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The board's functional emphasis – A contingency approach *

SVEN-OLOF COLLIN

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ABSTRACT

The understanding of the board and its behaviour is limited, in spite of the board's tremendous societal importance. We present a contingency approach on the boards functional emphasis, in which a fourth function of the board is consider, that of conflict resolution or principal identification. The approach contrast with main stream board research through making the assumption that the firm is a nexus of investments, thus avoiding the empirical assumption that the shareholder is the sole principal, through considering duty as an incentive for action, through considering the board of a corporation and not restrict it to a set of empirical boards. Praxis implications concerning the management of functional disharmony finalise the paper.

Department of Business Studies
Kristianstad University College
SE-291 88 KRISTIANSTAD
SWEDEN

Phone: +46 44-20 31 06
Fax: +46 46 44 20 31 03
http://www.hkr.se/templates/Page____1011.aspx
e-mail: e@hkr.se

The board of the corporation is a very frequent phenomenon, considering all the corporations on the globe. It is a very popular research object as well. Yet, one has to admit that the knowledge about boards is rather rhapsodic and scant. Several reviewers of board research have made this remark (Daily, Dalton & Cannella Jr, 2003; Dalton, Daily, Ellstrand & Johnson, 1998; Huse, 1998; Pettigrew, 1992; Zald, 1969). One could state that it represent a scientific fiasco since the board is a frequent phenomena of – presumably – wide importance in society of today. One reason for the low level of knowledge that has been stated is the hardship of getting high quality data of the phenomena in question (Pettigrew, 1992). The access to boards through direct observation or documents is often limited, making board research obliged to collect data through surveys and official documents, thus reducing the possibility to study board behaviour (Forbes & Milliken, 1999). As Pfeffer (1997) has argued concerning the structural perspective of demographics, lack of high quality data cannot be the overriding excuse since the possibility of black boxing the board's processes and to focus on the structural conditions are available as a research strategy. Or with a more pessimistic view on the capacity of science to deal with the complexities of the board: "…the processes themselves are sometimes most effectively described by novelists." (Zald, 1969:110).

Another reason to the failure of knowledge could be that of bad theory, either through a theory of low abstraction, i.e., no theory in any serious sense, or a theory of bad conception. The dominant theory of today is agency theory. It is the aim of the present paper to indicate that agency theory is a credible and adequate theory for board research, but that certain conceptions of agency theory contain exotic empirical content, such as the conception of a firm being a Fortune 500 corporation, or ideological conceptions, such as interpreting shareholders as principals. Since there is nothing inherent in agency theory that doom it to empirical exotic restrictions or to promote the ideology of shareholder primacy, an ordinary agency theory can be used in order to explain board behaviour.

One issue of importance concerning boards is the issue of the functions of the board. In main stream research the functions are pretty obvious, them being stated as monitoring, decision making and service or resource provision (Johnson, Daily & Ellstrand, 1996, Pfeffer, 1997). In this paper we add a fourth function of great importance, that of conflict resolution. It will be claimed that the principal of the corporation cannot be assumed ex ante, but have to be identified through the battle of power going on among those groups or individuals that would like to be regarded and to have the capacity to act as the legitimate principals. The board is conceptualised as the arena where this struggle is being settled. Thus,

the board have to manage the conflicts and have the function of identifying the proper principal.

The functions of the board are however not always present. Certain boards at certain times will stress one function at the expense of another function. As with all organisations, every activity consume resources and even boards have to economise. And, similar to all organisations, even boards have structural limitations that hinder them from fully realise certain functions. Therefore it can hardly be assumed that all four identified functions can be expected to be present at every board in the world, with the same emphasis spent on each function. Thus, we expect to find that there are differences between boards in their functional emphasis. If there is a variation in functional emphasis, a rather obvious question is whether there could be any systematic order in functional emphasis. Are there certain conditions that make a board more prone to emphasise one function instead of another? The paper will try to convince the reader that there are factors that influence the functional emphasis of the board. Thus, the overriding aim of the paper is to present a rudimentary contingency theory of board functional emphasis.

The theoretical contribution of the paper is very modest. We offer some factors that we try to argue are influential on a board's functional emphasis. But the ambition is much more far-reaching. The ambition is to open the eyes of the corporate governance researchers in general and board researchers in particular, and make it possible for them to sincerely ask the question: who is the principal of the corporation? It would make them capable to deal with all corporations, not only the large, listed corporation, and to consider all parties that have incentives to be part of the board and the struggle of control going on there. Another eye-opener is to make it possible for board researchers to open their minds for other human motivating forces than self-interest. If self-interest is the only principle of human action that can be considered, the actions of directors will be hard to understand, since the directors are ordinary humans, with the capacity to sometimes be influenced by duty.

In order to reach the conclusions of board functional emphasis, the paper begins with defining the concept of a board, clearly pinpointing that the assumption of the vulgar version of agency theory, that shareholders are the principal of the corporation, is to narrow-minded. Then we have to make a footnote to the ideas of individual incentives, stressing the duty as one motivating force for individuals, comparable to the driving force of individual utility and group belongingness. This footnote is needed in order to more fully understand the actions of directors. This being the opening parts of the paper, it then continues with

systemising and defining the functions of the board. The ground being laid, the paper then try to fulfil its theoretical aim by presenting the deduction of a set of factors that influence the functional emphasis of the board. This presentation of a contingency theory of functional emphasis is then succeeded by conclusions and praxis implication concerning management of functional disharmony.

WHAT IS A BOARD?

The board is an instrument for the shareholders to govern the corporation. This statement seems apparent, even natural today. It is supported by both academic texts and popular press. Stated as a matter of fact, treated in an unproblematic way, as if it where as obvious as the existence of the sun, a text book of corporate governance state that:"*...the shareholders have limited liability and limited involvement in the company's affairs. That involvement includes, at least in theory, the right to elect directors and the fiduciary obligation of directors and management to protect their interests.*" (Monks & Minow, 1995:8). The newly formulated and implemented code of corporate governance in Sweden declare the following about the role of the board of directors: "*The board, based on what is in the best interest of the company and its shareholders, is to set objectives for the company's business operations and make sure that the company has an appropriate strategy, organisation and operational management for achieving these objectives.*" (SOU 2004:46, 2004:30f). And popular press (Financial Times) reported December, 16 that Anne Simpson have been at work one month as the first executive director of the International Corporate Governance Network, which is a political organisation, representing investment managers, with the political aim of improving shareholders rights.

The board of directors being an obedient instrument in the hands of the shareholders is, however, neither a good description of the legal point of view, nor a valid empirical description of the board. To state that the shareholders are the one and only principal of the corporation is more of an ideological statement than a theoretical statement or empirical fact, trying to make the board a corporate governance mechanism dependent on one sole principal, the shareholders.

The ideological dependency view of the board of director's stands in contrast to the legal view of the board, which emphasize the independence of the board. Scanning the world of organizational forms, we realize that a board of directors exists in organisations that are recognized as juridical persons, i.e., those organisations that are corporations, including

joint stock companies, co-operative firms and associations. Typically those that are regarded as the major principals of the organisation through being termed as owners, such as shareholders in the joint stock company, or members in the association and co-operative, enjoy limited liability for the business of the corporation. The corporation is a juridical subject of its own, which implies that the firm cannot be reduced to an extension of the owner, as the case is in the single proprietorship or the partnership. But since someone has to govern the firm, there is an institution equipped with the rights to govern the firm. This institution is the board of directors.

In the legal sphere the board appears to be a mechanism for dealing with the independence of the corporation. The Swedish legislation of joint stock companies supports the view of independence. It states that the board of directors are responsible for the corporation's organisation and the management of the corporations businesses (Aktiebolagslag 1975:1385, Ch 8, 3§). It is important to note that the legislation does not state the direction of the responsibility, whether it is accountable for the shareholders, for another group in society, for the state or for society as a whole. The omission of shareholders is not an exotic peculiarity of Swedish legislation. It can be found even in US, the presumably most shareholder oriented economic system in the world, where the view of the board is that it monitors for the benefit of the corporation (Blair & Stout, 2001; Johnson, Daily & Ellstrand, 1996; Kostant, 1999).

One conclusion that can be made is that the board, being an institution given the right to influence the corporation, and therefore a powerful institution, is an obvious target for political considerations. The implication for research is that ideas of the board are subject to strong ideological pressure, making the selection of a perspective on the board a delicate matter since it can imply a political position (cf. Myrdal, 1990).

In the academic literature of the board one can find two major streams, those assuming the independence view, represented by the stewardship view (Davis, Schoorman, & Donaldson, 1997), and those that assume the shareholder dependency view, typically adhering to vulgar agency theory (Jensen & Meckling, 1976), where the shareholder is made the principal of the firm, without any consideration or theoretical argument (e.g., Baysinger & Hoskisson, 1990). In between these two perspectives is the semi-independent view, represented by ordinary agency theory, adopting the view of the corporation as a nexus of contracts where "…ownership of the firm is an irrelevant concept" (Fama, 1980:290), and where dependency is created by transaction-specific investments (Williamson, 1985). In this

view the board is a mediator between the firm and those that are residual claimants in a broad sense, i.e., those that have made firm-specific investments (Blair & Stout, 2001).

The separation between the two opposites are emphasised due to their different assumptions of human behaviour. Since our aim is to strengthen the conception of the board, trying to disregard ideological statements as far as it is possible, we have to revert to underlying behavioural assumptions before entering into the functional emphasis of the board.

THE INSTINCTS OF BOARD MEMBERS

Agency theory has as its starting point the claim that every individual is governed by self-interest. We broaden this claim by stating that there are at least three different human governance mechanisms. We claim that a human being is governed by the instinct of self-interest, the instinct of belongingness, and the instinct of duty. They are termed instincts because they are not subject to individual choice, but belong to the faculties of humans. They govern our actions, but the mix of them, the factors influencing the emphasis of each of them, what determines the composition of them, are by the knowledge of us not explored in science yet. For a layman it can be rather surprising to find that the set of determinants of human action are laid in ignorance and darkness, though we have had science in more than 500 years. It is not perfectly true, however, since each instinct have been explored, the instinct of self-interest to the edge of absurdity in economics, the instinct of belongingness to its refinement in sociology, but the instinct of duty only in parts and bits in sociology and philosophy.

Self-interest is when an individual act upon a calculus where the costs and benefits for the individual are summed together through a preference function into a utility which produce the action. Self-interest is the rational behind an action that economics has made hegemonic, deeming all actions to be explained through the calculus of individual utility. Incentive systems are those organisational instruments that are used to manipulate the instinct and create desirable actions.

The need of belongingness is the attitude of the sociologist, claiming that humans have a tendency to belong to groups, and thus adjust to the norms of the group (Blair & Stout, 2001). In order to be accepted in the group, an individual internalise norms, i.e., becomes socialised. The sanction system of the group is governing this instinct, where the ultimate sanction is the exclusion from the group.

The need of making the right thing has been oppressed in literature. One can only guess why. Maybe because of the image of Uomo d'onore that has been created by the endless stream of entertainment movies of the Sicilian mafia, or the image of the Prussian Junker, that led by duty went to war. Etzioni have forcefully promoted the moral view, especially by his 'The Moral Dimension' (1988), but it appears to have been enclosed into a certain perspective, socio-economics, belonging to a restricted tribe of researchers. Recently it has returned for considerations in a specific field of business ethics, that of social performance (Swanson, 1995). In the field of corporate governance it has, however, been expressed in a descriptive way by the stewardship view (Davis, Schoorman & Donaldson, 1997), stressing the duty of fiduciary. The need to do the right thing signifies the tendency of humans to experience a duty (Blair & Stout, 2001), which is an action that has to be performed because the legitimate order demands those actions. It is a normative behaviour since it rest on legitimacy. It creates, of course, satisfaction, as the other two rationalities do. But the motivations are different, where the self-interest motivation is with reference to the individual, the belongingness has a reference to the group, and the duty has a reference to the legitimate order. The instinct of belongingness and the instinct of duty are both behaviour governed by internalised norms. A major difference between these two instincts is that the sense of belongingness is tied to a group and the feelings for the group, while the sense of duty is tied to a Weltanshaung that define the legitimate roles actors in the world can perform, i.e., to paraphrase the honourable men of the wild west: 'a director has to do, what a director has to do'.

To make conceptual distinctions between three major driving forces for human action create the possibility of using agency theory and stewardship view simultaneously. They have been treated separately, without integrative ambitions since they assume very different human needs, and therefore appear to be logically separated. But humans are not logical beings. As long as humans can consider what is good for them, for their family and comrades and what is right in society, then explanations that exclude basic instincts of humans are condemn to be flawed. This is, of course, a political judgement. Agency theory, with its assumption of instinct of self-interest, is hegemonic in the major corporate governance research of today. The hegemonic character reveals itself when critique of agency theory towards its single-minded assumption stress that alternative considerations are not revolutionary, but purely a matter of slight reformation of the Theory (Lane, Cannella & Lubatkin, 1998). Or when the stewardship view of duty is converted into the instinct of

selfishness: "…executives conclude that serving shareholders' interests also serves their own interests." (Daily, Dalton, & Cannella Jr, 2003:372).

What is important to note is, however, that both views can treat the board as an arena for conflict resolution. Directors that are promoting their self-interest, the interest of their group or profession, or just doing what they believe is the right thing according to their interpretation of the legitimate order, will all have a tendency to create conflicts. The board have to encapsulate this conflict and do the best of it. Thus, to include stewardship considerations will not reduce the conflictual character of the board, it will increase it, and thereby agency costs, or in a broader understanding, costs of reconciliation will be high.

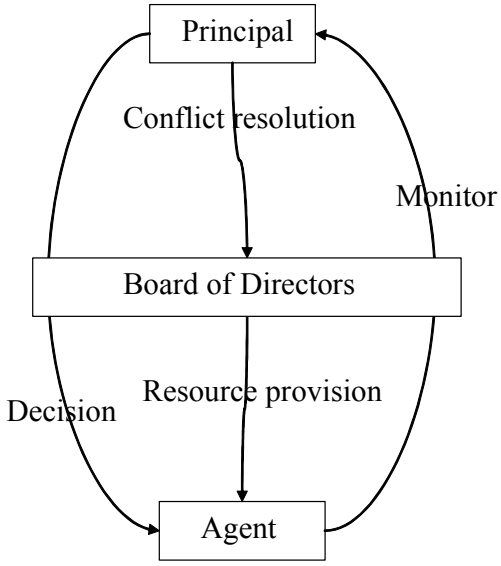
To conclude this footnote, opening the behavioural assumptions to normative behaviour, including even duty as a force, will make it possible to more fully understand individual director's behaviour. But even more important, it put the light on an important, but yet a neglected function of the board, which is the conflict resolution function. We are thereby able to turn to the papers main objective, to describe and explain the functional emphasis of the board.

THE FUNCTIONS OF THE BOARD

The board has been assigned different functions by researchers. The functions can be systemised conceptually through an agency theory lens, assuming that a board have a directed responsibility, which is to mediate between the principals of the organisation and the operationally active agents. Figure 1. is an illustration of this conception.

FIGURE 1.

An agency theory conception of four board functions



In an agency theory conception of a corporation, the board is the mediator between the residual claimants, termed the principals, and the agents. The principal consist of those participants in the firm who are affected by the success of the firm, i.e., those that make firm-specific investments or have open contracts, implying that part of the claim or the whole claim is residual. The corporation is, according to agency theory, a nexus of contracts, but most and foremost, it is a nexus of investments, encouraging and protecting investments (Rajan & Zingales, 1998). This definition makes it possible to broaden the conception of the principal from shareholders to the variety of stakeholders (Aguilera, & Jackson, 2003; Blair & Stout, 2001), for example identify as principals workers that make firm-specific investments and members of an association that rely on the association for a specific service. The agents are those that operate the firm on a daily basis. The agent is working on behalf of the principal in the sense that the success of the firm influence part or whole of the principal's investments and claims.

We avoid considering the principal as a stakeholder. A stakeholder is a party that is affected by the firm, or at least, considered it to be affected by the firm, and therefore have incentives to influence the firm. A principal of a firm is not only affected by the firm, but makes investments in the operations through having access to the firms resources (Rajan & Zingales, 1998) and takes part of the value-creating activities of the firm, ultimately through receiving part of the cash flow or the products or services produced. By this distinction we can separate political influence from economic influence. For example we identify as a stakeholder the individual that is fighting for a firm's responsibility to only buy products from firms not using child labour. The stakeholder is making an investment, but not for the realisation of the corporate goal and adding to the value of the firm, thus not taking part of the firm's cash flow or any other value created by the firm, but for the realisation of a political goal.

The board being viewed as a mediator implies that the board perform functions on behalf of a party. It does not imply, however, that something is delegated from the principal to the board. To claim that the principal have some property rights that are delegated to the board is a primitive conception of property rights, inherited from the old view of the single owner of a property, based on the view of natural rights (Collin, 1995). In the cases we are discussing here, there are no private property rights that can be delegated. As stated in the former part about the board of the corporation, if there is any ownership, it has to be regarded as the board is managing the property owned by the corporation. An indication that the legal

conception is that of no delegation is that the rights of the board cannot be transferred to the owners, be it them individually or them in the collective of the shareholder meeting.

The literature tends to focus on two functions of the board: the monitoring function and the resource provision function (Daily, Dalton & Cannella Jr, 2003; Carpenter & Westphal, 2001; Forbes & Milliken, 1999: Hillman & Dalziel, 2003; Johnson, Daily & Ellstrand, 1996). The monitoring function consists of supervising the performance of the firm and the actions of the top management team (Baysinger & Hoskisson, 1990). It includes activities such as creating control systems, auditing, rewarding CEO's and hiring and firing the CEO (Morck, Shleifer & Vishny, 1989). It is mainly a function directed towards the past which as an input needs an interpretation of the relevant goals of the corporation.

The resource provision consists of the supply of resources that can be created through the members of the board and their network relationships. The resources consists of the individual competence of the directors, of the joint competence created through the interplay between the directors, the relationships and information every individual director brings to the board through being nodes of networks, and finally, the status of the individual board member that contribute to the reputation of the corporation (Certo, 2003; O´Donoghue, 2004; Zald, 1969), and legitimize the corporation (Huse, 1998). The resource provision function is directed towards the daily business and the strategy considerations, mainly as an input for the CEO to use.

The third function is decision making and consists of decisions that deals with the strategy process of the firm (Judge & Zeithaml, 1992). It covers the whole strategic process, from the initiation of strategy formation, over the very decision about the strategy, to the strategy implementation through making decisions about investments and budgets. It is forwardly directed and implies explicit restrictions on the CEO's freedom of action. As with the monitoring function, an input in this function is the interpretation of the goals of the corporation.

The goal formation of the corporation is, however, not a process that has received a marked attention in the literature of boards. The fourth function is the one that is dealing with this important input of the other functions, namely the identification of the relevant principals and the interpretation of their goals. The activities of the function are coalition formations and voting, thus trying to manage or deal with the conflicts between those parties that are the principals of the firm (Zald, 1969). Since the major activities of the fourth function are dealing with management of conflicts, the function has been termed

conflict resolution, though it could also very well be termed the function of principal identification.

The ignorance of the conflict resolution function could be caused by the agency theory occupation with the conflict between the principal and the agent, thus neglecting the formation of the principal and its conflictual character. It can very well be the case that in a well financed private corporation, with one single dominant owner that dominates the board through selecting the directors, the conflict resolution function will probably not be a dominant function. But in a large, listed corporation, with dispersed ownership structure, with a variety of owners with different preferences (Aguilera & Jackson, 2003; Baysinger, Kosnik & Turk, 1991), the identification of the relevant goals of the corporation is probably an issue on the agenda of the board. And in small corporations, organised as democratic associations where members populate the board through democratic elections, i.e., one member have one vote, coalitions are formed in order to realize different member categories different interest.

The function of conflict resolution is close to the balancing view of the board, stating that the board could fulfil the function of being an agent balancing the interest of various groups (Daily, Dalton & Cannella, 2003; Kostant, 1999). The idea of balancing is, however, the return of the Berle & Means hope regarding the large corporations: "It is conceivable … that the 'control' of the great corporations should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community …" (Berle & Means, 1947:356). While being close to the conflict resolution function it differs in the important contrast of conflict against balance. There is neither a theoretical reason, nor any empirical indication that the board will turn into a neutral technocracy. The idea of conflict resolution is closer to Cyert & March's (1965) conception of an organisation consisting of participants that form coalitions and through the goal process bargaining about the organisations relevant goals. This view is echoed in Mintzbergs (1983) arena view of the board, i.e., the board is an arena for fights, struggles and power manifestations, where different groups and individuals are striving for power to manifest their view of the corporation and its goals as the objectives of the corporation.

A CONTINGENCY APPROACH ON FUNCTIONAL EMPHASIS

A board can fulfil four functions, monitoring, resource provision, decision making and conflict resolution. All functions cannot be expected to be performed every second the board is active. In an association where all the members have managed to reach a consensus about the aims, strategy and means of strategy, the function of conflict resolution can be put to peace for the moment, and the board can spend more time and energy to help the manager of the association, i.e., the board will put an emphasis on the resource provision function. Thus, it can be assumed that the functional emphasis of the board differ, which imply that theory should have a contingency approach when dealing with board functions.

A contingency approach towards the functions of the board stress the need of identifying those factors that can influence the functional emphasis. With scant empirical studies, relying mainly on attitude data (e.g. Cornforth, 2001; Jonnergård & Kärreman, 2004; Pearce & Zahra, 1991) and absent typologies of factors, we rely on a single list of factors that can be hypothesized to influence the distribution of functional emphasis of the board. In this rudimentary attempt, we cluster the propositions around six factors that have clear influence on board emphasis. These are 1. The much researched subject of the composition of the board; 2. Characteristics of the C.E.O., especially tenure of the C.E.O.; 3. The uncertainty of the environment surrounding the organisation; 4. The organisations strategy; 5. The organisations structure; and finally, 6. we make notice of the differences in functional emphasis that can be related to the organisations legal form, be it the much researched public corporation, or the frequent private corporation, or, at the other end of the legal organisational scale, be it a not-for-profit democratic association.

It can be noted that this contingency view of functional emphasis contrast with the normative version of agency theory. One example from an influential article will make this contrast obvious. Baysinger & Hoskisson (1990) claims that: “Decision management is naturally the responsibility of senior management, whereas decision control becomes the responsibility of the board of directors.” (p.76). The distribution of functions is in this view governed by nature. With a contingency view of functional emphasis, the researcher’s eye is less concerned with nature than by social forces, such as, for example organisational structure. As will be stated later in the paper, we will expect a board governing a functionally organised firm to engage in decision management.

Another issue that has to be noted is that we try to avoid deducing propositions that are restricted to any empirical category of a corporation. A theory of the board has no

legitimate reason to be based on implicit conceptions of the corporation as being one of those belonging to the Fortune 500 corporations (e.g. Morck, Shleifer & Vishny, 1989; Pearce & Zahra, 1991; Westphal & Zajac, 1995, 1997; and Zajac & Westphal, 1996). A theory limiting itself to these corporations should be properly labelled, as theories of BBB, i.e., Big Business Boards. Although being hard to fully implement, we claim that the ambition of a corporate board theory has to include all corporate boards, not just the easy researched ones. This implies that the theory has to include considerations of corporate boards engaged in the hospital industry (Pfeffer, 1973), or in the leisure industry where there exist riding school associations with 50 horses and 900 members (Collin & Smith, forthcoming). Empirical restrictions in theoretical reasoning is legitimate, but not if they are unreflected and implicit. Here the abstract level should be the appropriate one, i.e., focusing on the board of the corporation. Thus, the propositions produced below, if not made specific for any organisational form, such as the joint stock company and the association, are intended to cover all boards of any corporation.

Board composition

The composition of the board influence the functional emphasis because of the individual directors and the group process they create. The composition and its influence on different corporate factors, such as strategy (Goodstein & Boeker, 1991), resource acquisition (Hillman, Canella Jr & Paetzold, 2000; Ingley & van der Walt, 2003) and performance (Hillman & Dalziel, 2003; Muth & Donaldson, 1998), has been a popular research focus. One division of directors that have been made is the distinction between insiders, which are those employed by the corporation, and outsiders. The ambition is to find those directors that are independent of the corporation and its top managers, thus being able to act on behalf of the shareholders. Westphal & Zajac (1995; 1997) and Zajac & Westphal (1996), using almost similar data set, the Forbes and Fortune 500 list of the largest US corporations from year 1987, year 1982, and year 1986, have found that dependence can exist even if there is no employment contract between the director and the firm. This is indeed obvious for European researchers on board composition, mainly because Europe have many networks of corporate owners, sometimes even organized in socially recognized, though not legally recognized, constellations of corporations termed business groups (Collin, 1998). They use interlocking directors to a large extent, creating a second class of dependent directors, those dependent on

the dominant owner. Thus, we assert that it can be useful in board research to distinguish between directors dependent on the corporation and the top management because of employment contract, directors that have strong liaisons with the dominant constellation of principals, and directors that are solely dependent on the market for corporate directors. With these distinctions we find three typical boards, those dominated by insiders, those dominated by principal directors, and those dominated by independent directors.

Insider dominated boards have been found to turn the board into an arena for decision making (Judge & Zeithaml, 1992) and conflict resolution (Boeker & Goodstein, 1993), and to promote entrepreneurial activities (Zahra, Neubaum & Huse, 2000). When dominated by insiders or directors dependent on the TMT, the board is nothing but a place for the TMT and its allied to meet. There they formulate the strategy of the firm and decide upon the implementation of the strategy (Muth & Donaldson, 1998). Since they experience pressure from many stakeholders, they tend to use the other seats for conflict resolution, thus co-opting the main stakeholders (Hung, 1998). Since they are the managers that should be evaluated, they tend to be easy on the monitoring task (Baysinger & Hoskisson, 1990; Carpenter & Westphal, 2001). Concerning the resource provision, they can use competencies of the firm, or acquire it through the use of the corporate funds, thus deemphasize this function of the board. All in all, the propositions of insider dominated boards would be

Proposition 1: An insider dominated board tends to deemphasize monitoring, emphasize decision making, deemphasize resource provision and emphasize conflict resolution.

Principal dominated boards can be expected to behave as an extension of the principal. A principal is engaged in implementing the strategy, thus emphasizing decision making, especially about structure. The principal will also use the board as an arena for collecting information and gaining resources. The corporation can be used for these matters, but the board is closer to the principal. Monitoring will be done through personal means and due to the strong hierarchical atmosphere, thus de-emphasising the monitoring function. Due to its strong hierarchical character, the principal being clear and obvious and no power struggle being possible to create, conflict resolution will not be regarded as important. All in all, the propositions of principal dominated boards would be

Proposition 2: A principal dominated board tends to deemphasize monitoring, emphasize decision making, emphasize resource provision and deemphasize conflict resolution.

A board dominated by independent directors exists presumably in corporations with a highly dispersed ownership structure. The literature of boards tends to hypothesise that these boards are the most effective boards (Dalton, Daily, Ellstrand & Johnson, 1998), but empirical research tend to falsify the hypothesis (Dulewicz & Herbert, 2004: Johnson, Daily & Ellstrand, 1996; Muth & Donaldson, 1998). Independent directors are without any social or contractual relationship with the firm or its owners (Clifford & Evans, 1997), and they compete on the market for corporate directors. Since they are independent, they are probably not from the same industry as the corporation, thus lacking industry competence, which make them less prone to engage in decision making. The low emphasis on decision making is amplified by the information asymmetry between the independent director and the management of the firm (Nowak & McCabe, 2003). The overall knowledge about business makes the independent director more prone to emphasize monitoring, especially financial control (Baysinger & Hoskisson, 1990). Being independent make it highly probable that the directors are from a diverse background and diverse experience, which makes it possible for them to bring a wide set of network connections to the board (Carpenter & Westphal, 2001; Dalton, Daily, Ellstrand & Johnson, 1998). On the other hand, not representing any important stakeholder will reduce their interest and capacity to engage in conflict resolution. All in all, the propositions of independent director dominated boards would be

Proposition 3: An independent director dominated board tends to emphasize monitoring, deemphasize decision making, emphasize resource provision and deemphasize conflict resolution.

A characteristic of the board that will influence its capacity to fulfil the different functions is the size of the board. With increasing size of the board, the probability of competencies that can be used as a resource for the firm will increase (Daily, McDougall, Covin & Dalton, 2002), as will the stakeholder representation (Pfeffer, 1973). On the other hand, with increasing size, the information flow will be harder to coordinate and the board's capacity to reach conclusions of monitoring (Carpenter & Westphal, 2001) or for decisions (Pfeffer, 1973) will decrease. Thus, the following propositions are suggested:

Proposition 4: With increase in board size the board tends to deemphasize monitoring, deemphasize decision making, emphasize resource provision and emphasize conflict resolution.

C.E.O. tenure

A C.E.O., or the top manager of the organisation is an important counterpart and fellow player with the board. The identity and characteristics of the top manger will therefore influence the functions of the board. One important characteristic of the top manager that will influence the top manager's way of acting and behaviour is the tenure. Shen (2003) argue that a board will put more emphasis on control and less emphasis on leadership development as tenure increase. Translated to our categories, it implies that with increasing tenure of the top manager, the board will put more emphasis on monitoring. With increasing experience, the board does not have to back up the inexperienced top manager with decision making, thus deemphasising the decision making function. At the beginning there is a need to protect the top manager from all facets of the business, which will induce the board to assume conflict resolution functions. With growing tenure, this function can be left to the top manger. Finally, with increasing tenure, the board will be used by the top manager as a source for information and advice, and other resources. Thus, the following propositions are suggested:

Proposition 5: With increase in C.E.O. tenure the board tends to emphasize monitoring, deemphasize decision making, emphasize resource provision and deemphasize conflict resolution.

Environmental uncertainty

Environmental uncertainty, such as technology change, political risk and market risk, are facing a firm to different degrees, and will influence the board and its emphasis on different functions. In general, an increase in the pace of change will put pressure on the organization to be prepared to act and react very fast. A board, which typically has infrequent meetings, will not have the opportunity to react fast. Lack of speed will reduce the board's capacity to engage fully in decision making. The board will certainly not avoid monitoring, but they will not put an emphasis on monitoring, especially not when fast market change involve high

levels of competition since monitoring and competition are substitutes, and too much emphasis on monitoring will alienate top managers (Randøy & Jenssen, 2004). Thus, overall a de-emphasis on monitoring and decision making.

A firm facing high environmental change is, however, in need of diverse information, even information flow that cannot be predicted beforehand. The firm will profit from a boards capacity to offer channels to a diverse set of resources contained in the environment (Carpenter & Westphal, 2001). Thus, the directors will perform the function of resource provision. Finally, if the environment is in flux, a stable set of stakeholders will be hard to identify, which will deemphasize the function of conflict resolution. Thus, the following propositions are suggested:

Proposition 6: With increase on environmental uncertainty the board tends to deemphasize monitoring, deemphasize decision making, emphasize resource provision and deemphasize conflict resolution.

The general tendency cannot be assumed to be applicable on every aspect of environmental uncertainty. We have to qualify our general prediction by focusing on one exemption, the political risk. Political risk consists of changes in the institutional and legal set-up of the firm. According to positive accounting theory (Watts & Zimmerman, 1986) certain firms can attract the attention of politicians, such as large firms or firms that are of special national interest. In order to avoid the attention, and thus induce politicians to create changes in laws or regulations, politically sensitive firms will have boards that do not settle by monitoring, but engage in decision making concerning those aspects of the firm that can draw attention on the firm. Indirectly it has been showed that in regulated industries, where the political risk can be assumed to be high, boards tend to be composed by insiders (Hillman, Canella Jr. & Paetzold, 2000), which put an emphasis on the decision making functions of the board. Thus, we make one exemption from the general tendency of deemphasizing decision making when it concern political risk:

Proposition 7: With increase in political risk the board tends to emphasize decision making.

Organisational strategy

The strategy of an organisation will influence the demands put on the board and its functional duties. The strategy of a firm is not solely subject for rational decision making, since strategies can emerge by action (Mintzberg & Waters, 1985). Therefore the strategy of the firm can govern the board, though especially normative authors claim that strategy initiation and decision is the hallmark of the board's activities. In this paper we make the less controversial statement that the board have the possibility of influencing the strategy of the firm. To what extent it will do it, depends on many factors, of which some are discussed in this paper.

Strategy can be conceptualised in many different ways. We choose the main stream conception of diversification, as stated by Rumelt (1974) and others. It distinguish between a.) simple business, where the firm is engaged in one business, oriented towards the same market and using the same resources; b.) related business, were the number of businesses are high, but the businesses are related through important resources, such as market knowledge or technology, and finally c.) unrelated business, were the number of businesses are high, and they have very few relationships between each other, in the most extreme version the businesses only have the owner i.e., the corporation, in common.

In simple business firms it is hard to find reasons for the board to engage in any function with any emphasis. The business being rather simple make the monitoring activities rather simple, the decision making will be directed towards market dominance and volume of production, the cost reduction orientation could increase level of conflict with the employers, and the resource provision is probably of no concern since the firm are resource self-sufficient. Thus we expect low levels on every functional orientation. It should be noted here, however, that very often F-form firms tend to be small firms with a strong and identifiable principal, thus resembling the functional emphasis as deduced concerning the factors of board size and principal director dominated board. But the issue here is not to create propositions for an empirical firm, but for an F-form organised firm, ceteris paribus, i.e., without no consideration for board size and principal identity.

The related strategy, on the other hand, creates tensions within the firm, due to all the dependencies between the different units. Therefore there will be a high level of conflict within the organisation, which the board have to manage. The resource provision will be emphasised since the firm is in a need of especially management techniques, in order to deal with the complexity. The decision making and monitoring will be given higher priority

than in simple strategy, especially monitoring due to the hardship of evaluating organisational entities with many interdependencies.

The unrelated strategy turns the board into a portfolio manager. The board have a strong emphasis on evaluating the business units and to make decisions about the optimal composition of units. Due to the divers set of businesses the board can not bring any competence to the firm, except how to evaluate units and which portfolio to compose. Thus, resource provision will be low. Being in a highly divers set of industries, the pressure from industry stakeholders will be weak (Judge & Zeithaml, 1992), thus de-emphasising the conflict resolution function.

If these simple reasoning's about strategy and its influence on board functions have any truth, they indicate that there is no simple linear relationship between strategy and functional emphasis. Thus, we conclude with the following propositions:

Proposition 8: A board governing a firm with simple business strategy tends to deemphasize monitoring, deemphasize decision making, deemphasize resource provision and deemphasize conflict resolution

Proposition 9: A board governing a firm with related business strategy tends to slightly emphasize monitoring and decision making, and strongly emphasize resource provision and conflict resolution.

Proposition 10: A board governing a firm with unrelated business strategy tends to highly emphasize monitoring and decision making, and deemphasize resource provision and conflict resolution

Another facet of firm strategy is the age of the firm. Corporations have life-phases in which different demands are put on the organisational parts (Zald, 1969). There is a huge difference in managing a newly created business, directed towards a market of uncertain demands, compared to the business of a 600 year old corporation, dealing with a stable market in an industry with low pace of change. Routines, knowledge and competence are developed during the life time of the corporations. At the beginning of the firms life they have to be built, which put a demand on the board to contribute with resources and experience transformed to decisions (Goodstein & Boeker, 1991). As time pass, the board can withdraw from active

duty and watch the development of the firm, thus emphasise the monitoring function (Lynall, Golden, & Hillman, 2003) and de-emphasising the decision-making function (Judge & Zeithaml, 1992). All in all, the propositions of the aging organisations board would be

Proposition 11: An aging organisations board tends to emphasize monitoring, deemphasize decision making, deemphasize resource provision and deemphasize conflict resolution

Last, but not the least is the size of the firm, being partly a factor determined by market condition and partly determined in the strategy process. With growing size, the corporation increase its level of division of labour, which makes the board less of an operating agent within the firm, and turn it into an institutionalised arena (Judge & Zeithaml, 1992). It has been found that in small firms the board tend to be more influential, more active and less constrained by the organisational structure (Daily, McDougall, Covin & Dalton, 2002). Thus, the decision making capacity will be high in a small firm, compared to the large firm. On the other hand, being engaged in the operations makes the monitoring activities of less concern in the small firm. A small firm, with low levels of division of labour and presumably a weaker cash flow, will tend to use the directors on the board as a cheap method of gaining advice, inspiration and other resources, thus emphasising the resource provision function. Finally, being small imply a small number of stakeholders and discernable principals, thus making conflict resolution a de-emphasised function. All in all, the propositions of how the firm's size influences functional emphasis would be:

Proposition 12: With growing size of the firm the organisations board tends to emphasize monitoring, deemphasize decision making, deemphasize resource provision and emphasize conflict resolution

Organisational structure

The organisational structure influences the functions of the board in two concerted ways. The structure makes it possible for the board to perform the functions, and the structure put demands on the board. Thus, we claim that the board is part of the organisational division of labour (cf. Campbell, & Kracaw, 1985), and that the organisational structure will influence the functional emphasis of the board. The demands on the board originate from the

organisational structure's capacity to deal with different operations. It has been claimed (Chandler, 1984; Williamson, 1975) that the functional form has a tendency to force decisions up the ladder, putting a strong load of tactical decision making on the TMT. This tendency will therefore continue to the board, forcing strategic issues on the board, thus emphasising the decision making capacity of the board, at the expense of its monitoring capacity. The strong focus on decision making will give directors incentives to engage in resource acquisition, in order to improve the operations of the firm, thus emphasising the function of resource provision. This inward looking tendency of the F-form will, on the other hand, make the board less prone to deal with stakeholder considerations, thus reducing their focus on conflict resolution.

This can be contrasted with the M-form, with its strong capacity to encapsulate decisions within the different divisions, and focusing strategic issues on the level of the TMT. The board will then be left with the rather simple financial control mode of monitoring. They cannot offer but scant environmental scanning, especially when the divisions differ highly due to diversification, thus reducing the importance of resource provision. On the other hand, the large number of different stakeholders that are created around all divisions, can be dealt with by the board, thus putting a slight emphasis on conflict resolution. Thus, the following propositions are suggested:

Proposition 13: In an F-form organised firm the board will tend to deemphasize monitoring, emphasize decision making, emphasize resource provision and deemphasize conflict resolution.

Proposition 14: In an M-form organised firm the board will tend to emphasize monitoring, deemphasize decision making, deemphasize resource provision and emphasize conflict resolution.

One characteristic of an organisational structure that can be expected to influence the functional emphasis of the board is structural complexity, i.e., the quantity and quality of interrelationships between different structural entities. An organisation with increasing numbers of interrelationships with qualitative characteristics that are hard to observe in a simple, abstract fashion will be harder to manage. The causal relationships are difficult to identify and ambiguous, which makes it hard to intervene since the outcome will be

unpredictable. Due to causal ambiguity in highly complex organisations, management have to be highly decentralised. This characteristic does therefore withdraw the board's possibility of conducting decision making (Zald, 1969), leaving the board with the function of monitoring (Carpenter & Westphal, 2001), presumably entirely focused on rather simple output controls, such as financial control.

In this manner, it resembles the M-form board functions. There are, however, huge and important differences between complex organisations and M-form organised firms. It should be noticed that in the M-form organised firm, the delegation is made because of the need of reducing the tactical decision making at the TMT-level, but the delegation in the complex organisation is a prerequisite for the functioning of the entire organisation. The complex organisation needs to acquire information and to reach competencies in an unpredictable way. The board can assist the organisation through connecting the organisation with the director's networks. Thus, a complex organisations board will perform the function of resource provision (Carpenter & Westphal, 2001). Finally, a complex organisation will probably have complex relationships in terms of dependencies with stakeholders in the environment. Thus, the management of stakeholder relationships will be an important issue for the board. All in all, the propositions of the complex organisations board would be

Proposition 15: A complex organisations board tends to emphasize monitoring, deemphasize decision making, emphasize resource provision and emphasize conflict resolution

Distribution of Property Rights

The distribution of property rights creates differences in an organisations incentive structure and power structure. The members of a non-for-profit association with democratic power structure have different power and incentives to engage in the governance of the association than have the single shareholder in a public corporation with a highly dispersed ownership structure. These differences are reflected on the board, creating rather different functional emphasis. Thus, a theory of board behaviour needs to consider the distribution of incentives and power in organisations.

We start by the democratic not-for-profit association, where every member has one vote at the general meeting, make no capital investment, but are using the service provided by the association. This kind of organisation is the most frequent supplier of sport

activities and leisure in Sweden. The members of the association with different interest in the service provided will have incentives to elect and to be represented by a member that share the same interest in the association. Since it is a democratic organisation, such interest has the opportunity to be represented at the board. Thus, the composition of the board will reflect the different groupings among the members of the association (Pfeffer, 1973, cf. Forbes & Milliken, 1999). This will make the board first and foremost an arena where the conflicts among the members and their different interest are mediated and managed. The major functional emphasis of an association's board will therefore be conflict resolution. The members of the board have strong interest in the products and services of the association, since the members are the consumers of these products. This feature of an association will make the board members prone to engage in the decision making of the firm, even to try to influence the implementation of decisions. A similar attitude has been found in Australian not-for-profit organisations (Steane & Christie, 2001). Thus, a second emphasis will be on decision making. The members of the board cannot be assumed to be capable of providing resources for the firm and the top management since they are elected due to them being representatives for the members and not because of their competence, i.e., low emphasise on resource provision. Finally, the monitoring activities will be conducted through the member's consumption of the products and services, not through the board, thereby making the board less prone to engage in monitoring activities. All in all, the propositions of the association's board would be

Proposition 16: A not-for-profit democratic association board tends to deemphasize monitoring, emphasize decision making, deemphasize resource provision and emphasize conflict resolution.

The private corporation is owned and governed by one single owner or only a few owners. On the surface, it can appear as the private corporation resembles the characteristics of the principal director dominated board. But it does not. In the derivation of the functional emphasis of a principal director dominated board, it was assumed that the board were dominated by principal directors. This need not be the case in a private corporation. Indeed, one could very well imagine the case were the owner is influencing the corporation in a direct way, through direct control of the CEO. Thereby, the board will be relieved from the decision making function. An owner, strong in engagement and competence of the corporation, will

not be inclined to use the board as a monitoring device. Instead, a strong owner, with a large capacity to govern the corporation, will use the board as a consigliere, i.e., as a device for systematic and frequent advices and for management of important stakeholders. Additionally, the board will also fulfil the function of resource acquisition, if needed. Thus, the board in a private corporation can be reduced to being but a supportive group of people. If, however, the board would orient itself towards more engagement in the monitoring and decision making functions, it would probably experience turn-over, since the owner would reduce its ambitions. Thus, we make the following proposition:

Proposition 17: A private corporation board tends to deemphasize monitoring, deemphasize decision making, emphasize resource provision and emphasize conflict resolution.

The public corporation, with an abundance of shareholders, i.e., with a dispersed ownership structure, where the shareholders enjoy limited liability and are hoping for capital rent to be paid as pension payments, will have a board that deliver profit to the shareholders. The board will therefore be occupied with monitoring performance. These corporations are dependent upon the market for corporate directors. Not much is, however, known about this market (cf. Zajac & Westphal, 1996). It consists presumably of former C.E.O.'s, which have retired from active duty, but with an understanding of a C.E.O.'s need of autonomy, thus avoiding engagement in operational business decision making. They bring, however, their former network to the board and aid therefore with the networks resource capabilities. Finally, the persons on the market for directors have but their competence to offer, and their market value is dependent on their reputation. They are the ones that can be expected to act according to duty and not out of any particular interest. They sell a certain way of acting and an attitude towards directorship and enterprising. To act according to duty will create a credible commitment, and thereby reduce uncertainty. Thus, we believe that the market for directors will support the existence of directors acting on duty. This will make the director a trustworthy mediator between different stakeholders. The board can therefore credibly engage in mediating conflicts. Thus, we make the following proposition:

Proposition 18: A public corporations board tends to emphasize monitoring, deemphasize decision making, emphasize resource provision and emphasize conflict resolution.

SUMMARISING AND DISCUSSING THE CONTINGENCY APPROACH OF BOARD FUNCTIONAL EMPHASIS

The deduction of the different propositions indicates that a board differ in functional emphasis due to many influential factors. Table 1 summarise the propositions.

TABLE 1.

Summary of propositions about the board's functional emphasis

	Monitoring	Decision making	Resource provision	Conflict resolution
Board Composition				
P.1 Insider dominated	-	+	-	+
P.2 Principal dominated	-	+	+	-
P. 3 Independent dominated	+	-	+	-
P.4 Board size	-	-	+	+
P.5 **CEO Tenure**	+	-	+	-
P.6 **Environmental uncertainty**	-	-	+	-
P.7 Political risk		+		
Organisational strategy				
P.8 Simple Business	-	-	-	-
P.9 Related businesses	+	+	+	+
P.10 Unrelated businesses	+	+	-	-
P.11 Age of the firm	+	-	-	-
P.12 Size of the firm	+	-	-	+
Organisational structure				
P.13 F-form	-	+	+	-
P.14 M-form	+	-	-	+
P.15 Complexity	+	-	+	+
Distribution of Property Pights				
P.16 Not-for-profit democratic association	-	+	-	+
P.17 Private corporation	-	-	+	+
P.18 Public corporation	+	-	+	+

Inspecting the columns of the two traditional functions, monitoring and resource provision, and counting the occurrence of functional emphasis and de-emphasis, it can be found that both functions show a rather equal distribution. Of course, this algebraic operation appears to be rather arbitrary since the distribution is dependent on the factors chosen. Inspecting the column of the decision making function does, however, indicate that the actual distribution could have a meaning. The distribution of the decision making function shows that de-emphasis of the function is more frequent. This result seems intuitively correct and

attuned with the popular belief that decision making is not the most prominent function of a board. The fourth function added in this paper, the conflict resolution function, did receive an equal distribution of emphasis and de-emphasis, thus indicating that it is a viable function.

A second analysis of the collected propositions in table 1 can be performed through correlating the set of signs for different factors. The basic idea behind this analysis is that a board would be subject to many factors simultaneously, and every factor would stimulate an emphasis or a de-emphasis of the different functions. If the factors stimulate the same set of functional emphasis, for example insider dominated boards have the same set of predictions about functional emphasis as do the association, then the insider dominated board of an association will experience functional harmony. On the other hand, when the C.E.O.'s tenure increases, the board tend to get a functional orientation that is contrary to the functional emphasis of an association's board. The board of an association with a C.E.O. with very long tenure will therefore experience functional disharmony.

Functional harmony could presumably influence the efficiency of a board due to its effect on focus and unproductive conflicts. With growing functional disharmony, the board would tend to loose focus and become confused in orientation. Functional disharmony would presumably foster conflict since different board members and subgroups of the board will be representatives of different functional emphasis. The conflicts caused by functional disharmony cannot be assumed to be productive. Conflicts of productive nature, those that promote innovation, are substantive conflicts (Pelled, 1996) that are caused by different views on the same topic. Functional disharmony could be assumed to produce emphasis on different topics, dependent on which functional emphasis that is being emphasised or de-emphasised. It can therefore not be assumed that functional disharmony would create productive conflicts. The loss of focus and the conflicts will make the board an arena of many fights and long discussions, but without being able to produce any other outcome than long board meetings.

Thus, a lot of resources, such as the director's time, will be consumed, and produce nothing more than an image of an introvert and paralyzed board. Hence, the contingency approach of a board's functional emphasis could have praxis implications. As in the example above, the association and its long tenured C.E.O. can be helped in their understanding of their presumably conflictual relationship between the board and the C.E.O., and the loss of legitimacy an inefficient board presumably experience. Understanding the forces directing the functional emphasis will not reduce their influence, but maybe their

impact on the board's activities through the board's conscious management of functional emphasis.

We have now reached the ending point of the paper, finding the last conclusion, that of the research praxis implication. Every board will presumably experience some level of functional disharmony. The overriding responsibility of the chairman of the board would therefore be to manage the functional emphasis of the board. To a certain extent it is given by the factors we have found influence the functional emphasis. In the case they are deterministic, the chairman has to subordinate the board and the organisation and adapt to the factors. For example, if the C.E.O. tenure factor is deterministic, then one method of reducing functional disharmony would be to recruit a new C.E.O. In the case that the influence of the factors can be managed, the chairman can manage the board's functional emphasis through the agenda and how to lead the debate in the boardroom.

CONCLUSIONS

The understanding of the board and its behaviour is restricted, in spite of the board's tremendous societal importance. We have claimed that the conception of the board can be more accurate if it 1. reduce the ideological interpretation of a boards responsibilities, which can be achieved through regarding the firm as a nexus of investments; 2. consider the whole set of instincts that influence human action, especially the neglected instinct of duty; 3. acknowledge the fourth function of the board, conflict resolution or principal identification; and 4. consider the whole range of boards existing in the world, thus making the theory of the board less empirically bound. In this paper we have indicated one implication of this change in conception through producing a rudimentary contingency approach on a board's functional emphasis.

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