................. □ Yes □ No

B7 If you answered yes to the previous question, in what form is the monetary compensation paid?
(You can choose more than one option from the list below):
1) annual basic compensation .............................................................................. □ Yes □ No
2) compensation on the basis of attendance ........................................................ □ Yes □ No
3) as shares or share options ................................................................................ □ Yes □ No

B8 Based on your knowledge, what occupational backgrounds do the Members of the Board have?
(Choose one main occupational background per board member)
1) senior management representative from this company ..................................... ____ members
2) senior management representative from another company .............................. ____ members
3) politician ......................................................................................................... ____ members
4) lawyer ............................................................................................................ ____ members
5) banker ........................................................................................................... ____ members
6) insurance sector representative ...................................................................... ____ members
7) public corporation representative ................................................................... ____ members
8) academic (professor, researcher, teacher) ...................................................... ____ members
9) professional board member ............................................................................ ____ members

C Chairman of the Board

C1 The Chairman of the company’s Board of Directors:
1) is also the company’s CEO/Managing Director .............................................. □ Yes □ No
2) was formerly the company’s CEO/Managing Director .................................. □ Yes □ No
3) has previously worked in the company .......................................................... □ Yes □ No
total ____ years
4) works full-time or nearly full-time as the Chairman of this Board of Directors ........................ □ Yes □ No
5) works on the boards of directors of other companies and public corporations □ Yes □ No
6) works as Chairman of the Board of other companies and public corporations □ Yes □ No

C2 The gender of the Chairman of the company’s Board of Directors: ...................... □ Man □ Woman

C3 The nationality of the Chairman of the company’s Board of Directors: .................. □ Finnish Other_______

C4 How long has the said person served as Chairman of the company’s Board of Directors? ................... ____ years
D Work of the Board of Directors

D1 How many meetings of the Board of Directors were held in 2008?
    ______ meeting(s) that required a physical presence
    ______ virtual meeting(s)

D2 How many hours does a meeting of the board generally last in your company?.......................... ____hours

D3 Has the number of meetings of the Board of Directors increased since 2007?.............................. □ Yes □ No

D4 How many times in 2008
    1) were formal board proceedings handled outside of meetings of the Board of Directors
       (e.g. telephone conferences, e-mail, fax)? ................................................................. ____ times
    2) was a “social” dinner or corresponding event combined with a meeting of the Board of Directors?.. ____ times
    3) did a meeting of the Board of Directors last for two days? ............................................. ____ times

If you have any general comments relating to the work of the company’s Board of Directors or to this questionnaire, please write them here

______________________________________________________________________________________________
______________________________________________________________________________________________
______________________________________________________________________________________________
______________________________________________________________________________________________
______________________________________________________________________________________________
______________________________________________________________________________________________
______________________________________________________________________________________________

MANY THANKS FOR YOUR ANSWERS!
APPENDIX 2  THE PAPERS
Institutional background as a determinant of boards of directors’ internal and external roles: The case of Russia

Institutional background as a determinant of boards of directors’ internal and external roles: The case of Russia

Dmitri Melkumov *

Swedish School of Economics and Business Administration, Department of Management and Organisation, Perhonkatu 6b, 00101 Helsinki, Finland

ARTICLE INFO

Keywords:
Corporate governance
Board of directors roles
Ownership structure
Russia
Institutional theory
Path dependency

ABSTRACT

This conceptual paper analyses why some companies in Russia give strong weight to the external roles and some to the internal roles of the boards of directors. The institutional background of Russian corporate governance is reviewed, concentrating on the contextual variables of time of founding, ownership type and governmental dependency, which are seen to explain the varying weight given to internal and external board roles. After arriving at several propositions, the paper finishes with suggestions for an empirical evaluation of the proposed relationships and addresses several managerial implications that stem from the discussion. This paper addresses the under-researched field of contingencies in board roles, focusing on Russia and emphasizing the importance of the prevailing institutional framework in transition economies.

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1. Introduction

Effective governance is critical to all economic transactions, especially in emerging and transitional economies (Dharwadkar, George, & Brandes, 2000). Corporate governance mechanisms in Russia are especially interesting, as they are the result of a large-scale institutional experiment performed by the Russian government in the early 1990s with the vigorous support of international financial institutions (Yakovlev, 2004). Today, Russian organisations are encouraged to pay attention to the newly developing market economy and corporate governance systems by means of a well-functioning board of directors, in order to attract much needed domestic and international investments (McCarthy & Puffer, 2008; McCarthy, Puffer, Vikhanski, & Naumov, 2005; Peng, Buck, & Filatochev, 2003; Puffer & McCarthy, 2007).

Previous research has focused on the so-called “usual suspects” in Russian corporate governance, such as the size of the board, the insider–outsider ratio, CEO duality, directors’ share ownership (see e.g., Dolgopyatova, 2004). Important studies were also conducted on the Russian institutional context and the performance of Russian companies (Dolgopyatova, 2004; Judge, Naoumova, & Koutzevol, 2003; Puffer & McCarthy, 2007). Less attention has been paid to the question of why companies differ in terms of the roles played by their boards of directors.

Researching board roles may offer important insights into Russian corporate governance and its development over time. Russian companies exhibit different levels of environmental dependency. Compared to more recently founded companies, an older enterprise with strong roots in the planned economy is still likely to prefer, due to a certain amount of organisational inertia (Scott, 1995;
Stinchcombe, 1965), a reliance on well-established networks within the external environment. External networks have been historically very important in Russia, creating a pervasive network economy in the Soviet era that is still an important part of society today (McCarthy & Puffer, 2008; Puffer & McCarthy, 2007).

When studying the companies’ responses to institutional transitions, scholars have concentrated on variations within and across industries, assuming for the most part a relatively stable institutional environment (Peng, 2003). The institutional setting of a transition economy is different and is subject to large-scale institutional transitions on a national level. Apart from company or industry characteristics, the board roles are also contingent on Russia’s turbulent transition environment. The conventional board role split into three areas – that of strategy, control, and service (see e.g., Zahra & Pearce, 1989) – may not be enough to capture the companies’ strategic responses to institutional changes. This paper proposes to split the board roles rather into internal and external, to better reflect any transitional institutional imbalances, the pervasiveness of the network economy, the varying degrees of environmental dependency and differences in ownership parameters. This may help portray the inherently different approaches to corporate governance in Russia and help researchers avoid potential misjudgements arising from benchmarking the board roles of Russian companies against the conventional split of board roles in Western companies (see e.g., McCarthy & Puffer, 2008).

Emphasis on a board’s external roles means the main strategic arena is seen to lie in the company’s external environment. They are concerned with obtaining resources, environment co-optation and stakeholder relations. Emphasis on a board’s internal roles means the main strategic arena is seen to lie within the company, focusing on strategic participation, managerial control and performance evaluation, as well as providing advice and assistance to managers.

The aim of this paper is to analyse the effect of the Russian institutional framework on the board roles in Russian companies. This paper attempts to answer the question of why history matters to Russian corporate governance, why in this context it is important to differentiate between a board’s internal and external roles, and most importantly how the board’s internal and external roles vary according to company contingencies of the time of founding, ownership type and governmental dependency. This paper enhances the understanding of Russian corporate governance by drawing on several theories to analyse Russian corporate boards, thus shedding light on corporate governance in heterogeneous transition economies.

The paper is structured as follows. First, the paper draws on institutional theory and path dependency to portray the prevailing network economy in Russia. Then, the boards’ internal and external roles are defined on the basis of the Russian institutional framework and corporate governance theories, followed by a number of empirically testable propositions. The paper concludes with discussion of the proposed relationships, followed by implications for managers, and finally further suggestions for research.

2. Institutionalisation of Russian corporate governance

Transitional economies are often facing such a turbulent environment that institutions from both the former planned economy and the emerging market economy are coexisting in the same country at the same time (see e.g., Peng & Heath, 1996). Consequently, companies may see their boards’ strategic arenas differently, depending on whether they are facing, for example, agency challenges due to external ownership or challenges related to a high extent of environmental dependency, inherited from a command economy.

An open question that remains is whether such differences may create two partly parallel systems of corporate governance in Russia. The first system may be broadly described as more institutionally embedded, with the emphasis on the board exercising predominantly external roles. The second system embodies a new, Western-inspired approach that puts the emphasis on a board’s internal roles. Although the new system is not yet fully embedded into the national context, the internal role seems to be developing for many Russian companies (McCarthy & Puffer, 2008). Due to their path dependency and strong embeddedness within Russia’s network economy, some companies may be less affected by market economy forces brought about by the transition process.

The development of corporate governance has proved to be difficult for many Russian companies. The implementation of the corporate governance code of conduct, developed according to Western corporate governance standards, has varied across companies (see e.g., Judge & Naoumova, 2004; McCarthy & Puffer, 2008; Wright, Filatochev, Buck, & Bishop, 2003). The code is in itself a recommendation and many companies have found its implementation difficult or indeed unnecessary. Various studies have reported that outside investors or owners still experience unfair treatment by major owners, in the form of share dilution and transfer pricing, resulting in a lower value for minority shareholders and the company as a whole (Shleifer & Vishny, 1997; Wright et al., 2003).

Elements from both the Anglo-American system of governance (which relies to a large extent on stock markets and managerial markets as control mechanisms) and the continental European system (which relies on boards of directors and legislation as internal control mechanisms) have not been well received in Russia by some companies. It has been argued that this is due to Russia’s troubled history, a national culture centred around the state’s intervention in business, and existing institutions that negate the rule of law (Judge & Naoumova, 2004). This implies that in the Russian setting, corporate governance will have to adapt its shape and role in order to fit the environment and its institutional context (see e.g., Carlsson, Lundgren, & Olsson, 2000; McCarthy & Puffer, 2002). The changes that are occurring in Russia during the transition process are often institutionally entrenched, as shown by a number of empirical studies (e.g., Puffer & McCarthy, 2007). This phenomenon is consistent with the notion of institutional constraints, which claims that informal institutions may persist even in the face of
radical alterations in the formal rules of the game (North, 1991).

Reviewing the effects of Russian culture, McCarthy and Puffer (2002, 2008) assert that three attributes of the Russian society in particular matter when assessing corporate governance. Firstly, there is the tendency to circumvent laws and directives. Partly owing to their unnecessary complexity, laws are seen as vague guidelines. It is culturally acceptable to ignore rules and laws that may be difficult to comply with. Secondly, there is an absence of trust outside the sphere of personal relationships. Lastly there is a strong reliance on personal networks for the provision of information, resources and to generally “get things done”. Other studies of the Russian economy have emphasised the pronounced influence of the state and the hostile attitude towards outsiders (see e.g., Buck, 2003; Judge & Naoumova, 2004; McCarthy & Puffer, 2002).

These phenomena create “institutional pressures” for the company (DiMaggio & Powell, 1983; Powell & DiMaggio, 1991). An organisation needs to adapt to its institutional context and address all three of the identified institutional pressures: coercive—government regulations and laws; normative—cultural and societal expectations; and mimetic—the need to copy other organisations in times of environmental uncertainty. By addressing these pressures, the organisation aims towards social legitimacy. Conforming to institutional demands, the organisation may win social support and ensure its survival, not because it makes more money or better products, but because it goes along with accepted conventions. The scholars of institutional theory agree that institutionalisation is a social process, whereby regardless of the different actors’ own views, they all share a common definition of how things are done or ought to be done (Scott, 1987).

Scott (1995) introduced the idea of three institutional pillars that together comprise the institutional setting of a country. The three pillars are the normative (values, i.e., conceptions of the preferred or the desirable and norms specifying how things should be done), the cognitive (shared conceptions of social reality and frames through which meaning is made) and the regulatory (rule-setting, monitoring and sanctioning activities). The three pillars provide three “related but distinguishable bases of legitimacy” (Scott, 1995, p. 47). Companies can respond to these pressures by making certain strategic choices, such as compliance, co-optation and defiance (Peng, 2003). Puffer and McCarthy (2007), Peng and Heath (1996) and Peng (2003) have applied this framework to transitional economies and the Russian institutional context, suggesting a prevalence of the cognitive pillar in the economy.

It has been proposed that this prevalence may turn the economy towards so-called network capitalism, which is based on personal networks and informal relationships (Peng, 2003; Puffer & McCarthy, 2007). During and after the 1992 ‘shock-therapy’ transition period, Russia’s institutional setting did not have sufficient time to develop a well-functioning regulatory base, which is essential to adequate property rights protection and judicial enforcement (McCarthy & Puffer, 2008; Puffer & McCarthy, 2007). The increased environmental uncertainty and underdeveloped regulation saw managers resorting to informal contacts to seek stability to ensure the existence of their organisations in the future. In doing so, they compensate for the regulative “institutional void” that may accompany the transition to a market economy (Peng, 2003).

The normative pillar might explain some of the mimicking mechanisms of organisations. These mechanisms transfer and adopt practices that are seen to be superior to existing alternatives. The introduction of the market economy in Russia, including corporate governance and the board of directors, is one example of such mimicking. However, the extent to which these practices are introduced and how they are adopted depend on the company’s previous institutional path, the topic of the next section.

2.1. Path dependency

The idea of path dependency may help explain the continued prevalence of the old structures, norms and rules of the game in Russia in recent times. Stinchcombe (1965) and more recently Bebchuk and Roe (1999) and Buck and Shahrim (2005) have explored the path dependency nature of ownership types and governance forms in the Western economies. They parallel present corporate structures with ownership and organisational parameters of the period when the companies have initially started. These researchers overlap the work of North (1991), DiMaggio and Powell (1983) and Powell and DiMaggio (1991). They claim that structural characteristics seem to persist even though they may well have ceased to be efficient. Likewise, because of deeper embeddedness of these organisations within the former institutional context, they are slower than other firms to recognise the value of market-based competition and are more likely to stick for longer with their relationship-based strategy (Peng, 2003; Puffer & McCarthy, 2007).

The privatisation process did not achieve a fair dispersion of ownership (Guriev & Rachinsky, 2005; Peng et al., 2003). If the initial conditions were grounded in a high ownership concentration, managers and/or owners may deem ownership dispersion to be potentially harmful to the control they have over the organisations. Hence, even though the historically high ownership concentration – with decision-making power concentrated around a single manager/owner – may no longer be efficient, incumbent managers and/or owners may resist changing it (Peng, 2003). The Russian state’s pervasive control of all assets seems to have created particular power and control settings in organisations, which consequently became imprinted into organisational structures and managers’ mindsets.

Russian managers historically have a high experience of utilising the external environment for access to the required resources (McCarthy & Puffer, 2008). The transition process has brought many changes and developments in Russia’s institutional setting, including a decreased reliance on informal contacts and personal networks (see e.g., Gaddy & Ickes, 1998b; Ledeneva, 1998, 2003; Rehn & Taalas, 2004). This has diminished the role of the relational or network economy since the Soviet times, when it was the only functional way of doing business (see e.g.,
Agency theory and resource dependence theory are classically used in the corporate governance literature to examine the roles of boards of directors. These theories will also aid this paper in explaining the weight that Russian companies give to internal and external roles.

Many Russian corporate governance studies have taken an agency perspective as their theoretical underpinning (see e.g., Judge et al., 2003; Peng et al., 2003; Shleifer & Vishny, 1997). Examining primarily the conflict between hired managers (agents) and owners (principles), agency theory is criticised for ignoring the “social aspect” of the relationship, with this aspect being particularly important in a transitional economy (Carlsson et al., 2000; Gaddy & Vishny, 1998a, 1998b; McCarthy & Puffer, 2002, 2008). Russia hosts a pervasive personal network structure and an inherited economy of favours (McCarthy & Puffer, 2002), in addition to its well-established owner elite (Guriev & Rachinsky, 2005; Hoffman, 2003). Therefore, agency theory needs to be complemented with institutional theory and resource dependency theory in the Russian context.

Of particular note is the Russian system of personal networks. These networks were formerly referred to as “blat” (see e.g., Rehn & Taalas, 2004). This alleged economy of favours has roots in the Soviet Union’s inefficient distribution system. It mandated extensive use of contacts in the external environment to gain access to various scarce resources both for personal and organisational purposes. “Blat” was used to obtain information, goods and services, jobs, admission to educational institutions and professional organisations, financing, and other such objectives. It was an extremely elaborate system, with participation of even the highest party officials (Ledeneva, 1998).

Resource dependency theory postulates that an organisation needs to co-opt the environment and legitimise itself in the eyes of the public and/or to other economic and social actors within the economy. According to several studies (e.g., Boyd, 1990; Hillman & Dalziel, 2003), an often-observed method is to increase the number and quality of a company’s linkages to the external environment. Hence, the introduction of corporate governance practices means any need for environmental linkages – brought about by the increased environmental uncertainty of the turbulent transition economy – might be served by the newly installed institution of the board of directors.

4. Board roles and their classification: the case of Russia

Boards of directors have often been conceptualised as playing three key roles: strategy—responsible for monitoring and influencing strategy; control—maintaining control over the management and service—providing advice and counsel to executives, and providing an institutional face for the organisation (Zahra & Pearce, 1989). This conceptualisation of board roles has been developed in Western economies with their stable national institutional settings and well functioning financial markets. Moreover, Western countries have had a long history of private ownership and market economies. This, coupled with a balanced interaction of the normative, regulatory and cognitive institutional pillars mentioned earlier has provided solid grounds for developing and maintaining economic institutions of corporate governance and corporate control.

Russia does not host the respective and appropriate institutional framework for dealing with market-economy oriented concepts such as corporate governance and the board of directors. Moreover, Russia’s legacy of a planned economy with its different economic values includes a considerable history of state intervention. Corporate control relies on a well-established regulatory base for the institutional setting in a country, but the regulatory pillar remains severely under-developed in Russia (McCarthy & Puffer, 2008; Peng & Heath, 1996; Puffer & McCarthy, 2007). Institutional transitions in former command economy countries are fundamental and far-reaching and little is known about how such large-scale changes affect different companies (Peng, 2003).

The conceptualisation of internal and external board roles may help shed light on the various institutional forces affecting Russian corporate governance in the present stages of transition. This classification has also been used in the board role research of MNC subsidiaries (see e.g., Björkman, 1994; Kriger, 1991). Such a conceptualisation of board roles highlights the companies’ different strategic goals of addressing the environment for resources and networks, versus the control and management advice roles of the board, as the continental European corporate governance model may suggest (Weimer & Pape, 1999).

4.1. Internal roles

An internal role of the board generally refers to its tasks and duties primarily in relation to the internal processes of the company, including participation in the development of strategy and supervision of top management performance. A board can influence the future outcomes of the company by setting and actively reviewing the context of strategy (McNulty & Pettigrew, 1999; Stiles & Taylor, 2001). The board’s domain covers the setting of strategic directions, the making of decisions on the strategic use of resources and the following up on the implementations and the outcomes of the strategy.

The board may contribute to the company’s value by monitoring and supervising the management. An important task for many boards is to review the performance of managers, and/or various departments. The board’s roles may thus include dismissing underperforming top managers and screening their succession.

The internal role of the board represents a relative novelty for Russia, since it is associated with the institutions of external ownership, or separation of own-
ership and control as well as the sharing of control among several individuals, groups or companies, compared to historically very different ownership and control structures developed during the planned economy.

4.2. External roles

The external roles of the board deal with the environment the company operates in. The board acts as a bridge between competencies and a conduit for information flow between the company and its economic and political environments. The board’s main external role is to obtain external resources of vital strategic importance for the firm. It might concentrate on gaining access to the political elites, and opening doors for the company's national and international expansion. It is claimed that the board’s contacts with the external environment are essential to reducing uncertainty (e.g., Pfeffer & Salancik, 1978). One example of such environmental “co-optation” is board interlocks, whereby a director sits on two or several boards and benefits from having access to the different mindsets of the people and decision-making on other boards. Through interlocks, the board acquires a network of organisations and individuals, which are seen to be important for the company's operations. In some cases, government contacts can be the board’s most important strategic role. This usually happens in response to the environmental demands and history of high state-involvement in countries such as China and Russia (see e.g., Judge & Naoumova, 2004; McCarthy & Puffer, 2002).

The board’s external roles may also include maintaining stakeholder relations. Stakeholder relations are important in managing a company's image and reputation (Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978). Especially in Russia, “serving” the interests of even distant stakeholders has been historically important. Stakeholders could include creditors, customers, competitors, employees and suppliers, as well as media, governments, local authorities, business associations, banks, rating agencies and auditing firms (adapted from McCarthy & Puffer, 2003). Striving for company legitimacy and social acceptance entails serving the demands that these stakeholder groups may have on the organisation. The external role played by the board is associated with Russia's pervasive network economy. According to research, Russian managers still consider operating within the network economy as a viable way of doing business (Jaffe & Tsimerman, 2005; McCarthy & Puffer, 2008; Puffer & McCarthy, 2007).

A given board fulfils both internal and external roles. Hence, these roles are unlikely to be mutually exclusive. This paper does not attempt to map out the relative importance of internal to external board roles. Using the theoretical framework of institutional, resource dependence and agency theories, the paper rather examines why one company’s board, compared to another, is more likely to give more weight to internal and external roles, respectively. The following section presents the paper’s propositions, which relate the company contingencies to the board roles just discussed.

5. Propositions

5.1. Time of founding

Organisations are historically bound to the social technology, i.e., the way social interactions were organised at the time of founding. Organisations formed at one time typically have a different social structure from those formed at another time, especially in terms of the elites in those organisations, which are formed to obtain resources essential to their purpose by the means developed and available at the time of founding (Stinchcombe, 1965). This paper compares two groups of companies, separating them on the basis of the period they were founded. Many large and medium sized enterprises in Russia have been founded before privatisation started. Following privatisation however, a lot of companies that have come into existence have dealt with, for example, telecommunications, food and high tech sectors.

According to Pfeffer and Salancik (1978), the board is at the junction of the organisation and its environment. The board of directors can be a vehicle for establishing favourable business partners, prestige and legitimacy (Pfeffer, 1972), as well as facilitating access to strategically important decision-makers in a situation of a predatory and corrupt Russian bureaucracy (Guriev & Rachinsky, 2005). Normative and cognitive pressures may leave older companies embedded in the network economy due to the substantial transitional confusion and inertia (Peng, 2003). Consequently, organisations founded during the period of the command economy may be giving more weight to external board roles (Fig. 1).

Newly founded companies are more likely than firms established during the command economy to operate at market conditions, adopting an orientation closer to that of the free market and transparency (Carlsson et al., 2000; Gaddy & Ickes, 1998a, 1998b). Young companies are affected by the network economy to the extent that they may deem social and informal contacts important for their operations, especially in the earlier stages of Russia's transition (Peng, 2003). Because they are less entrenched in the institutional past, and are thus less affected by inertia, the normative and cognitive pressures may have greater influence on these companies. They may be less likely to base their operations on a network economy.

![Fig. 1. Proposed model.](image-url)
Moreover, many of these companies may be subject to a substantial amount of foreign influence and may themselves be led by younger entrepreneurs (Peng, 2003) who are likely to want to choose market economy principles for their business. Three much used examples of this are Vimpelcom, Wimm–Bill–Dann (Shekshnia & Fabela, 2004) and North West Telecom.

**Proposition 1.** Compared to more recently founded companies, companies founded during the command economy era are likely to give stronger weight to the external board roles.

### 5.2. Ownership type

Private Russian-, foreign- and state-owned firms are likely to differ in the weight given to internal or external board roles. In addition to different owner identities, the board’s role can also be expected to be affected by internal vs. external and dispersed vs. concentrated ownership. Due to an under-developed regulatory pillar in Russia, investors may find it hard to exert influence and managerial control if their ownership stakes are low. Ownership dispersion and ownership by external actors relies largely on rules and regulations in order to provide investors who lack sufficient direct influence with some means of controlling their investments.

The agency conflict is often resolved by the board of directors (Jensen & Meckling, 1976; Shleifer & Vishny, 1997). The conflict arises when there is separation of ownership and control; that is, when the owner(s) are external and hence do not participate in the operational activities of the company. This reveals that external owners will want to possess the means for controlling managers. Much of this control could go through the board of directors. Therefore, external owners have a need to involve the board in internal control issues. To what extent they are actually able to achieve this depends on whether the ownership is concentrated or dispersed.

In the event of concentrated ownership, the external owners possess enough power to influence the board directly and are likely to involve the board in internal control issues. Even in the event of block-holder ownership with several investors owning large stakes, the board could be a useful internal negotiating arena for the owners in question. In the event of managerial ownership, the agency conflict ceases to exist by definition. One may argue that there is no need for the board to be involved in internal control roles. Instead, the resource dependency view may suggest an external role for the board of those companies with managerial ownership.

**Proposition 2a.** Compared to companies with concentrated internal (managerial) ownership, companies with concentrated external ownership are likely to give stronger weight to the internal board roles.

In the event of truly dispersed ownership – that is, when there are no major shareholders – the owners may lack the necessary power to influence the board directly. Independent directors may ensure the board’s participation in the internal control roles of the company. This situation is not particularly relevant for Russia at the moment, given that the market does not host any truly dispersed ownership structures. Russia’s corporate ownership structure may change in the future to become more external and dispersed. This would be specifically relevant for large companies seeking foreign investments or opportunities for IPOs.

**Proposition 2b.** Compared to companies with dispersed external ownership, companies with concentrated external ownership are likely to give stronger weight to the internal board roles.

The CEO or the management may own small stakes in the companies they operate. This scenario is similar to the Western stock options pay scheme of large corporations where the CEO owns a small portion of the company. In this way, the CEO is more inclined to create value for the company, and not resort as easily to opportunistic behaviour due to the danger of partially held residual risk. This means that agency conflict decreases and there is even less need for internal control by the board.

### 5.3. State ownership

The Russian state plays a major role in the economy, much greater than in many Western countries (Frye, 2003; McCarthy & Puffer, 2000). It perhaps represents one of the best preserved legacies from the Soviet Union. The shapes of strong personal networking, originating in the former nomenklatura networks, or networks of the “preferred” (Äslund, 2002; Ledeneva, 1998; Puffer & McCarthy, 2003) are still in evidence. Even though many of those old institutions have been shaken during the period of transition, there still seems to be a reliance on these “networks of power” within the structures under the influence of the state. Moreover, with its ever increasing involvement in the economy, the state, as an influential interest group, will tend to superimpose its own ideology onto the companies under their control. Yakovlev (2004) also points out the state’s own machinery for pursuing its bureaucratic and political goals in Russian business. Putin’s presidency saw the coming of the so-called siloviki—powerful, politically oriented people who the state appoints to large corporations that are under its influence. By such means, the state is able to utilise its powerful network structure and exert a notable influence over the whole economy. Altogether the siloviki form a large and dense network of around 6000 people with direct connections to the highest state officials (Puffer & McCarthy, 2007).

**Proposition 2c.** Compared to companies with a state-concentrated ownership are likely to give strong weight to the external board roles.

### 5.4. Foreign ownership

Previous research shows that companies in a host country with strong foreign involvement have experienced considerable managerial and structural changes as foreign owners tend to implement their own understanding of how the company should be managed (Child, Faulkner, &
Petkethly, 2000). Compared to domestic investors, foreign investors in Russia often experience difficulties in the control of and sufficient participation in the operations and strategy of the companies in which they hold a stake. Consequently, there are difficulties in imposing possible legal sanctions against the company and/or managers in the case of fraudulent practices. Foreign owners are thus likely to use any mechanisms available to ensure the return of their investments. In previous research on the MNC subsidiaries, it has been found that internal roles are indeed assigned to the boards in order to provide the headquarters with more tools for controlling the subsidiaries’ operations in the host country (Björkman, 1994).

Foreign owners may lobby for a board’s greatest possible internal involvement. Moreover, if the foreign owners are indeed bringing their own conventions to their target companies in Russia, they are likely to orientate their boards towards greater participation in strategic decision-making, a commonplace trend in Western firms (e.g., McNulty & Pettigrew, 1999). Given the institutional inertia of foreign owners and the perceived need for control of the investments, it is proposed that:

**Proposition 2d.** Compared to companies with concentrated external private ownership, companies with concentrated external foreign ownership are likely to give stronger weight to the internal board roles.

Foreign owners may, in the beginning, lack the necessary connections to the external actors of the environment and hence be interested in obtaining this expertise. For example in MNCs, the external role is used in turbulent host country environments or where a large dependency on the local government exists, by providing the needed link between the subsidiary and the environment (Björkman, 1994; Kriger, 1991). A board may resort to investing in the network economy as a means of dealing with the under-developed regulatory base. Foreign owners are thus likely to have members on the board who possess the necessary knowledge of the local market and its actors and are thus able to bridge the gap between the environment and the company, thereby also linking to relevant stakeholders.

**Proposition 2e.** Compared to companies with concentrated private ownership, companies with concentrated foreign ownership are likely to give stronger weight to the external board roles.

5.5. Governmental dependency and strategically important industries

Companies can be classified as government-dependent regardless of their ownership. These are companies that are highly dependent on authorities for obtaining various permits and licenses, such as in the medical and food industries. Further, these are companies that are considered strategic for the country, such as natural resource companies. Whenever the company experiences a large degree of state dependency the board may focus on establishing and upholding the necessary contacts to the relevant authorities.

Of particular relevance to the issue of governmental dependency is the influence of Russian industrial tycoons (the so-called “oligarchs”) on the economic and political sectors of the economy. Studies in other national contexts have looked at similar phenomena from the perspective of social movement theory (i.e., the influence of a particular social class of actors on the national economy) and also from the perspective of interest group logic and its application to corporate governance (Davis & Thompson, 1994). Due to the scale of their political power and wealth, and also the pace at which it was gained from the ruins of the planned economy, this type of ownership is quite specific to Russia (Hoffman, 2003, p. 3). The oligarchs are important players in the Russian economy, with enormous market share in their hands even as individuals, let alone as a consolidated group (Guriev & Rachinsky, 2005; Hoffman, 2003). On the one hand, they are considered the most influential drivers of Russia’s transition to a market economy, making their corporations more transparent and favourable to outside investments. On the other hand, they are the main reasons behind Russia’s weak economy, as they strip the assets of the companies they own (Guriev & Rachinsky, 2005; McCarthy & Puffer, 2008) to gain profits.

Some oligarchs are seemingly more successful than others, even though they all started with rather similar conditions. When Mr. Putin’s reign commenced, he allegedly struck a deal with the oligarchs where he offered to accept the murky privatisation processes the oligarchs were once involved in if they agreed to stay out of politics (Puffer & McCarthy, 2007). Coincidentally, oligarch ownership is predominantly concentrated in natural resource companies and companies affiliated with those, such as the companies specialised in the transportation and trading of natural resources. These industries are considered the most strategically important for the survival of any economy. Mr. Putin’s administration is paying increasing attention to the industries defined as strategically important to the country, such as the energy, utility and metallurgy industries (Puffer & McCarthy, 2007).

Some of these representatives of the ownership elite have seemingly adapted to Mr. Putin’s requirements and become more obedient to the state, putting emphasis on befriending the state to find some synergies for operating together. Whether this system is efficient and/or effective will not be argued in this paper, but it seems that with the ever-powerful state it is a sound strategy for the oligarchs. In the hypothetical case of forced re-nationalisation, these industries will attract the state’s attention first in serving its political ambitions (see e.g., Guriev & Rachinsky, 2005). Hence, major owners (oligarchs) of the companies in the natural resource industries – more so than large owners in other industries of less strategic importance to the state – may be interested in co-opting the potentially unfriendly environment. This would lessen the risk of re-nationalisation by boards having superior relationships with the authorities and well-functioning stakeholder relations.

**Proposition 3.** Compared to state independent companies, companies with a high degree of dependency on the state and/or operating in industries of national strategic importance are likely to give stronger weight to the external board roles.
6. Conclusion

The aim of this paper was to shed new light on factors associated with the roles played by Russian boards of directors. Contingency factors have been found to have a pronounced influence on corporate governance and the board in particular (Huse, 2005a). This paper argues that the institutional background in Russia is an important factor influencing the roles presently undertaken by Russian boards. The path dependency and various ownership parameters lead companies to react differently to transitional institutional pressures. As pointed out by Filatochev, Wright, and Bleaney (1999) and Wright et al. (2003), this may cause long-term heterogeneity in Russian corporate governance.

According to Meyer and Rowan (1977), some organisations conform to the established conventions, or the “institutionalised” means of operations. These remain largely unchanged operating the way they have always done without necessarily being more efficient than other organisations (Stinchcombe, 1965). Such an inheritance from the command economy times does not necessarily have negative implications for a particular company and can even work to its advantage by providing the company with an established set of rules and norms and active networks. Hence, having a stronger and older institutional background leads those companies founded earlier to orientate their boards towards external roles and concentrate on co-opting the environment and gaining access to valuable strategic resources, just as was often the case during the period of the command economy.

Agency theory, considered alongside institutional theory and the institutional background of Russia, offers some explanation as to why some boards may give strong weight to internal roles (such as in concentrated external ownership). Furthermore, resource dependency theory may provide explanations as to why even totally new organisations may find themselves taking on the practices of obtaining external resources even if they are not otherwise used to doing that (such as the case with governmental dependency or foreign ownership). These theories underscore the reason for having board roles at all: internal roles are for dealing with agency conflict and external roles for resource attainment. However, agency theory (McCarthy & Puffer, 2008) and resource dependency theory alone may not provide sufficient explanatory power for boards’ internal and external roles in the Russian context. Thus, largely due to the lack of an appropriate regulatory basis and the prevalence of Russian culture and values in business (McCarthy & Puffer, 2008), institutional theory and Russian national context are also necessary to provide a more complete picture of board roles in Russia.

Future research may deal with testing the proposed relationships, taking care to specify the effects of other variables not discussed in this paper, such as CEO and management style, CEO and board tenure, compensation and incentives, as well as firm life-cycle (Lynall, Golden, & Hillman, 2003). For example, the time-of-founding argument is naturally affected by whether the CEO and board members have remained the same since the privatisation of the company. The effect of the stock market has also been omitted from this paper. Presently Russian corporate governance is affected by these only to a limited extent, unlike in the markets of the USA and the UK, where corporate governance often rests on these instruments (Weimer & Pape, 1999). The discussion of corporate governance and board roles is likely to be more relevant amongst large Russian companies, as any developments are likely to happen first within that community (McCarthy & Puffer, 2008). This is both due to the differing legal requirements for larger companies, which drive them to adopt efficient corporate governance practices and perhaps partly due to their own interest in becoming internationally recognised market players.

In situations of dispersed ownership, it is important to realise that the board can be involved in internal roles to some extent, though it may depend on the owners forming a large enough collective lobby to push for internal controls that will provide mutual benefit. Moreover, this paper has not focused on other commonly analysed factors such as board demography, directors’ share ownership and other board characteristics. Even though studies analysing these characteristics have been criticised for having unsatisfactory explanatory power (see e.g., Huse, 2005b), they may mediate the relationships proposed in this paper and should be considered in future work.

7. Managerial implications

Both domestic and foreign investors are concerned with the efficiency and security of their investments and the board of directors can safeguard these investments. Western research literature suggests that the board should participate in the strategy of the company and may even have a decisive internal control role. The board may not always be involved in internal control issues and hence reliance on the board alone may not provide sufficient control of the company and its management. Russia is still a transitional network economy with an under-developed regulatory pillar, hence effectively hindering the possibility of relying on legislation and the courts to safeguard the investments. Hence, both domestic and foreign investors may find it necessary to possess sufficient degrees of equity ownership to be able to direct a company’s board to take up internal control roles.

The state has generally been shown to be less effective than private ownership (Peng et al., 2003) in resolving governance issues. Companies that are state-owned and -controlled may benefit from the increased participation of business experts on the board. State companies, however, are often criticised for being inefficient and failing to provide clear incentives for their board representatives. Compared to representatives of private owners, the state representatives on the board may be less inclined towards effective monitoring and internal control may suffer. Having members with business experience could bring the necessary business and strategic expertise, thereby increasing the efficiency of the boards’ internal and external roles.

Some companies in Russia are trying to live up to Western expectations by placing independent directors on their boards (Peng, 2004). An independent director’s oft-
cited role is to ensure the company’s performance in the event of dispersed ownership, where the owners do not possess sufficient power to influence the management. In Russia’s highly concentrated ownership structure, independent directors may often purely serve institutional pressures, without fully bringing their potential resources to the company (see e.g., Peng et al., 2003; Peng, 2004) and possibly even drawing resources away from other important internal and external roles. Therefore, rather than trying to imitate Western practices (see e.g., Generalov & Shekshnia, 2004), the companies may find it fruitful to pursue effective internal and/or external roles for their boards.

Foreign owners may have a two-fold challenge in terms of the board roles of their Russian companies: putting strong weight on both internal and external roles. The international business literature contends that knowledge of and contacts to the potentially hostile local environment are very important for foreign ownership. Having resourceful members on the board may help the company both to achieve a better fit with the Russian institutional environment and benefit from the interconnectedness of its economic and political actors. In some cases, foreign owners also have to place strong weight on the internal roles of the boards. It may in fact be more challenging for foreign owners to control their Russian investments, compared to Russian owners with similar stakes in Russian companies.

The Russian network economy is gradually diminishing in size and importance (Puffer & McCarthy, 2008; McCarthy et al., 2005). Of course if dealing with a company whose institutional burden can be considered as high, and for which the relationship-centered strategies are important, one should realize that investments into the network economy may in fact still be necessary. Moreover, it is important to keep the existing networks intact, as they are rarely substitutable and are often fully dependent on single individuals. This is especially true for companies dealing with the state. For companies strategically relying on network economy, it would probably also take more resources and time to transform their boards into effective internal control and/ or strategy mechanisms.

References


Board of directors’ tasks: the effect of board capital and conflict among the board members.

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Board of directors’ tasks: the effect of board capital and conflict among the board members.

Abstract

Answering the call for ‘opening the black box’ of the board of directors, this study analyses the effect of board members’ human and external social capital on the monitoring and resource provision tasks of the board. Furthermore, this study examines the moderating effect of cognitive and affective conflicts among the board members on these relationships. Based on a sample of 92 cases, this study finds that the board members’ human and external social capital are positively associated with all the board tasks. The results suggest that cognitive conflict positively moderates the relationship between board members’ external social capital with the monitoring and negatively with the resource provision tasks. Affective conflict was found to negatively moderate the relationship between directors’ external social capital and the resource provision tasks and positively moderate the relationship between board members’ human capital and resource provision tasks. Out of the control variables, diversity was found to be positively and firm size negatively related to the resource provision tasks of the board and outsider percentage did not have any relation to any of the board tasks. This study suggests that the behavioural perspective, which takes into account the dynamics and interaction on the board, has considerable predictive power.

Introduction

Research on boards of directors has previously followed a common pattern of looking for correlations between board demographics and corporate financial performance. While this is an alluring potential avenue of research it has yielded few conclusive results as documented in a meta–analysis of existing studies by Dalton, Daily, Ellestrand and Johnson (1998). It has been consequently proposed that this lack of findings may be due to a lack of consideration of board member behaviour coupled with an overreliance on agency theory as the theoretical foundation for research on boards of directors (Minichilli, Zattoni and Zona, 2009; Stiles and Taylor, 2001). Recently, there have been calls for studies that emphasize the importance of behavioural research on the board of directors as a fruitful approach to explaining the board tasks and ultimately corporate financial performance (Hambrick, v. Werder and Zajac, 2008).

Roberts, McNulty and Stiles (2005) have similarly suggested that research into the behaviour of board members as well as their personal characteristics would offer a more encompassing and richer explanation of board tasks when compared to research into board demographic characteristics. In an attempt to open the black box of what is going on inside the board, recent studies have looked into the behaviour of directors, including their commitment to board work, critical debate in board meetings, effort directed towards their board work, trust among each other and encouragement in their work (Minichilli et al., 2009; Huse, 2005; Pye,
2005; Zona and Zattoni, 2007). In addition, the board is also prone to process losses (Forbes and Milliken, 1999) and other behavioural challenges identified in boards that arise from several individuals working together as a team.

One of these challenges is conflict: the phenomenon resulting from tensions between team members because of real or perceived differences in inputs (De Dreu, Harinck and Van Vianen, 1999; De Dreu and Weingart, 2003). The board, as a collection of highly experienced and diverse individuals may be an especially conflict-prone body. Conflict has been suggested to interfere with team dynamics because it may produce tension and antagonism that may distract team members from performing their duties properly (De Dreu and Weingart, 2003). Thus, conflicts may also influence the tasks undertaken and decisions made by the board. Forbes and Milliken (1999) examined the effects of cognitive conflict, defined as the difference in judgement among group members, on board tasks.

An often-examined companion of cognitive conflict is affective conflict. Affective conflict is seen to primarily arise from the differences in social inputs of various individuals and is often considered a derivative of cognitive conflict (De Dreu and Weingart, 2003). Moreover, both of these types of conflict may be impacted or caused by diversity of the team members (Milliken and Martins, 1996).

Another well acknowledged characteristic of the board of directors identifies who the board members really are, what they are capable of and how extensive their personal social and professional networks are. Specifically, board capital (human and external social capital of the board members) as well as the board’s functional and firm–specific knowledge and skills, have been suggested to positively affect the board’s CEO monitoring, strategy implementation and evaluation, succession planning and top management rewarding tasks (Carpenter and Westphal, 2001, Hillman and Dalziel, 2003, Forbes and Milliken, 1999). These characteristics are different from standard board demographic indicators, such as CEO duality and outsider proportion, and are more likely to adequately capture the vast amount of influence, skills, backgrounds, networks and experiences that the directors bring to their boards. Whereas board demographic indicators have not been found to directly impact board tasks, it has been reported that board human and external social capital have a direct positive relationship with monitoring and resource provision tasks (Hillman and Dalziel, 2003). Moreover, the impact of board capital on board tasks is realised by means of interactions
among directors inside and outside the boardroom. It could therefore be expected that these interactions have an intervening, or moderating effect on the relationship between board capital and board tasks (Finkelstein and Hambrick, 1996; Buchanan and Huczynski, 1997).

Board interactions and board behaviour have the potential to affect a board’s decision making processes. This study concentrates on a relatively neglected aspect of board behaviour: the conflicts among board members. The conflicts are divided into two broad categories: 1) cognitive conflict, or task–based disagreements and 2) affective conflict, or personality–based disagreements. A board’s human capital is defined as its directors’ knowledge, skills and expertise within company and industry. A board’s external social capital refers to the level of its directors’ external interconnectedness. The board tasks examined in the study are divided into two categories: 1) monitoring, which includes monitoring of the CEO, remuneration schemes and corporate social responsibility and 2) resource provision, which includes advice, counsel and networking.

The aim of this study is to build and empirically test a model that explains the relationships between directors’ human and external social capital with the extent to which the board is involved in monitoring and resource provision tasks. Further, the study examines how affective and cognitive conflicts moderate these relationships.

In line with recent calls in the literature, this study intends to contribute to our understanding of board tasks by using a behavioural perspective to show how conflicts moderate the relationship between human and external social capital and board tasks. Further, compared to demographic characteristics of the board and board members, which have been found to have limited explanatory power, this study analyzes indicators of board human and external social capital. These indicators are more suited for the portrayal of the board as a complex decision making group (Forbes and Milliken, 1999; Hillman and Dalziel, 2003). Finally, the study uses multiple theoretical lenses to explain the board tasks and their determinants (Zahra and Pearce, 1989).

This paper is divided into five sections. In the first section, the board tasks are defined and discussed theoretically. This is followed by a discussion of the factors that influence them, thus building the theoretical framework of the study and the hypotheses to be tested. The third section presents the research method, describes the sample, the data collection method,
as well as how the independent and dependent variables are operationalised. The fourth section presents the results of the study and the final section discusses the results and possible future implications.

**Conceptual model**

**Board tasks**

Previous literature on boards of directors offers several classifications of board tasks. Perhaps the most common distinction is between the board’s monitoring and resource provision tasks (Hillman and Dalziel, 2003), also referred to as service and control tasks (Zahra and Pearce, 1989). According to agency theorists, the board of directors is primarily concerned with monitoring or controlling the agents, the management, on behalf of their principals, the shareholders (e.g. Jensen and Meckling, 1976). The central challenge in the governance of organizations is how to balance the discretionary power of managers with accountability to the shareholders (Stiles and Taylor, 2001:60). A more detailed classification of board monitoring tasks includes output control tasks as well as internal controls. Output control tasks are how the firm’s outcomes meet the needs or objectives of the principal stakeholders. Internal control tasks are how stakeholders use the board to control the behaviour of top management and firm–internal issues such as evaluating and rewarding the CEO (Huse, 2007:59). These views are all similar in that they consider the board to be a governing body, monitoring, ratifying and controlling managerial decisions as well as reviewing firm performance.

Pfeffer and Salancik (1978) have offered a complementary view of board tasks. Their focus on the resource provision role of directors highlighted the ability of the board to provide various resources to the focal firm in the form of knowledge and legitimacy, among others. The theoretical underpinning of the resource provision task lies in the resource dependency theory laid out by Pfeffer and Salancik in their seminal 1978 manuscript. This task of the board is concerned with provision to the company of any feature, skill or advantage, which could be considered useful for the firm’s operations. More precisely, a resourceful board can provide to the organization resources such as advice and counsel (Mintzberg, 1983), legitimacy in society, maintenance of the firm’s public image and help to achieve the goals of efficiency and improved performance (Pfeffer and Salancik, 1978; Pfeffer, 1972, 1973; Zahra and Pearce, 1989). Additionally, a resourceful board can provide preferential access to commitments or support from important elements outside the firm and offer channels of
communicating information between external organizations and the firm, within both general and competitive environments (Lynall, Golden and Hillman, 2003; Hillman, Keim and Luce, 2001).

Whether board tasks are referred to as monitoring and resource provision (Hillman and Dalziel, 2003) or control and service, (Zahra and Pearce, 1989; Forbes and Milliken, 1999) the underlying assumption is that the board at any given time is concerned with both providing resources, such as advice and counsel, and controlling and monitoring the management.

**Board human and external social capital**

Forbes and Milliken (1999) claim that boards require a high degree of functional and firm–specific knowledge and skills to perform their duties. Similarly, Hillman and Dalziel (2003) identify the board’s human capital, or their expertise, experience, knowledge, reputation and skills (Coleman, 1988) as the board characteristics of primary interest in addressing their ability to perform both resource provision and monitoring tasks. Likewise, board capital has been positively associated with the provision of advice and counsel (Pfeffer and Salancik, 1978). Boards often include top managers of other firms, former government officials, financial and insurance representatives and other directors who contribute to board work with their respective knowledge and expertise. The focal firm’s inside directors also have invaluable expertise needed for board tasks, as they are well acquainted with decision making processes in the firm, internal procedures and the general field of business. Board members can also be expected to be more involved in monitoring tasks if they are qualified and knowledgeable in governance practises, have relevant expertise in company’s needs and opportunities and have the skills and experience to be involved in evaluating the performance of the CEO, managers and the company as a whole. Directors who possess comparative advantages in these qualities can be expected to perform board tasks better, compared to directors who are not as knowledgeable and skilled (Hillman and Dalziel, 2003; Jensen and Meckling, 1976).

In addition to human capital, directors’ external social capital is also an important determinant of board tasks. External social capital includes actual or potential ties to external organizations and actors (Hillman and Dalziel, 2003). Such ties contribute positively to advice and counsel, as the members have more external experience and sources of
information to draw upon when advising the focal firm’s management on a course of action. Furthermore, prestigious board members are thought to be a signal of legitimacy and reliability of the focal firm (Pfeffer and Salancik, 1978). Well-networked directors, coming from different backgrounds, such as law, marketing and finance, provide the focal firm with specific channels of communication to and legitimacy within their respective external networks. This in turn has positive effects on board- and firm-level outcomes. For example, Boyd (1990) found that representatives of financial institutions were positively associated with firm outcomes. Similarly, Lester, Hillman, Zardkoohi and Cannella (2008) contended that the depth and breadth of the human and external social capital of government officials on a board offers the firm superior access to key decision makers and thereby contributes to value creation within the firm. Similarly, Carpenter and Westphal (2001) found that the board members’ external network ties, along with the strategic content of those ties positively impacted the board’s involvement in strategic decision making. A parallel explanation of the importance of directors’ networks concerns the board’s monitoring tasks. As organisations are constrained by social values, rules and norms and are embedded in larger social systems, the board of directors inevitably comes to reflect the demands of and structures present in the general society. The norms will both constrain and encourage certain behaviour in the directors (Huse, 2007:78) and this will be reflected in the tasks the board undertakes. In addition to shareholders, the residual claimants of the firm may include other stakeholders, such as governments, employees, local societies and customers and suppliers. It is likely that these stakeholders will attempt to drive their own interests through the board, shaping what the firm does and what these actions mean for the firm’s immediate surroundings and society. Hence, a well networked board will be susceptible to external pressures from stakeholders and society in general and this susceptibility may impact the monitoring tasks they carry out (Huse, 2007: 80).

In sum, a board’s external social capital, its embeddedness in the environment and links to external stakeholders such as creditors, governments and shareholders are likely to be positively associated with the monitoring and resource provision tasks. Moreover, board human capital, or directors’ expertise, experience and skills associated with monitoring the CEO and rewarding top management are also likely to positively impact both the monitoring and resource provision tasks. As such:
Hypothesis 1a: Board human capital is positively associated with the monitoring tasks of the board.

Hypothesis 1b: Board human capital is positively associated with the resource provision tasks of the board.

Hypothesis 1c: Board external social capital is positively associated with the monitoring tasks of the board.

Hypothesis 1d: Board external social capital is positively associated with the resource provision tasks of the board.

**Board behaviour**

Huse (2005) identified the board decision-making culture (specifically including commitment, creativity and criticality) as the main predictors of task performance. Similarly, Forbes and Milliken (1999) have developed a theoretical framework indicating that effort norms, board cohesiveness, board conflicts and the practicable knowledge and skills the board members employ have an impact on board tasks. The board is a team of highly qualified individuals, who face complex tasks both inside and outside the boardroom. Because the board meets episodically, it is prone to process losses and interaction difficulties that may hinder the group dynamics and have adverse effects on group’s outputs. Therefore, the capacity of the board to fulfil its many tasks is likely to rely on behavioural phenomena; especially on the interaction of the board members, a constructive group atmosphere, their interpersonal compatibility, group satisfaction and feelings of inclusion (Forbes and Milliken, 1999).

Conflict is inevitable within any group interaction (Robbins, 2005) and has been suggested to interfere with team capabilities and reduce satisfaction because it produces tension, antagonism and distracts the team members from their tasks. Often two types of conflict are identified: cognitive, or task based; and affective, or socially based. Examples of cognitive conflict are disagreements regarding the distribution of resources, procedures and policies as well as judgements and interpretation of facts. Examples of affective conflict are disagreements regarding personal tastes, political preferences and values (De Dreu and Weingart, 2003). Affective and cognitive conflicts are positively related to one another. De Dreu and Weingart’s recent meta analysis of the studies in cognitive and affective conflict
reported an average correlation coefficient between the constructs of 0.47 (De Dreu and Weingart, 2003). At the same time these constructs are theoretically and empirically distinct and should both be included in the analysis of conflict, as they provide distinct, interrelated explanations of the mechanisms by which conflict impacts teamwork.

Cognitive and affective conflicts. Cognitive conflict exists when there are disagreements among group members about the content of the tasks being performed, including differences in viewpoints, ideas and opinions. Cognitive conflict can cause tension, antagonism and unhappiness among group members and an unwillingness to work together in the future (Jehn, 1995). A person’s natural reaction to any form of disagreement and questioning is frustration and dissatisfaction, however advantageous the outcome of the confrontation (Ross, 1989). Similarly, critical evaluations may cause negative affective reactions regardless of the outcome. Cognitive conflicts may arouse negative emotions and diminish interpersonal attraction among the board members and the CEO. Mace (1986) has demonstrated that cognitive conflict can reduce, rather than increase the commitment of the board members to their tasks. The impacts of conflicts depend on various group and individual factors. For example, conflicts regarding more complex decisions will have a stronger association with outcomes (Hamm–Kerwin and Doherty, 2010). Board tasks are complex and multifaceted (Huse, 2005) and often require a myriad of skills and a large commitment to be carried out adequately. Similarly, Forbes and Milliken (1999) posit that cognitive conflict is likely to arise in groups that, like boards, are interdependent and face complex decision–making tasks.

Historically, evidence of the effect of cognitive conflict is equivocal. For example, Jehn (1995) has stipulated that some amounts of cognitive conflict are beneficial for teams, particularly when performing non–routine tasks. Cognitive conflict is potentially productive for teams and makes the team engage in deep and deliberate processing of task–relevant information, creating useful insights (Jehn, 1995). However, the recent meta–analysis of conflicts by De Dreu and Weingart (2003) suggests that in many circumstances cognitive and affective conflicts have the potential to be disruptive to group outcomes, satisfaction and commitment of the group members (De Dreu and Weingart 2003; Carnevale and Probst, 1998). They also point out that very small levels of cognitive conflicts may positively impact decision making. They explained their findings in terms of “cognitive load”. As conflict and arousal increase, cognitive load increases, and this interferes with flexible thinking and
creative problem solving, therefore negatively impacting outcomes (Hamm–Kerwin and Doherty, 2010).

Affective conflict is negatively associated with team outcomes and levels of satisfaction (Parayitam and Dooley, 2009; De Dreu and Weingart, 2003). Affective conflict refers to the negative aspects of the interaction among the board members on a personal level. A board with a high degree of affective conflict is prone to disputes, tension, lack of cooperation and more often personal disagreements among the board members. Whereas cognitive conflict is based on more rational disagreements within a group, affective conflict is based on emotions and focuses on personal differences and disaffections (Buchholtz, Amason and Rutherford, 2005). Emotionally based affective conflict can provoke cynicism, avoidance and resentment, resulting in an ineffective atmosphere within a team, reduced decision quality and lessened acceptance of decisions (Buchholtz et al., 2005). Even though cognitive and affective conflicts are distinct, they both may negatively affect team dynamics and foster antagonism, dissatisfaction, resentment, lack of commitment and decreased team capabilities (De Dreu and Weingart, 2003; Hamm–Kerwin and Doherty, 2010; Grissom, 2010).

The board’s involvement in monitoring and resource provision tasks requires the directors to employ their human and external social capital to the best of their capabilities (see e.g. Hillman and Dalziel, 2003 for discussion of human and social capital). Both cognitive and affective conflicts seem to render the team dysfunctional (De Dreu and Weingart, 2003; Grissom, 2010; Hamm–Kerwin and Doherty, 2010). Compared to a board that can be characterised by mutual interpersonal dislike, disagreements, lack of cooperation, dysfunctional atmosphere, lack of commitment and withdrawal, a board which consists of a group of individuals who function within an amicable atmosphere can be better suited for board human capital to be shared and used while being involved in the monitoring tasks. Therefore it is proposed that:

_Hypothesis 2a: Cognitive conflict moderates the relationship between board human capital and the monitoring tasks: the relationship between board human capital and monitoring tasks is less positive when cognitive conflict is higher._
Hypothesis 2b: Affective conflict moderates the relationship between board human capital and the monitoring tasks: the relationship between board human capital and monitoring tasks is less positive when affective conflict is higher.

As Hillman and Dalziel (2003) posit, the boards are often composed of directors coming from a variety of backgrounds and bring with them important expertise, experience and skills to facilitate the resource provision tasks. Following the same logic as outlined above, the impact of directors’ human capital on the resource provision tasks should be strengthened by the amicable atmosphere within the board. Compared to a board conflicting board, a more harmonious board with no conflicts can be better suited for directors’ human capital to be shared and used while being involved in the board resource provision tasks. Therefore, it is proposed that:

Hypothesis 2c: Cognitive conflict moderates the relationship between board human capital and the resource provision tasks: the relationship between board capital and resource provision tasks is less positive when cognitive conflict is higher.

Hypothesis 2d: Affective conflict moderates the relationship between board human capital and resource provision tasks: the relationship between board human capital and resource provision tasks is less positive when affective conflict is higher.

Boards co–opt the external environment to increase the firm’s legitimacy and to improve relationships with relevant stakeholders (Zahra and Pearce, 1989; Pfeffer and Salancik, 1978). Hence, responsible directors may consciously and willingly utilise their external social capital to access needed information, provide needed contacts and collect needed advice. Coleman (1988) identified external social capital as being a particularly intangible and expensive resource. By utilising one’s personal networks, one automatically becomes indebted to those networks by having to ‘return the favour’ (Coleman, 1988). The acquiring, distributing and using of information through one’s external networks is costly, as it also requires an individual’s attention and draws the energy away from other activities. At the same time, the individual whose personal networks are used for the good of an organisation rarely benefits
from this activity personally. Benefits of actions that bring social capital into being are largely experienced by persons other than the actor, and hence it is rarely in the actor’s self interest to employ their social capital in the first place (Coleman, 1988). Due to this lack of personal benefit coupled the presumption that this actor becomes indebted to his or her external networks, it could almost be considered altruistic for that actor to utilise his or her networks on behalf of the company. Directors will have to make extra effort, whilst gleaning little benefit for themselves personally. Therefore, only an atmosphere that is perceived positively by the directors will be conducive for the usage of their expensive and intangible external social capital for the benefit of the firm. Directors on a harmonious board should be relatively more willing to use their external social capital, compared to a board characterised by disputes, disagreements, resentment and lack of commitment. Therefore:

Hypothesis 3a: Cognitive conflict moderates the relationship between board external social capital and resource provision tasks: the relationship between board external social capital and resource provision tasks is less positive when cognitive conflict is higher.

Hypothesis 3b: Affective conflict moderates the relationship between board external social capital and resource provision tasks: the relationship between board external social capital and resource provision tasks is less positive when affective conflict is higher.

The external social capital of the board members may positively impact monitoring tasks by directors offering their experience gathered from their networks, in resolving challenges similar to those they face in their role as director elsewhere. An alternative explanation to why monitoring tasks can be affected by directors’ networks is offered by a conjunction of social movement, stakeholder and institutional theories. This approach exposes the board’s role as an instrument of company stakeholders in ensuring value creation for these individuals or organisations. As much as companies can affect external actors, external actors can also affect companies (Huse, 2007:73–74). Compared to directors’ external social capital, which can be used to secure external resources for the company, directors’ networks can also ‘use’ directors to exert influence over the company. Stakeholders have rights, claims and interests in the company (Huse, 2007:74) and therefore it can be expected that they will exercise their rights to secure their own interests within the company. This notion is similar to
Coleman’s (1988) notion of the possible limiting effects social capital, or social networks, can exert on their members. In addition to providing valuable support to their members, social networks also constrain their members and can act as a mechanism to enforce rules and norms. Basing their arguments on Coleman (1988), Nahapiet and Ghoshal (1998) also accepted that the existence of networks created for one purpose may be used for another. A board with conflicts, characterised by disputes, disagreements, withdrawal and lack of commitment may potentially be more conducive of external stakeholder influences and sanctions. A poorly functioning board may signal to the stakeholders that the company is underperforming and therefore in need of guidance and external control. Conversely, a harmonious board that displays an increased level of commitment on behalf of board members may be subjected to fewer social sanctions. Therefore:

**Hypothesis 3c:** Cognitive conflict moderates the relationship between board external social capital and monitoring tasks: the relationship between board external social capital and monitoring tasks is more positive when cognitive conflict is higher.

**Hypothesis 3d:** Affective conflict moderates the relationship between board external social capital and monitoring tasks: the relationship between board external social capital and monitoring tasks is more positive when affective conflict is higher.

Figure 1 provides the summary of the hypotheses to be tested in this study.

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**Research methods**

**Data collection and sample**

The data were collected through a mailed questionnaire directed at the CEO or President and the Board Chairperson of 887 largest Finnish industrial companies. Data collection was carried out between January and May 2009. Two reminders were sent out to the respondents, each within 2–3 weeks after the deadline for the data collection round. The non-governmental organization, Fonecta, provided us with the contact information of the 1000 largest Finnish
companies. One hundred thirteen companies were not reached due to inaccurate or outdated information in the database, including changed addresses, changes of company structure, re-organisations, bankruptcies, company mergers and demergers. Some companies informed us that they do not wish to participate in our study. Therefore, we sent our survey to 887 companies. We received 92 responses, including 60 from the CEO (or president) and 32 from the chairperson. For 5 companies we received responses from both the CEO and the board chairperson. The sample characteristics of the data can be seen in table 1.

Researchers are increasingly suggesting double-respondent surveys be used in order to improve the validity of the analysed relationships (Yang, Wang and Su, 2006; Pearce and Zahra, 1992). When both the dependent and independent variables are drawn from the same source the research may suffer from common method bias (Podsakoff, MacKenzie, Lee and Podsakoff, 2003). For example, when the CEO or Board chairperson is asked to value their own capabilities and performance, overestimation of their achievements and downplaying of their shortcomings may decrease the reliability of the data.

Our study has attempted to collect data from both the CEO and the Board chairperson thereby yielding double respondents for each firm. Unfortunately we received only 5 usable matched responses. This lack of matched responses can be attributed to the fact that the Chairpersons and the CEOs are busy individuals and gaining access to them is difficult (e.g. Minichilli et al., 2009; Daily, Dalton and Cannella, 2003). This potential problem was dealt with by procedural and statistical techniques.

Firstly, we verified background factor data from secondary sources, such as firms’ annual reports and websites and the Fonecta database. This approach has been used in the past to decrease the potential common method bias (Pearce and Zahra, 1992). Secondly, the survey was sent with a cover letter, guaranteeing anonymity to the respondents in order to lessen the respondents’ inclination to offer socially desirable responses (Podsakoff et al., 2003). Thirdly, the wording of the questions was carefully chosen in order to avoid potential confusion and ambiguity of the concepts (Tourangeaus, Rips and Rasinski, 2000). Fourthly, the dependent
and the independent variables were placed far apart from each other (Parkhe, 1993) in a mixed order.

To test for common method bias statistically, Harman one–factor test was used (Podsakoff and Organ, 1986). This test has been used in earlier papers to check for common method bias (Greene and Organ, 1973; Podsakoff, Todor, Grover, and Huber, 1984; Li and Atuahene–Gima, 2001; Atuahene–Gima and Li, 2004). In the test, all dependent and independent variables are entered into a factor analysis and the unrotated solution is examined. If only one factor emerges or there is a single “general” factor that accounts for the majority of covariance in the independent and dependent variables, a substantial amount of common method variance is said to be present (Podsakoff and Organ, 1986). The factor analysis yielded 11 factors with eigenvalues greater than 1, accounting for 81 per cent of variance and one factor accounted for 21 per cent of variance. Therefore, there was no identified common method bias.

Furthermore, Atuahene–Gima and Li (2004) and Brockner, Siegel, Daly, Tyler, and Martin (1997) suggested that common method bias is unlikely to appear in studies of significant interaction effects. This study examines four interaction effects (Cognitive Conflict and Board Human Capital; Cognitive Conflict and Board External Social Capital; Affective Conflict and Board Human Capital; Affective Conflict and Board External Social Capital). It is quite unlikely that respondents would manipulate their responses on all questions to produce desirable interaction effects. We can conclude that commonmethod variance is unlikely to be a source of error in this study. However, the study recognises the need to replicate the results with partial usage of archival data or double–respondent surveys to further enhance the external validity of the data and eradicate the common method risks. To test the discriminant validity of the dependent and independent variables, Varimax rotated factor analysis was employed to see how well the items loaded on each factor used in this study. The loading factors, as well as the Cronbach–alpha values are reported for each construct below.

**Dependent variables**

All dependent and independent variables were measured on a 7–point Likert scale where 1 = “disagree” and 7 = “agree” that the board is either a) involved in a given task or b) possesses a given characteristic or c) is prone to cognitive or affective conflicts.
Resource provision tasks. To measure the resource provision task, we have asked the respondents to rate the extent of involvement of the board as a whole in a) networking with important external contingencies, b) lobbying, c) forming customer relationships, d) identifying various business opportunities, e) enhancing the company’s public image, f) acting as mentors and g) advice on renewal and innovation. The scale used in this study is similar to that used by Minichilli et al. (2009). The factor loadings for resource provision were in the range of 0.67–0.83 and the reliability value (Cronbach’s alfa) for this measure was 0.82.

Monitoring tasks. To measure the monitoring task, the respondents were asked to rate the extent of involvement of the board as a whole in a) monitoring the CEO, including remuneration and successor selection b) monitoring the outcomes of the firm, including the firm’s investments, liquidity, budgets and operations and c) monitoring the firm’s social responsibility and ethics of its operations. The scale used in this study is similar to that used by Minichilli et al. (2009). The factor loadings for monitoring were in the range of 0.45–0.78 and the reliability value (Cronbach’s alfa) for this measure was 0.82.

Independent variables

Board human capital. In the context of this study, board human capital refers to the board members’ knowledge, consisting of directors’ experience and expertise in the firm, industry, business and governance areas. This concept has parallels to the knowledge and skills concept developed by Forbes and Milliken (1999), but is closer to the human capital concept developed by Hillman and Dalziel (2003). To measure the board human capital, we have asked the respondents to rate the level of the board’s knowledge of the focal company itself, the board’s experience in the relevant business areas, and their international experience and professionalism in governance. The factor loadings were in the range of 0.50–0.88 and the Cronbach’s alfa for this measure was 0.80.

Board external social capital. To measure the amount and depth of the board’s external social capital, the respondents were asked to rate the extent of their interconnectedness with strategically important contingencies outside of the focal firm, including the shareholders, public administration, political decision–makers, trade unions, and business partners. The factor loadings were in the range of 0.46–0.92 and the Cronbach’s alfa for this measure was 0.79.
Cognitive conflict. The respondents have been asked to rate the extent to which they perceive the board members as being prone to task–based disagreements and differences. An example of an item representing cognitive conflict is “To what extent the board members often have very different views on important issues discussed by the board of directors”. The scale used in this study is similar to that of Parayitam and Dooley (2009), which in turn rests on the scale developed by Jehn (1995). The factor loadings for cognitive conflict were in the range of 0.72–0.89 and the Cronbach’s alfa for this measure is 0.77.

Affective conflict. The items in this scale measure the extent to which team members perceive the existence of affective conflict on the board. An example of an item representing affective conflict is “To what extent there is a lot of personal tension between the members”. The scale used in this study is similar to that of Buchholtz et al. (2005), which in turn rests on the interpersonal conflict scale developed by Jehn (1995). The factor loadings for affective conflict were in the range of 0.84–0.93 and the Cronbach’s alfa for this measure is 0.86.

Control variables. In our statistical analysis, we chose to control for the firm size, percentage of outsiders on the board and director diversity. Firm size was measured by asking the respondents to identify the number of employees in the company. To induce symmetry in the data a logarithmic transformation was performed. Larger firms tend to have larger boards and a more dispersed ownership structure. Hence, in larger firms where the agency problems may be more pronounced, the board of directors is a more important monitoring agent when compared to smaller firms. However, in the resource provision task the boards of smaller companies may be required to concentrate more on offering advice, connections and networking to the firm. Therefore, we expect the boards to perform different tasks depending on the size of the company.

The percentage of outsiders on the board was measured as a ratio of outsiders\(^1\) to the total number of directors on the board. In many studies, this measure is used to indicate the degree of board’s dependence on the management. Therefore, this measure is expected to have a direct impact on the monitoring task. It is expected that the dependent board, or the one with

\(^1\) The director was classified as an outsider if he or she were not on a given company’s payroll
fewer outsiders, will be less involved in monitoring the management due to their direct
dependence on the management.

*Board diversity* refers to the skills and backgrounds of the board members. Board diversity
can be both an opportunity and challenge for board work (Milliken and Martins, 1996).
Forbes and Milliken (1999) claim that diversity is positively related to the presence of skills
and knowledge, but negatively related to the actual usage of skills and knowledge on the
board. Moreover, at high levels of board member diversity, the level of cohesiveness of the
board may suffer. A diverse group is less likely to be react quickly and decisive to new
challenges, due to the multitude of ‘exotic’ contributions that a diverse group is likely to
provide (Forbes and Milliken, 1999). An inability to critically assess and decide on a course
of action is likely to leave the board uninvolved in the monitoring ask, as monitoring often
requires a more thorough and specialised knowledge of a firm’s internal practises and
concerns. Conversely, the resource provision task may benefit from the diverse job–related
and perhaps even job–unrelated backgrounds of board members. Indeed, diverse member
backgrounds may imply the access to a more varied pool of resources that the board is able to
offer to the firm. In our survey, respondents were asked to identify whether there are
significant differences among the board members in terms of their work, education and
personal backgrounds. The factor loadings for diversity were in the range of 0.59–0.76 and
the Cronbach’s alfa for this measure was 0.75. It was decided not to include industry as a
control variable as it did not have any significant impact on the dependent variables and the
main results were unaffected by the removal of this variable. Therefore, in order to save
degrees of freedom and because of the limited sample size, it was decided to omit this control
variable from the study.

**Results**

Table 2 indicates the means, standard deviations and Pearson correlations among the
variables and constructs used in the study. There were no correlations of .90 or above (the
highest was 0.49, p<0.01), which would indicate that no substantial collinearity exists (Hair,
Anderson, Tatham and Black, 1998). In the regressions, however, variance inflation factors
(VIF)s reached levels of up to 2.670, which may indicate some minor collinearity problems.
Similarly, several independent variables are somewhat highly correlated (highest is $\beta= 0.49$,
p<0.01). This may have a negative effect on the reliability of the statistical findings of the
study and hence the results of this study should be treated with caution.
Interestingly, we found board diversity to be significantly negatively related to board human capital ($\beta=-0.29$, $p<0.01$). This is especially significant given the role of board diversity as a proxy for board human capital in much of the board literature (e.g. Minichilli et al., 2009). There may indeed be large differences between to what extent directors possess human capital (i.e. how knowledgeable they are) and how diverse is a given board of directors in their backgrounds. We also found significant negative correlations between board human capital and both cognitive and affective conflicts. Conversely, board human capital was found to significantly positively correlate with all board tasks. Cognitive conflict is negatively significantly correlated with the monitoring tasks. It was found to have no significant correlation with the resource provision task. Affective conflict is marginally significantly correlated with the monitoring tasks ($\beta=-0.19$, $p<0.10$) and positively and significantly with the cognitive conflict ($\beta=0.49$, $p<0.01$). This result is consistent several other studies (see e.g. Simons and Peterson, 2000) that reported strong correlations between the two types of conflicts. The correlation coefficient of 0.49 suggests that in this study the relationship between the cognitive and affective conflicts is below the average expected value of $r=0.52$ (De Dreu and Weingart, 2003). According to their study, such a high correlation between the cognitive and affective conflicts suggests that both conflicts affect the group outcomes in a similar fashion.

Boards’ external social capital is positively and significantly correlated with the board tasks. The monitoring and resource provision tasks are significantly and positively related to each other. This finding is consistent with Minichilli’s (2009) findings and indicates that the level of board activity is likely to be expressed through all the tasks it performs. Both based on past research and our findings, it seems that an active board is likely to be diligently performing all of their tasks.

The hypotheses were tested using OLS multiple regression analysis in a statistical program SPSS, version 16.0. Table 3 presents the results of the regression models. For each of the board tasks, four separate models were run: firstly (I) including only the control variables
(firm size, outsider percentage and board diversity), secondly (II) adding the main effects to the model (board human capital, board external social capital, cognitive and affective conflicts), thirdly (III) adding interaction effects of cognitive conflict with board human capital and external social capital to the second model. The final model took the second model and added the interaction effects of affective conflict with board human capital and external social capital. The standardized Beta–coefficients, their t–statistic significance levels, as well as each model’s F values and significance levels are reported in the Table 3.

In models with the control variables only, the board monitoring and resource provision tasks do not seem to be affected by any variables and the model R² values are low (0.03–0.08). In the models with main effects, the coefficients for firm size and diversity in the resource provision task as the dependent variable are significant, (β=–0.26, p<0.05) and (β=0.29, p<0.05) respectively. We found no impact of outsider percentage on board tasks in neither the control models nor in the full models.

For monitoring tasks, the model with main effects (model II) correlates at R²=0.38 and F=3.80 (p<0.01). Board human capital (β=0.33, p<0.01) and external social capital(β=0.33, p<0.01) both have a positive and significant impact on the monitoring tasks. Board human capital (β=0.35, p<0.01) along with board external social capital (β=0.32, p<0.01) also contribute positively and significantly to the resource provision tasks. Therefore, hypotheses 1a, 1b, 1c and 1d are fully supported. According to these results, external social capital of the board members is a significant indicator of the extent to which the board is involved in carrying out the monitoring and resource provision tasks. This may be due to members finding concrete benefits in their past or present experiences of similar situations in other firms or boards. Directors may actively draw on these sources of information to carry out board tasks making them more effective board members. In terms of the monitoring tasks, the significant impact of board external social capital may mean that the firm’s stakeholders are influencing the firm through the board of directors. Notably, in model II, neither cognitive nor affective conflicts have a significant correlation with either of the tasks. This is a rather unexpected finding. Often, researchers assume that there is a direct relationship between
conflicts and team outcomes and decision-making processes. The study was unable to demonstrate such relationships.

Model III for the monitoring tasks demonstrates the effects of cognitive conflict interaction with board external social capital and board human capital. The interaction term for human capital is marginally significant ($\beta=-0.19$, $p<0.10$), which leads us to reject hypothesis 2a. Contrary to the prediction, our results suggest that cognitive conflict does not significantly moderate the relationship between board human capital and the monitoring tasks. The interaction of affective conflict with board human capital is also negative. These results do not support hypothesis 2b, which stated that affective conflict should moderate the relationship between board human capital and the monitoring tasks. This study found that boards with high levels of cognitive and affective conflicts do not display differential association between board human capital and monitoring tasks when compared to more harmonious boards.

Model III for resource provision tasks fails to demonstrate statistically significant interaction between cognitive conflict and board human capital. Therefore, hypothesis 2c is rejected. This suggests that cognitive conflict does not moderate the relationship between board human capital and the resource provision tasks. Hypothesis 2d predicted that affective conflict would weaken the relationship between board human capital and the resource provision tasks. However, the results show a significant positive interaction. That is, affective conflict seems to strengthen the relationship between board human capital and the resource provision tasks. This unexpected finding goes against the theoretical predictions based on previous research. Perhaps the presence of affective conflict only decreases the directors’ willingness to interact with each other in the context of the board meetings. Instead, directors may still carry out the board tasks and contribute their human capital outside the official board meetings, possibly in personal meetings with top management and other board members.

The results show support for hypotheses 3a and 3b. This leads us to conclude that cognitive and affective conflicts moderate the relationship between board external social capital and resource provision tasks. The interaction effect is plotted in Figures 2 (cognitive) and 3 (affective). According to the results, boards with low levels of cognitive and affective conflict experience an overall stronger association between board external social capital and resource provision tasks. Boards with high levels of cognitive and affective conflict experience an
overall weaker association between board external social capital and resource provision tasks. So, cognitive and affective conflicts seem to weaken the relationship between board external social capital and resource provision tasks.

Hypothesis 3c states that cognitive conflict moderates the relationship between board external social capital and monitoring tasks. The interaction effect is plotted in Figure 4. The results support this hypothesis, and indicate that the directors’ external social capital seems to have a stronger effect on the monitoring tasks in the presence of cognitive conflict. However, affective conflict is only a marginally significant moderator of this relationship ($\beta=0.30$, $p<0.10$). This leads us to reject hypothesis 3d and conclude that the directors’ external social capital does not seem to have a stronger effect on the monitoring tasks in the presence of affective conflict.

**Discussion**

The primary aim of the study was to examine the effect of board human capital, board external social capital and cognitive and affective conflicts on the monitoring and resource provision tasks of the board. Based on data from 92 respondents, this study suggests that directors’ human capital and external social capital have a direct and positive impact on carrying out the monitoring and resource provision tasks of the board. Directors’ human capital and external social capital are both centrally important for the monitoring and resource provision tasks. This is consistent with the theoretical prediction of Hillman and Dalziel (2003). Also, in their analysis of control and service tasks, Forbes and Milliken (1999) showed that boards required a high degree of specialized knowledge and skill to function effectively. This study thereby highlights the need to examine board capital as a characteristic that adequately captures the breadth and depth of the experience, expertise, networks and knowledge of the board members. Therefore, when designing the board, stakeholders and proxy voting firms may find it useful to take into account the board capital perspective in addition to board independence and director incentives. This study was able to demonstrate that the directors’ human capital and external social capital are significant predictors of the extent to which a board may be involved in the board monitoring task. Contacts to external organisations and preferential access to commitments or support from important elements outside the firm (Pfeffer and Salancik, 1978:145, 161) are important, not just within their classical arena of the resource provision tasks, but also for the monitoring tasks of the board.
This study explored the moderating effects of cognitive and affective conflicts on the relationships between board human capital and the monitoring, external social capital and resource provision tasks of the board of directors. The study shows that, depending on the task at hand, both cognitive and affective conflict moderated the effect of board human and external social capital on board tasks. Jehn (1995) labels intragroup conflict as a multidimensional construct that should inevitably be used in addressing the complex and interactive nature of organisations. Given the inevitability of conflict within any group, (Robbins, 2005) conflict was expected to impact the productivity of the board of directors. Complementing earlier findings (De Dreu and Weingart, 2003; Hamm–Kerwin and Doherty, 2010), this study showed that both task (cognitive) and relationship (affective) conflicts are highly correlated with each other. Even though the cognitive and affective conflicts may differ in the kinds of feelings they elicit in the individual team members, they may have a detrimental impact towards organisational outcomes and the relationship between board capital and board tasks. According to previous literature, both types of conflict seem to decrease decision quality, distract the members from involvement in their primary tasks, lessen commitment, render the team dysfunctional and promote negative feelings toward the group (Hamm–Kerwin and Doherty, 2010). Therefore, it is not surprising that in presence of conflicts, the relationship between board members’ human capital and external social capital was weakened for the resource provision tasks. Both cognitive and affective conflicts moderated the monitoring and resource provision tasks in the same direction: negatively for the relationship of human capital to monitoring tasks and for the relationship of external social capital to resource provision tasks, and positive for relationship between external social capital to monitoring tasks and human capital to resource provision tasks. Even though the predicted signs were not always in line with the results and some results were insignificant the data lets us tentatively suggest that both cognitive and affective conflict act in the same manner towards the board task at hand.

In line with previous research that portrayed the board as an open system susceptible to claims and influences from the firm’s stakeholders (e.g. Huse, 2007), this study found that conflict among the board members strengthens the impact of board-external stakeholders. Directors’ external social capital positively impacts their involvement in the monitoring tasks, and in presence of conflicts this impact was strengthened. Board members are elected to the board because they are seen to provide a specific set of resources to the firm, in form of their human and external social capital (e.g. Hillman and Dalziel, 2003, Pfeffer and Salancik,
Board members may also be direct or indirect representatives of various external and internal stakeholders (Huse, 2007). It may be that these stakeholders utilise their ties with board members to drive their own interests through to the board and, thereby through the firm. This study found that the impact of directors’ external social capital on the monitoring tasks is stronger in a conflicting and dysfunctional board. These results reflect the sociological notions of social sanctioning (Coleman, 1988) and co-optation (Selznick, 1980). Co-optation may sometimes lead to ‘reverse co-optation’ (Dittmer, 1987). Reverse co-optation refers to the idea that individuals who are meant to originally co-opt the environment may become co-opted by that environment and adopt its interests rather than preserving their original interests. Since corporate control is inherently political, the society or stakeholders may influence corporations through networks they share with members of the board. The boards may then be ruled by the interests of those stakeholders or prevailing societal norms (Huse, 2007: 80).

This study also illustrates an additional feature to studying boards and directors’ social connections and capital. Oftentimes, the directors’ social capital is measured, or approximated by directors’ interlocks. An interlock exists when a particular person sits on two or more corporate boards (Huse, 2007: 81). Whereas interlocking directorates have been analysed as mechanisms of co-optation, control and societal influence, they unfortunately do not depict the full web of directors’ interconnections in the external environment. Measuring interlocks with other important organisations may not include directors’ connections to other important stakeholders, such as local and national governments and administrations, employees and society at large. However, companies can be vitally affected by, or they can vitally affect almost anyone (Mitchell, Agle and Wood, 1997: 857). Therefore, board tasks may also reflect the interests of a broader set of stakeholders, including the employees and society (Huse, 2007: 75). Compared to interlocks, directors’ social capital provides a richer picture of boards’ external connections, and hence may prove to be more appropriate for future studies of boards’ external relations.

The board structural variable, expressed here as outsider percentage, does not seem to have any effect on the board tasks studied. This supports previous research that has argued for a decreased emphasis on structural variables and an increased emphasis on behavioural variables in analysing board tasks (Huse, 2005; Minichilli et al., 2009, Forbes and Milliken, 1999; Hillman and Dalziel, 2003; Wan and Ong, 2005). This study has not been able to
demonstrate the direct impact of cognitive and affective conflicts on board tasks. Consequently, this strengthens the growing convention that intermediary behavioural variables are likely to have a moderating impact on the extent to which directors’ knowledge, expertise, skills and external connections are employed when performing board tasks.

**Limitations and further research**

The results of this study contribute to our knowledge of the impact of cognitive and affective conflicts on board tasks involvement and could serve as the basis for further studies in the field. However, this study has some limitations worth exposing. Firstly, the sample size is quite small, with only 92 observations. For several independent and control variables, mostly consisting of constructs with 3–9 items, it is important to have an adequate sample size. Moreover, if the study expected to show strong correlations between some independent variables, sample sizes should be large in order to decrease the effect of multicollinearity (Blalock, 1979). However, examining the collinearity statistics of the study leads us to believe that such problems here are minor. Nevertheless, the statistical results of this study should be treated with caution. Secondly the study is a potential subject to common method bias. This problem is dealt with by procedural methods. It would be advisable for future studies to restrict their analysis to data confirmed by double respondent surveys and archival data. Thirdly, the study is limited to firms from one nation. Although the Finnish market is comparable to many European markets, this limitation threatens the potential generalisability of this study across different institutional contexts.

This study opens many possible avenues for future research and provides just one step in enhancing our understanding of the determinants of board tasks. Board tasks are affected by a myriad of demographic, structural and behavioural variables and their complex and dynamic interplay. To take all of the important factors into account would be a daunting task for one study. Moreover, corporate governance research is at present lacking a comprehensive theoretical framework for the analysis of board work (Pye and Pettigrew, 2005). Nevertheless, future researchers may find it useful to include other behavioural and structural variables in the analysis of the board tasks. Those of particular future interest are cognitive conflict among the board members, the atmosphere in the board room and board members’ enthusiasm regarding their tasks. As conflict is a multidimensional and dynamic concept, further studies would certainly benefit from looking at the nature of conflict in different situations, how it evolves and what are its determinants and impacts. As has been previously
suggested by Hamm–Kerwin and Doherty (2010), variables such as shared goals and interests, member expectations, tolerance for conflict, conflict resolution schemes and goal ambiguity may all influence both the level of conflict and its differential impact on team outcomes. This study concluded that conflicts are detrimental to board tasks regardless of their nature. Whilst this result is consistent with the latest trends in conflict research, this analysis is cross-sectional.

Recently, researchers have demonstrated that it is important to consider the temporal dimension of conflicts (see e.g. De Dreu and Weingart, 2003; Jehn and Mannix, 2001; Greer, Jehn and Mannix, 2008). Conflicts are dynamic in nature and their magnitude may change. Furthermore, cognitive conflict may turn into affective conflict if systems for cognitive conflict resolution are not introduced in time (Greer et al., 2008). The on-going research suggests that conflicts have different impacts depending on the time of measurements. The measure of conflict, just like any other behavioural variable should reflect its dynamism. Hence, a cross-sectional study may not be the best approach and further research is encouraged to apply longitudinal investigations to study the role of conflicts in organisations.

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2 Beginning of the task, middle of the task and completion of the task
References


FIGURE 1:

Summary of the hypotheses

Determinants

- Board expertise
- Board networks

Affective conflict

Board level outcomes

- Monitoring tasks
- Resource provision tasks

Cognitive conflict
**TABLE 1:**

**Sample characteristics**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Category</th>
<th>n / %</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company age, years</td>
<td>Average age</td>
<td>52.62</td>
<td>91</td>
</tr>
<tr>
<td>Company turnover, m. €</td>
<td>&lt; 50</td>
<td>16.5 %</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>50-100</td>
<td>39.5 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>101-400</td>
<td>35.2 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 400</td>
<td>8.8 %</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>&lt; 100</td>
<td>19.8 %</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>100-500</td>
<td>49.0 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>501-1000</td>
<td>15.9 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 1000</td>
<td>16.0 %</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>Industry and production</td>
<td>58.0 %</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>30.0 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High technology</td>
<td>2.0 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance</td>
<td>1.0 %</td>
<td></td>
</tr>
<tr>
<td>Incorporation</td>
<td>Listed</td>
<td>12.0 %</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Family owned</td>
<td>19.0 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Privately owned</td>
<td>53.0 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>7.0 %</td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>Chairperson and Board</td>
<td>20.6 %</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>CEO and Management</td>
<td>2.4 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finnish financial</td>
<td>4.8 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign financial</td>
<td>3.5 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finnish companies</td>
<td>23.8 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign companies</td>
<td>14.0 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Official body</td>
<td>14.8 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>14.7 %</td>
<td></td>
</tr>
<tr>
<td>CEO tenure, years</td>
<td>&lt; 5</td>
<td>57.1 %</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>5-10</td>
<td>28.6 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 10</td>
<td>14.3 %</td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>Average size</td>
<td>5.96</td>
<td>91</td>
</tr>
<tr>
<td>Outsider percentage</td>
<td>Average %</td>
<td>83.0 %</td>
<td>54</td>
</tr>
<tr>
<td>CEO present on Board</td>
<td>Average %</td>
<td>39.0 %</td>
<td>92</td>
</tr>
</tbody>
</table>
### TABLE 2:

*Means, standard deviations and Pearson correlations*

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std dev.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Firm size (no. empl. log)</td>
<td>5.76</td>
<td>1.37</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Outsider percentage</td>
<td>0.98</td>
<td>0.05</td>
<td>−0.06</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Board diversity</td>
<td>4.86</td>
<td>1.10</td>
<td>0.03</td>
<td>−0.14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Board human capital</td>
<td>4.96</td>
<td>1.06</td>
<td>0.03</td>
<td>0.07</td>
<td>−0.29**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Board external social capital</td>
<td>4.37</td>
<td>1.23</td>
<td>−0.04</td>
<td>−0.00</td>
<td>−0.06</td>
<td>0.15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Cognitive conflict</td>
<td>3.03</td>
<td>1.07</td>
<td>−0.19+</td>
<td>−0.09</td>
<td>0.03</td>
<td>−0.29**</td>
<td>−0.12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Affective conflict</td>
<td>2.11</td>
<td>1.16</td>
<td>−0.18</td>
<td>0.11</td>
<td>0.02</td>
<td>−0.31**</td>
<td>−0.05</td>
<td>0.49**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Monitoring task</td>
<td>5.04</td>
<td>0.82</td>
<td>0.09</td>
<td>0.11</td>
<td>−0.06</td>
<td>0.43**</td>
<td>0.34**</td>
<td>−0.23*</td>
<td>−0.19+</td>
<td></td>
</tr>
<tr>
<td>9. Resource provision tasks</td>
<td>4.13</td>
<td>1.05</td>
<td>−0.18</td>
<td>−0.09</td>
<td>0.09</td>
<td>0.34**</td>
<td>0.31**</td>
<td>−0.09</td>
<td>−0.03</td>
<td>0.44**</td>
</tr>
</tbody>
</table>

All two-tailed tests. + p<0.10, * p<0.05, ** p<0.01
# TABLE 3: Regression models

<table>
<thead>
<tr>
<th></th>
<th>Monitoring tasks</th>
<th>Resource provision tasks</th>
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<tr>
<td></td>
<td>I</td>
<td>II</td>
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<tr>
<td>Control variables</td>
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</tr>
<tr>
<td>Firm size</td>
<td>0.12</td>
<td>-0.00</td>
</tr>
<tr>
<td>Outsider percentage</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>Board diversity</td>
<td>-0.03</td>
<td>0.15</td>
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<tr>
<td>Board human capital (HC)</td>
<td>0.33**</td>
<td>0.31*</td>
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<tr>
<td>Board external social capital (ESC)</td>
<td>0.33**</td>
<td>0.41**</td>
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<tr>
<td>Cognitive conflict</td>
<td>-0.19</td>
<td>-0.11</td>
</tr>
<tr>
<td>Affective conflict</td>
<td>-0.05</td>
<td>-0.08</td>
</tr>
<tr>
<td>HC*Cognitive conflict</td>
<td></td>
<td>-0.19+</td>
</tr>
<tr>
<td>ESC*Cognitive conflict</td>
<td>0.35**</td>
<td></td>
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<tr>
<td>HC*Affective conflict</td>
<td></td>
<td>-0.13</td>
</tr>
<tr>
<td>ESC*Affective conflict</td>
<td>0.30+</td>
<td></td>
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<tr>
<td>R²</td>
<td>0.03</td>
<td>0.38</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>-0.04</td>
<td>0.28</td>
</tr>
<tr>
<td>F</td>
<td>0.42</td>
<td>3.80**</td>
</tr>
</tbody>
</table>

The levels of significance are: + p<0.10, * p<0.05, ** p<0.01
All one-tailed tests.
The table shows the standardized Beta-coefficients and the significance levels of their t-statistic, as well as the R², Adjusted R² and the F-value and its significance level.
Number of cases is 92. VIF levels for all the regressions are within the range 1.004–2.670
FIGURE 2: Cognitive conflict moderation, Board external social capital → Resource provision tasks

FIGURE 3: Affective conflict moderation, Board external social capital → Resource provision tasks
FIGURE 4: Cognitive conflict moderation, Board external social capital → Monitoring tasks
Board members’ social identifications and board tasks

Unpublished working paper

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Board members’ social identifications and board tasks

Abstract

Despite increasing attention from academia on the tasks of boards of directors, there is still a lack of knowledge regarding the impact of directors’ social identification on their engagement in specific board tasks. This paper empirically examines how the directors’ identification with the organization, its shareholders and customers affects the extent to which the board engages in external legitimacy, networking, advice and counsel, top management monitoring, financial monitoring, strategic participation and strategic evaluation tasks. This study uses primary questionnaire data and controls for board, firm and industry characteristics. The findings suggest that organisational identification is positively associated with the level of board task involvement. Moreover, shareholders identification was found to be negatively associated with strategic participation tasks and only weakly associated with other board tasks. These findings suggest a re-evaluation of the shareholder supremacy view as the only driver of value creation for the firm. Additionally, this study finds that board, firm and industry characteristics are similarly weak in predicting the involvement of the directors in the board tasks examined.

Introduction

Researchers have sought to find meaningful relationships between firm performance, board task involvement and their possible determinants (e.g. Daily, Dalton and Cannella, 2003). In particular, attention has been paid to board behaviour and the kinds of processes that are going on inside the board (Huse, 2005, 2007; Forbes and Milliken, 1999; McNulty, Roberts and Stiles, 2005), along with how boards are influenced by level of directors’ participation, exchange of information and critical discussions (Huse, 2005, 2007; Hambrick, v. Werder and Zajac, 2008). The motivation in these studies has been to increase knowledge on the factors that have an effect on the extent to which the boards undertake certain tasks in order to improve board efficiency and, hence, firm performance.

As part of an increased focus on the dynamic nature of boards, the literature has expanded into organisational behaviour theories, including those concentrating on identity (Burke, 1980; Stryker, 1968) and social identity (Hogg, 1992; Tajfel, 1974). Herein, scholars have focused on identification with not only the focal organization but also with other contingencies both outside and within the organization (Burke, 1980; Stryker, 1968; Jing, 2009; Foreman and Whetten, 2002; Harris and Goel, 2010). As a result, the multiple identities and identifications of board members have been posited as important predictors of board behaviour (Golden–Biddle and Rao, 1997).
Hillman, Nicholson and Shropshire (2008), have developed a conceptual model of directors’ identities and identifications and their impacts on board monitoring and resource provision tasks. They propose that directors’ identification with the organization, its shareholders, its customers and directors’ occupation as a professional board member and/or CEO affects their monitoring and resource provision tasks. Furthermore, Hillman et al. argue that directors’ role and social identities explain how and why board members become engaged in their board tasks (see McNulty et al., 2005).

Following in the footsteps of Hillman et al. (2008), the objective of the present study is to build and empirically test a model that explains how the board members’ organizational, shareholder and customer social identifications impact their contribution to board resource provision and monitoring tasks. This paper contributes to the present literature on boards of directors by applying an empirical, analytical lens to theories on how and why directors engage in board tasks posited by researchers following the social identity perspective (see e.g. Harris and Goel, 2010; Golden-Biddle and Rao, 1997; Withers and Hillman, 2008). In particular, following Minichilli, Zattoni and Zona (2009) and Huse (2005), this paper provides a broader definition of resource provision and monitoring tasks than the one suggested by Hillman et al. (2008), showing that different social identifications of the board members have different explanatory power towards the subsets of both of these tasks.

The paper is organized as follows. First, theoretical insights on identification and identity are reviewed, followed by a brief discussion of the board tasks. Next, the hypotheses are developed, relating to board tasks and the directors’ relevant identifications, followed by a description of methodology, including the discussion of the sample and operationalisation of the concepts used in the study. The study concludes with the results and discussion sections, followed by conclusions and suggestions for further research.

**Board tasks**

Traditionally, research on board tasks has been concerned with directors’ engagement in efforts around control and resource provision to the focal firm (Hillman and Dalziel, 2003; Pearce and Zahra, 1992; Boyd, 1990; Zahra and Pearce, 1989). The monitoring tasks primarily involve balancing the discretionary power of managers with accountability to the shareholders (Stiles and Taylor, 2001:60). The resource provision tasks, in turn, embrace the provision of any kind of feature, skill or advantage that could be considered useful for the firm’s operations (Pfeffer 1972; Pfeffer and Salancik, 1978). The resource provision task may
involve providing advice and counsel (Mintzberg, 1983; Pfeffer and Salancik, 1978; Pfeffer, 1972, 1973; Zahra and Pearce, 1989), communication channels with external stakeholders (Pfeffer and Salancik, 1978), granting access to commitments, garnering support from important elements outside the firm (Lynall, Golden and Hillman, 2003; Hillman, Cannella and Paetzold, 2000; Zahra and Pearce, 1989), and providing legitimacy in society (Johnson, Daily and Ellestrand, 1996; Zahra and Pearce, 1989).

The conceptual work of Hillman et al. (2008), on which the present study is based, concurs with the classical, dyadic classification of board tasks into monitoring and resource provision. Developing the board tasks classification further, Huse (2005, 2007) has provided a broader definition of the classic service and control, allowing for a more thorough understanding of the different tasks the board can perform and how the board is involved in value creation for the firm (Minichilli et al., 2009). Board tasks can thus be sorted depending on the board’s orientation or focus. For example, the board’s concerns with internal factors of cost control and organisational structure can be contrasted with external factors of relations with the shareholders, governments and communities (Huse, 2007:57). Therefore, board tasks can have an internal, external or strategic focus, depending on the actors whom directors are addressing by engaging in a specific task.

Similarly to Huse (2005) and Minichilli et al. (2009), this paper examines a range of board tasks. Within the resource provision domain, advice and counsel, external legitimacy, networking and strategic participation tasks are highlighted (Hillman and Dalziel, 2003; Minichilli et al., 2009; Huse, 2005). Advice and counsel tasks have an internal focus while the external legitimacy and networking tasks have an external focus. Strategic participation tasks have a strategic focus. The monitoring task domain includes the internally focused top–management monitoring, externally focused corporate financial performance monitoring and strategically focused strategic evaluation. This classification is conceptually beneficial, as it combines complementary theoretical perspectives with the often-used agency and resource dependence theories (Minichilli et al., 2009).

The advice and counsel tasks are theoretically grounded in both the stewardship theory and resource-based view (Huse, 2007:76, 84). Stewardship theory assumes that managers should generally be trusted as faithful stewards of the company (Davis, Schoorman and Donaldson, 1997). Under this theory, board tasks will guide the directors in achieving the objectives of the organization and in acting as collaborators with the management (Hillman and Dalziel,
By offering their experiences, competences and viewpoints to the board, directors represent a valuable resource. The networking and external legitimacy tasks are based on resource dependence and social network/institutional theories. By being externally oriented and carrying social ties to the firm’s stakeholders, the board contributes to a steady resource flow into the firm and fosters external legitimacy. Social networks facilitate cohesion and exchange of information (Gulati and Westphal, 1999), but also lead to the homogenization of organizations as boards conform to prevailing institutional norms (Huse, 2007:80). Finally, the strategic participation tasks include all dimensions of strategic decision-making, including the formulation, implementation and supervision of strategic choices by the directors (McNulty and Pettigrew, 1999).

The top management monitoring tasks are grounded in agency theory. They consist of monitoring the CEO and top management’s behaviour (Boyd, 1995), including remuneration schemes and successor choice. The primary objective of the board in this case is to ensure that the CEO and top management are acting in full accordance with the shareholders’ wishes (Shleifer and Vishny, 1997). The financial monitoring of the firm is also based in agency theory and is concerned mostly with reviewing and scrutinizing of the financial indicators of the firm’s operations. Due to the inherent difficulty of objectively observing and judging the CEO or top management’s performance, board members monitor the corporate financial performance of the firm to ensure that the shareholders’ and stakeholders’ interests are being properly represented (Fama and Jensen, 1983; Minichilli et al., 2009). Finally, strategic evaluation is concerned with scrutinizing strategic directions and choices. This subset of board tasks includes evaluating particularly important strategic choices, such as organizational restructuring or acquiring or disposing of a particular venture or department (Zahra and Pearce, 1989). In the literature, the theoretical approach to the study of determinants of board tasks varies. Agency theorists often examine the board’s independence and incentives effect on board monitoring, whereas resource dependence scholars focus on the board’s ability to provide resources to the firm (Hillman and Dalziel, 2003).

Despite several recent empirical investigations of board tasks (see e.g, Minichilli et al., 2009) the evidence of factors explaining the extent to which the board undertakes different tasks is still somewhat limited (Daily et al., 2003). Due to the lack of empirical findings relating board demography to firm performance, the trend has shifted toward examining the behavioural aspects of the board (Forbes and Milliken, 1999). For example, Huse (2005) identifies the board decision-making culture as the main predictor of the actual task
performance. Those researching the behavioural determinants of board tasks attempt to identify specific behaviour that can potentially explain directors’ degree of involvement in board tasks. Similarly, as the directors’ social identification can affect their behaviour, it may also be an important determinant of board tasks. The next section explains these relationships in greater detail.

Identity and identification

The concept of identity broadly refers to individuals’ or groups’ conceptions of who they are. According to identity theory, people are made up of multiple conceptions of themselves, for example, as parent, teacher or CEO (Burke, 1980; Stryker, 1968). At any point in time, an individual is a collection of both conflicting and complementary identities that help explain his or her role in the society. These identities provide a meaning for individuals, helping explain their behaviour in general and their situationally unique behaviours (Hogg, Terry and White, 1995).

Social identity theory, which forms the theoretical framework for this study, draws on these ideas but focuses more specifically on people’s identification with social categories1 and how these shape their understanding of themselves and others (Hogg and Abrams, 1988). Each social group that an individual belongs to provides normative prescriptions, which broadly shape his or her behavioural patterns (Ashforth, 2001). Although it is difficult to determine the particular social identification that has the most impact in a given situation, it is possible to theoretically deduce the social identities that are most likely relevant for that situation. Alongside the traditional emphasis on identity as such, therefore, social identity theory provides a solid basis for an explanation of a given individual’s actions and behaviour (Callero, 1985:205).

In the board context, Hillman et al. (2008) have applied this theoretical framework to elucidate the effect of varying degrees of directors’ identifications on board monitoring and resource provision tasks. They argued that the extent to which a director will engage in monitoring and resource provision tasks depends on the extent to which s(he) identifies with the organization, its shareholders, customers and suppliers, with being a director and with being a CEO. Together, these identifications provide important means for understanding board behaviour.

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1 e.g., nationality, gender, political affiliation
The process by which social identity affects or defines the behaviour of an individual is often referred to as depersonalization. Depersonalization refers to individuals’ attempt to align their actions with the normative behaviours of a particular social identity. The extent to which their actions will eventually be aligned with this social identity in turn depends on the individual’s strength or level of identification with this identity and salience of this identity (Ashforth and Mael, 1996; Mael and Ashforth, 1992). In other words, the degree to which an individual will come to define him or herself with a particular social identity will depend on 1) the extent to which this identity is relevant at a given moment and 2) the degree to which an individual identifies him or herself with the given social identity (Ashforth, 2001). Moreover, as individuals differ amongst each other in terms of their strength of identification with any given role or social identity, their behaviour will also differ when faced with similar situations. Therefore, understanding how individuals behave on the basis of their identities requires consideration of both the target of their identities and the relative strength of their identification (Hillman et al., 2008).

Since at any given time an individual is likely to have several role and social identities, it is possible that some of these may conflict with each other, consequently affecting an individual’s behaviour. Biddle (1986) and Kreiner, Hollensbe and Sheep (2006) discuss this phenomenon in terms of an identity conflict that may arise if an individual is subject to different identities that may potentially drive him or her to behave differently. Hence, it is likely that most people are often subjected to identity conflicts due to the coexistence of identities that call for slightly different behaviour in many circumstances. Balmer and Greyser (2002) however contend that this potential conflict may be less pronounced or at least mitigated if the identities in question are convergent or aligned with each other.

Classically, organization researchers have been concerned with identification of an individual as a member of an organization (e.g. Foreman and Whetten, 2002). In other words, organisational identification is the degree to which a member defines oneself by the same attributes that he or she believes define the organization (Dutton, Dukerich and Harquail, 1994). The extent to which an individual identifies with an organization is believed to directly affect his or her attitudes, behaviours and commitment to that organization and ultimately create value for that organization (Ashforth and Mael, 1989). Further studies have analysed individuals’ multiple identities but usually within organizations. For example, Barker and Tompkins (1994) compared one’s organisational workgroup identification to their overall organisational identification. To supplement the often-studied organisational
identification, Hillman et al. (2008) also included two other social identities. They pointed out that the board members are likely to identify themselves with the firm’s shareholders and customers, thereby giving these two outside groups indirect influence on directors’ contributions to board tasks (Hillman et al., 2008).

**Hypotheses**

Directors’ social identification with the organization or other relevant contingencies is likely to affect their behaviour (Hillman et al., 2008). However, researchers claim that for social identification to be useful at explaining an individual’s behaviour, it must be contextually relevant and salient (Ashforth, 2001). Although it may be difficult to choose an exact number of social identifications it is nevertheless possible to elucidate board member social identifications that are of heightened importance for board members when completing particular board tasks. Drawing from Hillman et al. (2008), this paper focuses on three central elements of board member identification: the organization, the shareholders and the customers. It is expected that each of these elements are linked in with board tasks, as proposed below.

**Identification with the organization**

We know from previous research that the degree to which organisational members identify with the focal organization depends on the extent to which they define themselves by the same attributes as those of the focal organization (Dutton et al., 1994). Golden–Biddle and Rao (1997) claim that the strength of board members’ identification with the organisation will affect the construction and enactment of directors’ roles. This, in turn will impact their motivation, satisfaction and commitment towards the organization (Ashforth and Mael, 1989; Mael and Ashforth, 1992); hence, the degree to which they will act in the interests of the organization will also be affected (Scott, 1997).

In terms of monitoring, a board with a stronger identification with the organization is expected to be more involved in monitoring tasks than boards with a weaker identification. The decisions and actions of the CEO and top management clearly have a potential to either significantly improve or disrupt the short and long term prospects and interests of a focal organisation. Boards that strongly identify with the organization are interested in promoting the short–term and long–term interests of that organization. It is therefore expected that
boards with stronger organisational identification will monitor the CEO and top management behaviour more vigilantly.

Similarly, the directors’ organisational identification is expected to impact the financial monitoring and strategic evaluation tasks. These tasks involve examination of a firm’s financial reports and procedures (Minichilli et al., 2009), as well as ratification and control of a firm’s important (strategic) decisions (Huse, 2007). As thorough enactment of these particular tasks has clear implications for the firm, a board with stronger organisational identification is expected to monitor the firm’s financials and strategy more vigilantly.

**Hypothesis 1a: Directors’ identification with the organization is positively associated with the extent to which they engage in**

(i) top management monitoring  
(ii) financial monitoring  
(iii) strategic evaluation tasks

As for resource provision and service tasks, a board with a higher degree of identification with the organization is more likely to make its own pool of resources available to the focal firm. Conversely, when directors only weakly identify themselves with an organisation, their store of resources will be less used to benefit the organisation (Hillman et al., 2008). All resource provision tasks studied here are likely to require the board members to make a conscious effort to actively engage in the specified activities. For example, while performing their networking and external legitimacy tasks, the board members actively draw on their networks and social capital for the benefit of the focal organisation (Huse, 2007:59; Pfeffer and Salancik, 1978). When offering advice and counsel to the management, directors act as consultants, providing their unique knowledge and competencies (Huse, 2007:59).

Organisational members who identify more strongly with a firm are more likely to extend effort and be engaged in their organisational behaviours (Dutton et al., 1994). Therefore, it is reasonable to expect a positive correlation between director organizational identification and involvement in resource provision tasks. Furthermore, since a board with higher levels of identification is by definition more likely to engage in activities that ensure the long–term survival and value creation for the firm, it is more likely to engage in strategic activities. Similarly, Westphal (1999) argues that board members’ commitment increases their participation at each phase of the strategic decision–making process. As board members are
expected to collaborate with the management in shaping the content, context and conduct of strategy, the board with stronger organisational identification is expected to be more involved in strategic participation tasks as well. Thus it is hypothesized as follows:

**Hypothesis 1b:** Directors’ identification with the organization is positively associated with the extent to which they engage in

(i) external legitimacy  
(ii) networking  
(iii) advice and counsel  
(iv) strategic participation tasks

**Identification with the shareholders**

From an agency perspective, the sole purpose of the board of directors is to protect the interests of shareholders (see e.g. Fama and Jensen, 1983; Schleifer and Vishny, 1997). Directors who act on behalf of shareholders are specifically interested in top management and financial monitoring, as the main interest of the shareholders is to ensure that the outcomes of the organisation meets their needs and objectives (Huse, 2007:59). Consequently, board members who strongly identify with the shareholders are expected to be more involved in the monitoring tasks than those with a weaker identification. Both top management and financial monitoring are likely to be relatively short–term indicators, often used by shareholders as a measurement to monitor their investments.

Additionally, the shareholders should be interested in long–term survival of the firm given their residual claimants position. By nature, strategic evaluation is a long–term activity and involves more in–depth involvement on behalf of the directors. At the same time, it has a considerable impact on future developments and outcomes of the firm (Huse, 2007:60). Because the firm’s long–term survival and ability to create value depends greatly on the strategic choices made by the organisational management, commitment to and involvement in strategic evaluation is believed to be a central effect of shareholder identification. This is summarized in the following hypothesis:

**Hypothesis 2a:** Directors’ identification with the shareholders is positively associated with the extent to which they engage in

(i) top management monitoring
In answering the questions ‘what is best for shareholder interests’ and ‘how can the board ensure the security of these interests’ research seems to centre on the controlling, or monitoring tasks of the board (Huse, 2007: 40). Indeed, according to the shareholder supremacy view, the board is primarily seen as limiting, or constraining, as opposed to enabling the operative management’s decision-making and opportunism. Whilst the more commonly used stakeholder approach rightfully questions the rationale for this behaviour, the board whose identification lies specifically with the shareholders is likely to adopt a more discrete and short–term, monitoring approach to board tasks, concentrating namely on what is best for the shareholders now.

Hillman et al. (2008) also argue that the directors with strong identification with shareholders are likely to engage in resource provision tasks to a greater degree than those with weak identification with the shareholders. Directors’ fiduciary duty to shareholders is likely to motivate directors to act on shareholders’ behalf (Jensen, 1993) and in shareholders’ interests. By the same token, as shareholders are the residual claimants of the firm, they must be interested in its long–term survival. Resource provision tasks are likely to enhance the firm’s legitimacy in society and help it to survive in the long–term (Zahra and Pearce, 1989; Pfeffer and Salancik, 1978). As these outcomes are clearly within the shareholders’ interests, directors who strongly identify themselves with the shareholders are similarly expected to be actively involved in resource provision tasks, including involvement in strategic participation tasks through counsel and advice to the CEO, initiation of their own analyses and suggestion of alternatives (Zahra and Pearce, 1989). Therefore, it is argued that:

Hypothesis 2b: Directors’ identification with the shareholders is positively associated with the extent to which they engage in

(i) external legitimacy
(ii) networking
(iii) advice and counsel
(iv) strategic participation tasks
Identification with the customers

In addition to organisational and shareholder interests, boards also have obligations towards other internal and external stakeholders such as customers, governmental agencies, employees, suppliers and local communities (Huse, 2007: 42; Hillman et al., 2008). Although Hillman et al. (2008) suggest suppliers and customers as two distinct groups of primary stakeholders, it seems that the logic of identification is essentially the same for both. Therefore, the choice was made to look specifically at customers as a way of obtaining insight into these categories.

Board members who represent the firm’s customers are often considered to be key ‘boundary spanners’, facilitating resource and knowledge exchange between the focal firm and the customers (Golden and Zajac, 2001). Because of the customers’ interest in the survival of the focal firm, the directors would be interested in ensuring a steady flow of resources for the focal company (Hillman et al., 2008). External legitimacy, networking and advice and counsel tasks all offer invaluable resources for the focal organisation and likely to positively contribute to value creation within that organisation. Therefore, these three tasks are expected to be positively related to directors’ identification with the customers.

The strategic choices of a focal firm likely have the potential to influence the choices of suppliers, customers, markets and affect organisational development. Therefore directors with stronger identification with the customers should be more interested in the strategic issues of the focal firm for at least two reasons: 1) to ensure the survival of the focal firm for future resource exchange with the firm’s customers and 2) to make sure that the firm’s strategic decision making reflects the customers’ interests at all stages, including ensuring customer retention. As strategic participation tasks likely include the customer–dimension through the focal organisation’s choices of business field, future development goals and strategic partnership choices, the following is expected:

Hypothesis 3a: Directors’ identification with customers is positively associated with the extent to which they engage in

(i) external legitimacy
(ii) networking
(iii) advice and counsel
(iv) strategic participation tasks
In terms of the monitoring task, the board that strongly identifies with the customers is likely to remain a vigilant monitor of the focal firm’s management to ensure that the customers’ interests and demands are being met (Hillman et al., 2008). In a similar vein, Golden and Zajac (2001) suggest that stakeholder directors may specifically seek to convey the interests of the stakeholders they represent and enforce their influence over the focal organisation. Accordingly:

**Hypothesis 3b:** Directors’ identification with the customers is positively associated with the extent to which they engage in

(i) top management monitoring  
(ii) financial monitoring  
(iii) strategic evaluation tasks

**Research methods**

**Data collection and sample**

The data were collected through a mailed questionnaire directed at the CEO or President and the Board Chairperson of 887 of the largest Finnish industrial companies. Data collection was carried out between January and May 2009. There have been two reminders sent out to the respondents, each within 2–3 weeks after the deadline for the previous collection round. Data collection began by accessing an external database containing the 1000 largest Finnish industrial companies. 113 companies were not reached due to inaccurate or outdated contact information. Therefore the total sample consisted of 887 companies. We received responses for 92 of them, including 60 from the CEO (or president) and 32 from the chairperson. For 5 companies we received double responses from both the CEO and the board chairperson. The sample characteristics of the data can be seen in table 1.

Insert Table 1 about here

Researchers are increasingly suggesting the usage of double–respondent surveys in order to improve the validity of the analysed relationships (Yang, Wang and Su, 2006; Pearce and Zahra, 1992). When both the dependent and independent variables are drawn from the same source, the research may suffer from common method bias (Podsakoff, MacKenzie, Lee and
Podsakoff, 2003). For example, when the CEO or Board chairperson is asked to value their own capabilities and performance, overestimation of their achievements and downplaying of their shortcomings may decrease the reliability of the data.

This study has attempted to collect data from both the CEO and the Board chairperson thereby yielding double respondents for each firm. Unfortunately, we received only 5 matched usable responses. This lack of matched responses can be attributed to the fact that both the Chairpersons and the CEOs are busy individuals and gaining access to them is difficult (e.g. Minichilli et al., 2009; Daily et al., 2003). This potential problem was dealt with mostly by procedural techniques.

Firstly, the data on outsider representation on the board, firm size, industry and ownership was verified by secondary sources, such as firms’ annual reports and websites and the external, independent Fonecta-database. This approach has been used to decrease the potential common method bias (Pearce and Zahra, 1992). Secondly, the survey was sent with a cover letter, guaranteeing anonymity to the respondents in order to lessen the respondents’ inclination to offer socially desirable responses (Podsakoff et al., 2003). Thirdly, the wording of the questions was carefully chosen in order to avoid potential confusion and ambiguity of the concepts (Tourangeaus, Rips and Rasinski, 2000). Fourthly, the dependent and the independent variables were placed both far apart from each other (Parkhe, 1993) in mixed order.

To test for common method bias statistically, Harman one–factor test was used (Podsakoff and Organ, 1986). This test has been used in earlier papers to check for common method bias (Greene and Organ, 1973; Podsakoff, Todor, Grover, and Huber, 1984; Li and Atuahene–Gima, 2001; Atuahene–Gima and Li, 2004). In the test, all dependent and independent variables are entered into a factor analysis and the unrotated solution is examined. If only one factor emerges or there is a single general factor that accounts for the majority of covariance in the independent and dependent variables, a substantial amount of common method variance is said to be present (Podsakoff and Organ, 1986). The factor analysis yielded 12 factors with eigenvalues greater than 1, accounting for 82 per cent of variance and one factor accounted for 26 per cent of variance. It can be concluded that common method variance is unlikely to be a serious problem in this study. However, this study recognises the need to replicate the results with partial usage of archival data or double–respondent surveys to further enhance the external validity of the data and eradicate the common method risks.
To test the discriminant validity of the dependent and independent variables, Varimax rotated factor analysis was employed to see how well the items loaded on each factor used in this study. The loading factors, as well as the Cronbach–alpha values are reported for each construct below. No factors that cross–loaded with other variables were included. With one exception (0.495), all factors loaded at 0.500 or higher.

**Dependent variables**

All dependent and independent variables were measured on a 7–point Likert scale where 1 = “disagree” and 7 = “agree” that the board is either a) involved in a given task or b) identifies itself with the organization, shareholders or customers.

*External legitimacy.* To measure the external legitimacy task, a 3-item construct was used and respondents were asked to rate how actively the board members were involved in or assisted the management and/or CEO in: a) attending to the demands of external stakeholder groups, b) ensuring an ethical approach to operations and c) in enhancing the company’s public image. This construct was adapted from the board networking tasks (Huse 2007:59; Minichilli et al., 2009). The factor loadings are within the range 0.694–0.845 and the Cronbach alpha is 0.749.

*Networking.* To measure the networking task, a 3-item construct was used and the respondents were asked to rate how actively the board members assisted the management and/or the CEO in, or were involved in a) forming and utilising networks, b) forming customer relationships and c) in lobbying activities. This construct is adapted from the board networking tasks (Huse 2007:59; Minichilli et al., 2009). The factor loadings are within the range 0.681–0.897 and the Cronbach alpha is 0.798.

*Advice and counsel.* To measure the advice and counsel task, a 4-item construct was used and the respondents were asked to rate how actively the board members assisted the management and/or the CEO in, or were involved in a) identifying business opportunities, b) issues relating to renewal and innovation, c) internationalisation issues and d) financial arrangements. This construct is adapted from the board advisory tasks (Huse 2007:59) and board advice and counsel tasks (Minichilli et al., 2009). The factor loadings are within the range 0.583–0.800 and the Cronbach alpha is 0.719.

*Top management monitoring.* To measure the top management monitoring task, a 4-item construct was used and the respondents were asked to rate the extent to which the board of
directors supervised and controlled a) the CEO work, b) the CEO remuneration scheme, c) the selection of the CEO successor and d) the top management team remuneration scheme. This construct is adapted from the board internal control tasks (Huse 2007:59) and board behavioural control tasks (Minichilli et al., 2009). The factor loadings are within the range 0.495–0.827 and the Cronbach alpha is 0.751.

**Financial monitoring.** To measure the financial monitoring task, a 4-item construct was used and the respondents were asked to rate the extent to which the board of directors supervised and controlled a) the company’s operations, b) the company’s budget, c) the company’s liquidity and d) the company’s investments. This construct is adapted from the board output control tasks (Huse 2007:59; Minichilli et al., 2009). The factor loadings are within the range 0.624–0.805 and the Cronbach alpha is 0.707.

**Strategic participation.** To measure the strategic participation task, a 9-item construct was used and the respondents were asked to rate the extent of the board’s participation in a) proposing, b) deciding on, c) implementing and d) supervising the company’s long–term strategies and main goals, as well as determining the company’s e) strategy, f) values, g) organisational structure and h) strategic partnerships. This construct is adapted from the board collaboration and mentoring tasks (Huse 2007:59) and board strategic participation tasks (Minichilli et al., 2009). The factor loadings are within the range 0.595–0.808 and the Cronbach alpha is 0.881.

**Strategic evaluation.** To measure the strategic evaluation task, a 3-item construct was used and the respondents were asked to rate the extent of the board’s participation in a) evaluating company acquisitions, b) evaluating restructurings and operational rationalisation efforts and c) evaluating new technological solutions. This construct is adapted from the board decision control tasks (Huse 2007:59) and board strategic control tasks (Minichilli et al., 2009). The factor loadings are within the range 0.655–0.800 and the Cronbach alpha is 0.673.

**Independent variables**

**Organisational, shareholder and customers identification.** To measure the identifications and their strengths, an adapted version of the construct developed by Mael (1988), Ashforth (1990) and Mael and Ashforth (1992) was used. Used in previous research, the constructs have varied somewhat in terms of the number of items used but have always obtained values of Cronbach alpha ranging from 0.81 to 0.89. Hillman et al. (2008) emphasise the individual
level of analysis in their framework, answering the calls for more in-depth examination of directors as individuals. As this paper relies on single respondent data, it is difficult to identify an individual director’s social identification levels. It was therefore decided to use the respondents’ perception of the average level of board members’ social identifications. Consequently, this paper is not measuring the level of social identification of the board as a whole, but the average level of the individual directors’ social identifications as seen by the respondent. Even though measuring individual characteristics on an average level may decrease the variance of concerned variables, the main goal of the study was to find out how and to what extent the various board members’ identification levels influence the board tasks. Since the board tasks were measured on the aggregate and not on individual scale, the identifications were also measured on the aggregate and not individual scale. This was done partially to preserve the unit of analysis and partially because an individual director’s level of identification may not alone be sufficient to affect the extent of engagement of all directors in board tasks. If an individual had a pronounced influence on the whole board her levels of identification may have been sufficiently important to influence the extent to which the board is engaged in board tasks. Identifying such cases is not within the scope of this study and hence the identifications of the board and their strengths were measured as an average.

It was essential to amend the scale previously developed in order to minimize the respondents’ rating of their own identifications and rather provide their view on the identification of directors on average. To measure the organisational, shareholder and customers identification, the same questions for all three constructs were used and respondents were asked to rate to what extent do the directors: a) always speak of “us” rather than “them” when referring to the company/shareholders/customers, b) consider the company/shareholders/customers’ successes to their own successes and c) consider feedback directed at the company/shareholders/customers to be feedback directed at themselves (adapted from Mael and Ashforth, 1992). The factor loadings for the identifications were in the range of 0.520–0.867 and the Cronbach’s alfa for these measures was in the range of 0.710–0.777.

**Control variables**

Three control variables were chosen for the study: *industry*, *firm size* and *percentage of outsiders* on the board. *Industry* variables were measured by asking the respondents to identify which industry the company belonged to. The industry was then changed into a
dummy variable, indicating the value ‘1’ for industrial production firms and ‘0’ for others. Industry effects on various board tasks can be found in the literature on board of directors, e.g. Minichilli et al. (2009), as well as Hillman et al. (2000). Firm size was measured by asking the respondents to identify the number of employees in a company. To induce symmetry in the data a logarithmic transformation was performed. Larger firms tend to have larger boards. Larger firms tend to also have more dispersed ownership structure. So for larger firms, where the agency problems may be more pronounced, the board of directors is a more important monitoring agent, compared to smaller firms. However, with regard to the resource task, the boards of smaller companies may be required to concentrate more on offering advice, connections and networking to the firm. Therefore, the boards are expected to perform different tasks depending on the size of the company. Lastly, percentage of outsiders on the board was measured as a ratio of outsiders to the total number of directors on the board. In many studies, this measure is used to indicate the degree of board’s dependence on the management. Therefore, this measure is expected to have a direct impact on the monitoring task, making the dependent board\(^2\) less involved in monitoring the management, due to their direct dependence on the management. The director was classified as an outsider if he or she were not on a given company’s payroll.

Results

Table 2 indicates the means, standard deviations and Pearson correlations among the variables and constructs used in the study. There were no correlations of .90 or above among any independent, dependent or control variables (the highest was 0.59, p<0.01), which would indicate that no substantial collinearity exists (Hair, Anderson, Tatham and Black, 1998). In the regressions, variance inflation factors (VIF) reached levels of 1.359, which indicates only limited multicollinearity. However, several independent variables correlated somewhat highly (highest is \(\beta= 0.46, p<0.01\)). This may have a negative effect on the reliability of statistical findings of the study and hence the results of this study should be treated with caution.

\[\text{Insert Table 2 about here}\]

\[\text{The one with fewer outsiders}\]
Out of the control variables, firm size was positively correlated to industry $\beta = 0.23$, (p<0.05). This simply indicates that larger firms tended to be in the manufacturing industry. Also, firm size is negatively related to directors’ customers identification $\beta = -0.22$, (p<0.05). This may be indicative of the larger firms’ increased independence from their customers when compared to smaller firms that tend to be more codependent with their customers. Moreover, financial monitoring is significantly positively related to firm size and industrial production industries, $\beta = 0.19$ and $0.22$, (p<0.05) respectively.

The identification measures all correlate significantly with each other. The lowest was between organisational identification and customer identification $\beta = 0.24$, (p<0.05) while the highest was between shareholder identification and customer identification $\beta = 0.46$ (p<0.01). This may indicate that the three identifications chosen for the study are aligned with each other (Hillman et al., 2008). However, seeing as they are not strongly correlated with each other and clearly load on separate factors$^3$, one may draw the conclusion that they measure related but separate concepts. The correlations among the different board tasks in the study were high. The highest was $\beta = 0.59$, (p<0.01) between the strategic evaluation and external legitimacy tasks and the second highest was $\beta = 0.56$, (p<0.01) between the strategic participation and advice and counsel tasks. The results are not surprising, since an active board can be expected to be active in all board tasks. These results are similar to those of Minichilli et al., (2009), who recorded the highest correlation between board tasks to be $\beta = 0.73$, (p<0.01).

The hypotheses were tested using OLS multiple regression analysis. Table 3 presents the results of the regression models. For each of the board tasks, two separate models were run. The first included only the control variables (industry, firm size and outsider percentage) and second included the full model with all variables (organisational, shareholders and customers identification). The standardized Beta–coefficients, their t–statistic significance levels, as well as each model’s F values and significance levels are reported in the Table 3.

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$^3$ See the section on the description of variables
The first set of regressions considers the external legitimacy task to be a dependent variable. The model shows that directors’ organisational identification is positively associated with the external legitimacy tasks. The shareholders identification and customers identification lack explanatory power towards the external legitimacy tasks.

The second set of models considers the networking task to be a dependent variable. The model shows that both the organisational and customers identification is positively associated with the extent to which board members are engaged in the networking tasks. According to our data, shareholder identification is an insignificant parameter in explaining the boards’ involvement in the networking tasks.

The third set of models has advice and counsel as the dependent variables. The only significant predictor is organisational identification, from which it can be concluded that the level of organisational identification positively impacts the directors’ involvement in advice and counsel tasks. If the board members positively identify with the focal organisation, they are more likely to actively assist the management with their knowledge, skills and expertise.

The fourth set of models attempts to explain the involvement of the board in top management monitoring. As expected, shareholder identification was found to be strongly correlated with participation in the top management monitoring task.

The fifth set of regressions examines the effect of board members’ identifications on financial monitoring tasks and shows that involvement in this task is positively associated with organisational identification. Neither the shareholders nor the customers identification are able to explain the involvement of the board in financial monitoring.

The sixth and seventh regression models examined the strategic dimensions of the board tasks. This is the only model in the study where all three predictors were found to be significant. Organisational identification and customer identification were both found to have a significant positive impact on the involvement of the boards in strategic participation tasks. The shareholders identification is significantly negatively related to these tasks, suggesting that the board whose identity lies with the shareholders is less likely to be involved in strategic participation tasks.

Finally, the seventh model considers the strategic evaluation tasks of the board. Out of the three independent predictors, only organisational identification has a significant positive
effect on strategic evaluation tasks. Based on this result one can conclude that only the organizational identity matters when the directors are involved in the strategic evaluation task.

The analyses partially confirm hypothesis 1a, as board identification with the focal organisation positively impacts the (ii) financial monitoring and (iii) strategic evaluation tasks, but not (i) top management monitoring. Further, hypothesis 1b received full support, as directors’ identification with the organization seems to positively impact the (i) external legitimacy, (ii) networking, (iii) advice and counsel and (iv) strategic participation tasks.

Results provide weak support for Hypothesis 2a, as only the top management monitoring task seems to be affected by the directors’ shareholder identification. Hypothesis 2b claimed that directors’ identification with the shareholders will be positively related to the extent to which it engages in (i) external legitimacy, (ii) networking, (iii) advice and counsel and (iv) strategic participation tasks. This hypothesis was rejected by the data. Moreover, shareholders identification was significantly negatively correlated with strategic participation.

Hypothesis 3a predicted a positive association between the directors’ customer identification and the (i) external legitimacy, (ii) networking, (iii) advice and counsel and (iv) strategic participation tasks. The networking and strategic participation tasks were associated with directors’ customer identification. Finally, hypothesis 3b was not supported by our findings.

Figure 1 shows the significant correlations found in the regression analyses.

Further investigation of the inverted–U relationships

Hillman et al. (2008) strongly argued that directors’ organisational identification is positively associated with the monitoring tasks. While this study mostly confirmed their propositions, top management monitoring did not seem to be related to directors’ organisational identification ($\beta = -0.07$). Since top management has the potential to influence the strategic outcomes of an organisation and its long-term survival, organisational identification should be positively associated with the top management monitoring tasks. Because no linear association was found, it was decided to look deeper into this relationship and examine whether these two variables may be related to each other in a non-linear fashion.
Further investigation found an inverted–U relationship between organisational identification and top management monitoring tasks (not reported separately in detail). While the sign for organisational identification is positive and significant ($\beta=2.62$, st. error=0.94, $p<0.01$), the sign for organisational identification squared is negative and significant ($\beta=-0.27$, st. error=0.10, $p<0.01$). The remaining variables remained unchanged. The model is also significant at $R^2=0.17$ (Adj. $R^2=0.10$, $p<0.05$). Thus, the impact of organisational identification on the involvement of the board in top management monitoring tasks is positive up to a certain point, after which it tends to decrease, eventually becoming negative.

**Discussion and conclusions**

Following the suggestions made by Hillman et al. (2008), this study has explored the impact of board members’ identifications on their involvement in board tasks. This study has empirically tested a set of important social identification determinants against the extent of boards’ involvement in external legitimacy, networking, advice and counsel, top management monitoring, financial monitoring, strategic participation and strategic evaluation tasks.

Social identification theory is rarely used specifically in researching the board of directors. As such, this study provides empirical and theoretical contribution to the growing body of research on the board of directors. The contribution of this paper is particularly relevant given the lack of empirical tests on the effects of social identification of board members on board tasks. Following the tracks of the conceptual model laid out by Hillman et al. (2008), this study has been able to show that the identification of the board members is an important dimension to the explanation of how and why the board members are involved in board tasks.

Organisational identification proved to be the strongest explanatory factor in the model. In line with other theoretical and empirical findings, (see e.g. Foreman and Whetten, 2002; Dutton et al., 1994; van Knippenberg and van Schie, 2000) this study was able to show that organisational identification matters for organisational behaviour. Van Knippenberg and van Schie (2000) argue that some level of organisational identification has become increasingly important to the well being of organisations and their members. Organisational identification keeps employees from being alienated and is an important precondition to general job satisfaction. Moreover, it is a concept that likely impacts organisational members’ attitudes and behaviour and provides a basis for potential beneficial effects on organisational functioning. In line with this reasoning, this study posits and empirically finds that organisational identification positively impacts almost all board tasks studied. In particular,
this study confirms the conceptual propositions of Hillman et al. (2008) and empirical findings of Golden–Biddle and Rao (1997) and shows that the more directors identify with the organisation, the greater the likelihood that they will act in ways that benefit it.

However, this study was able to expose one dimension of organisational identification that may be detrimental to the directors’ involvement in board tasks. Top management monitoring was related to board organisational identification in an inverted–U manner. This implies that top management monitoring improves as the directors’ organizational identification increases up to a certain point, beyond which the involvement of the directors in the top management monitoring task begins to deteriorate. Even though this effect was not studied in greater detail in this paper, the results allow us to tentatively suggest that feelings of unity, commitment, working towards a common goal and being defined by the same principles may impair the directors’ judgement towards the firm’s CEO and the top management when this identification passes a certain point. CEO and top management monitoring may require a certain level of personal confrontations and judgements on behalf of the board members. An overemphasised feeling of trust and cohesiveness among the board members may decrease the likelihood of these necessary confrontations, thereby decreasing the involvement of the board members in top management monitoring tasks.

Recently, researchers have claimed that the shareholder supremacy, or the understanding of the board of directors as a tool to push shareholders’ interests, does not capture the entire complexity of the inevitable interactions within the board, with the firm and with their respective environments. Instead, it is the relationship between various internal and external stakeholders such as employees, governments and communities that are of increased importance for the corporation (Huse, 2007: 42). The findings of this study support this view of corporate governance, as the directors’ shareholders identification had only limited influence on the involvement of the board in both resource provision and monitoring tasks. One may say that a strong identification with, or overemphasis on the board as primarily a safeguard of shareholders’ interests may leave the board with less resources and capabilities to use for other tasks that may benefit the firm.

One particularly interesting finding was the inverse relationship between directors’ shareholders identification and the extent of their involvement in the strategic participation tasks. Previous literature (e.g Hillman et al., 2008) suggested that directors’ shareholder identification may be positively associated with their involvements in resource provision
tasks, which inevitably includes the strategic participation dimension to some extent. This study however found a negative association between the two phenomena. Although discovering the exact reasons for the director’s decreased participation in strategic participation tasks in response to higher levels of shareholder identification is not within the scope of this study, past research and deduction may help us understand this finding.

Strategic participation involves the active engagement of the directors in planning, implementing and proposing strategic decisions or directions, as well as participation in defining the firm’s vision and mission (Zahra and Pearce, 1989; Pearce and Zahra, 1992; Huse, 2007: 60; McNulty and Pettigrew, 1999). Indeed, organisational and customer identification have been found to contribute to this process. Shareholder identification may leave the board members with less time and attention for long-term, qualitative activities (Huse, 2007: 60). Conversely, more short-term, quantitative monitoring may require relatively less effort and commitment and may thus be preferred as an easier method of oversight by the shareholders. Therefore, strict adherence to shareholders’ interests may limit, rather than enable, the board to contribute to strategic decision-making. Likewise, Asher, Mahoney and Mahoney (2005) claim that the shareholder wealth perspective is increasingly unsatisfactory for the purpose of accurately answering the two fundamental questions concerning the theory of the firm: that of economic value creation, and the distribution of that economic value. Perhaps this indicates a change in corporate governance traits towards a more stakeholder-oriented formula (Pye, 2005; Hambrick et al., 2008), thereby effectively lessening the impact and importance of shareholders as the only important stakeholders of the firm, on whose behalf the board should act.

In the same vein, this study demonstrated that shareholder identification might not necessarily lead to an increased involvement of the board in resource provision. This finding contradicts an earlier study by Hillman et al. (2008). A board that identifies with the shareholders should be interested in the long-term survival of the firm, as inevitably this is what shareholders should want. One way to ensure the long-term survival of the firm is to provide the firm with a steady flow of resources (Pfeffer and Salancik, 1978). Therefore, in principle, the board that identifies strongly with the shareholders should also be actively involved in the resource provision tasks. However, as with strategic participation tasks discussed above, the shareholder identification may funnel the board’s activity and attention so that the tasks of primary concern for the board members are short-term, quantitative monitoring tasks, leaving the board with less time to complete other tasks.
In sum, out of the social identifications proposed by Hillman et al. (2008), organisational identification had the largest impact on the board tasks. As an organisational unit of strategic importance for the firm, the directors’ identification with the organisation is a predictor of the level of engagement in the board tasks. Meanwhile, both shareholder and customer identification seem to have a limited impact on the board tasks. Notably all three examined social identifications had a pronounced impact on strategic participation. Perhaps these tasks involve highly important, but less structured and routine contributions of the board members, thereby allowing for more opinions and potential influences, associated with directors’ multiple identifications, to manifest themselves in strategic discussions.

This study has several limitations. Firstly, the sample size is quite small with only 92 observations. One of the consequences of smaller sample sizes is that the Beta-coefficients in the statistical analysis can be quite large, without being statistically significant. This may confuse the analysis. Therefore the statistical results of this study should be treated with caution.

Secondly, as already touched upon previously, this study is potentially subject to common method bias. This problem is dealt with by procedural and statistical methods. A suggestion for improvement for future research is the usage of double respondents in the surveys. Thirdly, the study is limited to only the Finnish companies. Even though the Finnish market is roughly comparable to many European and especially Scandinavian markets, this limitation threatens the potential generalizability of this study across different institutional contexts.

Even though the examined organisational, shareholder and customer identifications are important to examine in the context of board tasks, this study calls for future research on board of directors’ patterns of identification and its effect on firm behaviour. In particular, identification of the board members with being CEOs and with being professional board members (directors) should be closely examined, as it may potentially conflict with the identifications examined here. Such a conflict may spur identity conflicts among directors, thereby mitigating the impacts of other identifications on the board tasks. This study was an attempt to empirically investigate the effect of the strength of social identification on board tasks, with the limitation that this strength was measured as the individual directors’ average strength of identification on a given board. Since identity and identifications are essentially

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4 Consider for example the customers identification Beta of 0.16 for advice and counsel tasks, which is quite large, but nevertheless insignificant.
individual–level characteristics of the board members, I encourage scholars to measure them at this level in future research. However, the impact of an individual board member’s identity or identification may only have a limited effect on the tasks of the entire board. Therefore, further research should carefully deal with the issue of the unit of analysis.

Furthermore, since identities and identifications are contextually and situationally bound, the country where the data is gathered is an important factor to consider. Whereas Finland may be considered to be a relatively homogeneous market, other markets may exhibit more variations. Therefore, future studies should investigate transitioning economies to better capture international variations. Additionally, a longitudinal study would certainly add to our collective understanding of the impact of identities and identifications on the board tasks and ideally firm performance. This is particularly relevant given the tendency of identities and identifications to change overtime as old ones may disintegrate or become less important and new ones may develop.
References


**TABLE 1:**

**Sample characteristics**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Category</th>
<th>n / %</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company age, years</td>
<td>Average age</td>
<td>52.62</td>
<td>91</td>
</tr>
<tr>
<td>Company turnover, m. €</td>
<td>&lt; 50</td>
<td>16.5%</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>50-100</td>
<td>39.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>101-400</td>
<td>35.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 400</td>
<td>8.8%</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>&lt; 100</td>
<td>19.8%</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>100-500</td>
<td>49.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>501-1000</td>
<td>15.9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 1000</td>
<td>16.0%</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>Industry and production</td>
<td>58.0%</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>30.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High technology</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance</td>
<td>1.0%</td>
<td></td>
</tr>
<tr>
<td>Incorporation</td>
<td>Listed</td>
<td>12.0%</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Family owned</td>
<td>19.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Privately owned</td>
<td>53.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>7.0%</td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td>Chairperson and Board</td>
<td>20.6%</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>CEO and Management</td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finnish financial</td>
<td>4.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign financial</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finnish companies</td>
<td>23.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foreign companies</td>
<td>14.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Official body</td>
<td>14.8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td>14.7%</td>
<td></td>
</tr>
<tr>
<td>CEO tenure, years</td>
<td>&lt; 5</td>
<td>57.1%</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>5-10</td>
<td>28.6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; 10</td>
<td>14.3%</td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>Average size</td>
<td>5.96</td>
<td>91</td>
</tr>
<tr>
<td>Outsider percentage</td>
<td>Average %</td>
<td>83.0%</td>
<td>54</td>
</tr>
<tr>
<td>CEO present on Board</td>
<td>Average %</td>
<td>39.0%</td>
<td>92</td>
</tr>
</tbody>
</table>
### TABLE 2:

**Means, standard deviations and Pearson correlations**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std dev.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Industry</td>
<td>0.63</td>
<td>0.49</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2. Firm size (no. empl. log)</td>
<td>5.76</td>
<td>1.38</td>
<td>0.23*</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>3. Outsider percentage</td>
<td>0.98</td>
<td>0.05</td>
<td>0.11</td>
<td>-0.06</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>4. Organisational identification</td>
<td>5.02</td>
<td>1.06</td>
<td>-0.09</td>
<td>0.13</td>
<td>0.07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>5. Shareholder identification</td>
<td>4.64</td>
<td>1.34</td>
<td>0.02</td>
<td>-0.10</td>
<td>0.03</td>
<td>0.33**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Customers identification</td>
<td>3.58</td>
<td>1.25</td>
<td>-0.22*</td>
<td>0.02</td>
<td>0.24*</td>
<td>0.46**</td>
<td></td>
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<td>9. Advice and counsel tasks</td>
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<td>0.54**</td>
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<td>10. Top management monitoring</td>
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<td>1.26</td>
<td>0.15+</td>
<td>0.00</td>
<td>0.16+</td>
<td>0.27**</td>
<td>0.10</td>
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<td>11. Financial monitoring</td>
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<td>0.81</td>
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<td>0.19*</td>
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<td>0.11</td>
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<td>13. Strategic evaluation</td>
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All one-tailed tests. + p<0.10, * p<0.05, ** p<0.01
### TABLE 3:

Regression models

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<th></th>
<th>External legitimacy</th>
<th>Networking</th>
<th>Advice and counsel</th>
<th>Top management monitoring</th>
<th>Financial monitoring</th>
<th>Strategic participation</th>
<th>Strategic evaluation</th>
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<td>-0.04</td>
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<td>Outsider %</td>
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<td>-0.07</td>
<td>-0.08</td>
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**Control variables**

**Independent variables**

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<th>0.31**</th>
<th>0.36***</th>
<th>0.32**</th>
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**Model specifications**

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<th></th>
<th>R²</th>
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<th>F</th>
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The levels of significance are: + p<0.10, * p<0.05, ** p<0.01, ***p<0.001. All one-tailed tests.

The table shows the standardized Beta–coefficients and the significance levels of their t–statistic, as well as the $R^2$, Adjusted $R^2$ and the F–value and its significance level. Number of cases is 92. VIF levels for all the regressions are within the range 1.012–1.359.
FIGURE 1:

The full model (only significant relationships are shown)


