

PIETER-JAN BEZEMER

Diffusion of Corporate Governance Beliefs

Board Independence and the Emergence of a
Shareholder Value Orientation in the Netherlands



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shareholder value orientation in the Netherlands**

**De verspreiding van *corporate governance*-opvattingen:
Onafhankelijk toezicht en de opkomst van een
aandeelhouderswaardeoriëntatie in Nederland**

Thesis

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PREFACE

It is with great pleasure that I look back at the time I spent as Ph.D. student at the Department of Strategic Management & Business Environment of the RSM Erasmus University. Just like the man on the cover of this thesis, my Ph.D. research offered me a look in the boardrooms of Dutch supervisory boards of directors during turbulent times. Corporate governance scandals, regulatory initiatives and shareholder activism have significantly altered the Dutch corporate governance setting and it has been intriguing to reflect on these developments from a strategic management perspective. In particular, the changing role of boards and the diffusion of a shareholder value orientation triggered my curiosity, resulting in a dissertation that extensively addresses both developments.

While writing a Ph.D. thesis is quite lonely at times, I am very grateful to the people I met along the way who inspired me to pursue my research. In particular, the interviews and conversations with board members and industry experts were very insightful and gave me the opportunity to connect theory with practice. I am also very grateful to my co-authors from whom I learned a lot, pushing me beyond my boundaries and triggering me to perform at the top of my abilities. Thanks Amedeo, Alessandro, Ed, Frans, Gregory, Han, Henk, Morten and Stefan for sharing your knowledge and experience with me! I also want to express my gratitude to Frans and Henk for providing me with the opportunity to do Ph.D. research at the crossroads of strategy and corporate governance, and giving me the freedom and (financial) means to pursue my research interests. A special thanks goes to Gregory who supported me as a daily supervisor. From the strangest places on earth I received your comments with a turnaround time that was simply impressive. Thank you for believing in me - even when I sometimes kept making the same mistakes. Furthermore, I would like to thank Arlette, Johannes, Lotte, Martin, Mariano and Rick for their excellent research assistance. Without their support, I would not have been able to write this dissertation. Moreover, I would like to thank my colleagues at RSM Erasmus University for providing a challenging, yet amiable, working environment to conduct research. A special thanks goes out to Carolien, Patricia and Marisa, for their continuing support during this project.

While conducting management research nowadays is often a goal-oriented process, I am thankful to Michiel and Paul for always reminding me that *der Weg ist das Ziel*, i.e., that not reaching your targets is decisive, but that enjoying what you are doing is most important. Thanks mates for your friendship and continuing support during the lows and heights of my Ph.D. trajectory. Last but certainly not least, I would like to thank my family and Meriam for simply being there and believing in me. I owe you a lot!

I hope that you will enjoy reading this thesis on the changing corporate landscape in the Netherlands. It has been a pleasure working on it. Given the recent financial crisis, the increasing impact of international stakeholders, and repetitive nature of governance scandals, the discussed issues in this thesis seem topical and important for the upcoming years.

Pieter-Jan Bezemer

Waddinxveen, February 2010

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Chapter 1: Introduction

1.1 Introduction

Over the last two decades, the attention for corporate governance has been burgeoning. Triggered by numerous scandals (e.g., Ahold, Enron, Parmalat and WorldCom) and the recent financial crisis, increased regulation and societal criticism, scholars and practitioners have heavily debated topics as diverse as the rights and duties of shareholders, financial transparency and risk management, the fiduciary role of auditors, executive pay and the sustainability of the business model of financials. Particularly, the globalization and liberalization of financial markets seem to have added an extra layer of complexity to these questions, as listed companies nowadays are increasingly exposed to national regulatory initiatives, and varying predispositions of international stakeholders. As a result, profoundly understanding and adequately managing corporate governance issues are of paramount importance to managers and directors.

While corporate governance problems can be found as early as in the writings of Shakespeare (e.g., *The Merchant of Venice*) and accounts of the Dutch United East India Company (VOC), the first joint stock company established in 1602, the field of corporate governance did not develop before the 1980s. Defining corporate governance has been a challenge given the multitude of adopted definitions (Tricker, 1993; 2000). While one stream of research has defined corporate governance as “the relationship among various participants in determining the direction and performance of corporations” (Monks & Minow, 1995:1) and “concerned with holding the balance between economic and social goals and between individual and communal goals” (Cadbury, 1999:6), another group of researchers has more narrowly defined it as an area that “deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer & Vishny, 1997:737).

Similarly, financial markets may see the purpose of the public company differently. While coordinated market economies (e.g., Japan and Germany) conceptualize corporations as communities of stakeholders whose interests should be served, liberal market economies (e.g., the United States) view corporations as mere instruments to create value for its shareholders (cf. De Wit & Meyer, 2004; Fiss & Zajac, 2004; 2006; Heemskerk, 2007). Accordingly, differences in corporate governance structures and role requirements of governance bodies and actors are quite profound across

national boundaries (Aguilera & Cuervo-Cazurra, 2004; Aguilera et al., 2008; Witt & Redding, 2009; Zattoni & Cuomo, 2008). An illustrative example is the two-tier board model in Germany and the Netherlands, which places alternative demands on directors and creates different dynamics at the apex of large corporations than one can observe in the one-tier board model, which is more regularly used around the globe (Huse, 2007; Maassen, 1999; Maassen & Van Den Bosch, 1999).

While international differences in corporate governance used to be quite persistent (Aguilera & Cuervo-Cazurra, 2004; Fiss & Zajac, 2004; Witt & Redding, 2009), the globalization and liberalization of national economies have contributed to an increasing exchange of corporate governance beliefs and practices worldwide (Morris et al., 2008; Yoshikawa & Rasheed, 2009). Among others, the following two corporate governance beliefs and associated practices have diffused globally. First, financial markets have emphasized the importance of board control and independence. In line with principles of the agency theory, regulatory initiatives in Western countries have introduced provisions aimed at improving the oversight function of boards of directors (Daily et al., 2003; Enrione et al., 2006). Second, the Anglo-American shareholder value orientation has diffused to coordinated market economies such as France (Morin, 2000), Germany (Fiss & Zajac, 2004; 2006; Tuschke & Sanders, 2003), and Japan (Jackson, 2003; Yoshikawa, et al., 2007; Yoshikawa & McGuire, 2008) and contributed to the “financialization” of listed corporations (Froud et al., 2000).

1.2 Research Aim

This dissertation aims to enhance the understanding of the diffusion of the previously described corporate governance beliefs¹, i.e., principles and practices related to board independence and shareholder value orientation. While prior studies have investigated the diffusion of corporate governance beliefs from a variety of angles (see Table 1.1), the antecedents, consequences and influence of contextual factors are still topic of debate. Regarding the *antecedents*, scholars have not reached agreement about the drivers and inhibitors of the diffusion of corporate governance beliefs (cf. Ansari et

¹ In this dissertation we refer to “*beliefs*” to highlight that new corporate governance practices are not “*simply single techniques*” (Fiss & Zajac, 2004:502), i.e., they are embedded in broader political and social contexts that affect how managers and regulators perceive them and respond to them.

al., 2010; Yoshikawa & Rasheed, 2009). While one stream of research posits that the economic and technical benefits associated with new corporate governance beliefs explain why firms adopt them, another research stream argues that social factors, i.e., “the way things are” and “the way things are to be done” (Scott, 1987:496; Suchman, 1995) have a significant imprint on a corporation’s response to these new beliefs. Furthermore, the role of various actors in stimulating and resisting the diffusion of new corporate governance beliefs is topic of debate. In particular, scholars have posed the question whether corporate governance change is more likely to be stimulated by insiders who observe the merits of new approaches, or by outsiders that have an interest in the diffusion of new corporate governance beliefs (e.g., Ansari et al., 2010; Fiol & O’Connor, 2002; Maguire & Hardy, 2009; Yoshikawa & Rasheed, 2009).

Table 1.1 Major debates regarding the diffusion of corporate governance beliefs

| Debates | Main research issues | Key contributions |
|--|---|--|
| <p>Debate 1: Antecedents of Diffusion</p> | <ul style="list-style-type: none"> • Do technical, cultural and/or political antecedents explain the diffusion of new beliefs? • Is the diffusion of new beliefs insider-driven or outsider-driven? | <p>Abrahamson & Rosenkopf, 1993; Ansari et al., 2010; Davis, 1991; Meyer & Rowan, 1977; Westphal & Zajac, 1994; Yoshikawa & Rasheed, 2009.</p> <p>Ansari et al., 2010; Fiol & O’Connor, 2002; Fiss & Zajac, 2004; Maguire & Hardy, 2009; Sanders & Tuschke, 2007; Yoshikawa & Rasheed, 2009.</p> |
| <p>Debate 2: Performance Consequences</p> | <ul style="list-style-type: none"> • How does the adoption of new beliefs affect a company’s performance? • Do firms respond symbolically or substantively to new beliefs? | <p>Dalton et al., 1998; Fiss & Zajac, 2006; Sundaramurthy & Lewis, 2003; Tuschke & Sanders, 2003; Westphal, 2002.</p> <p>Fiss & Zajac, 2004; Westphal & Zajac, 1994; 1998; Zajac & Westphal, 2004.</p> |
| <p>Debate 3: Impact of Contextual Factors</p> | <ul style="list-style-type: none"> • Is the diffusion of new beliefs a global or a nation-specific development? • Do firms simply adopt new beliefs or do they adapt them? | <p>Aguilera & Cuervo-Cazurra, 2004; Aguilera et al., 2008; Filatotchev & Boyd, 2009; Hambrick et al., 2008; Pugliese et al., 2009.</p> <p>Ansari et al., 2010; Aguilera et al., 2008; Fiss & Zajac, 2006; Yoshikawa et al., 2007; Yoshikawa & Rasheed, 2009.</p> |

Furthermore, the subsequent *performance consequences* of the adoption and implementation of new corporate governance beliefs are subject to inquiry. Evidence is rather mixed regarding the conditions under which board independence and a shareholder value orientation create strategic and economic value for a corporation (Dalton et al., 1998; Fiss & Zajac, 2006; Sundaramurthy & Lewis, 2003; Tuschke & Sanders, 2003). In particular, when such corporate governance beliefs contest prevailing logics, their adoption and implementation may give rise to important unintended consequences (Bezemer et al., 2007; Fiss & Zajac, 2006; Westphal, 2002). Moreover, scholars have debated whether the symbolic adoption of corporate governance beliefs (i.e., referring to these beliefs without actually implementing them) already generates positive market reactions, or that it is a necessity that companies put their money where their mouth is (Fiss & Zajac, 2004; Westphal & Zajac, 1998; Zajac & Westphal, 2004).

A third topic of debate is the impact of *contextual factors* on the diffusion of new corporate governance beliefs. Scholars have noted that the macro, meso and micro contexts in which beliefs diffuse are not neutral: they are loaded with technical, social and political values and predispositions (cf. Ansari et al., 2010; Rosenberg, 2005). As such, the institutional contexts in which a corporation is embedded, may strongly affect a firm's (non)response to the introduction of new beliefs (Aguilera & Cuervo-Cazurra, 2004; Aguilera et al., 2008; Filatotchev & Boyd, 2009; Hambrick et al., 2008). This raises the question to which extent the diffusion of new beliefs is a global or a nation-specific process. A related question is whether companies simply adopt new beliefs or that they adapt and tailor them to the specifics of their contexts. Several studies have suggested that corporations might actually adopt "hybrid models" in which elements of the old logic are blended together with new corporate governance beliefs (Ansari et al., 2010; Ponsard et al., 2005; Yoshikawa et al., 2007; Yoshikawa & Rasheed, 2009).

This PhD study aims at contributing to these three major debates related to the diffusion of corporate governance beliefs (see Table 1.1). More specifically, we investigate the diffusion of principles regarding board independence and a shareholder value orientation among Dutch listed companies during the period 1992-2007. In the various chapters of this dissertation, we will examine the extent to which the corporate governance practices of these firms have changed, assess the *antecedents* and *performance consequences* of these changes, and analyze the role of *contextual factors*. While prior

studies in this area have mainly focused on the dynamics in the US context (Filatotchev & Boyd, 2009; Peck & Ruigrok, 2000; Pugliese et al., 2009) and in large economies such as Germany (Fiss & Zajac, 2004; 2006; Sanders & Tuschke, 2007; Tuschke & Sanders, 2003) and Japan (Yoshikawa, et al, 2007; Yoshikawa & McGuire, 2008), we conduct our study within the Netherlands: a relatively small and open economy. Given its reliance on developments in the global economy, the Dutch context is an interesting research setting. We expect that the introduction of new corporate governance beliefs will be closer to the surface in this context, as firms are less buffered against pressures by international capital markets. By addressing the aforementioned scholarly debates in the Dutch context, the main objective of this dissertation is:

To enhance our understanding of the antecedents and consequences of the diffusion of corporate governance beliefs (board independence and a shareholder value orientation) in the context of a small and open economy.

1.3 Research Setting

Before discussing the theoretical and methodological underpinnings of our research, we first provide a summary of the main characteristics of the Dutch corporate governance context, given its centrality in this dissertation (see Table 1.2). The roots of the contemporary Dutch open economy can be found in the glory days of the Golden Age (1600-1700). In this era, when the Netherlands were one of the largest trading nations, the Dutch founded the Dutch United East India Company (VOC), the first joint stock company in the world (Maassen, 1999). With a small group of large, internationally diversified firms and a GDP that is earned abroad for more than 60 per cent, the Dutch trade origins and its international orientation are still prominent. The Netherlands are a welfare state with a long tradition of balancing the interests of societal groups. The Dutch corporate governance system is unique in the sense that company law explicitly defines publicly listed firms as legal entities that must take into account the rights of all stakeholders affected by the firm. The institutionalized stakeholder approach is supported by a two-tier board model consisting of a management board and a supervisory board. The supervisory board consists of non-executive directors to assure its independence and has the duty by law to supervise and advice the management board

while acting in the best interests of the firm and its stakeholders (cf. Akkermans et al., 2007; Bezemer et al., 2007; De Jong et al., 2005; 2006; Hooghiemstra & Van Manen, 2004; Maassen & Van Den Bosch, 1999).

Within the Dutch institutionalized stakeholder model, managers basically hold “the control rights of the firm” instead of the shareholders (Van Ees et al., 2003:92; Van Veen & Elbertsen, 2008). Hostile takeovers have been rare (Groot, 1998; Kabir et al., 1997) and, until recently, shareholders have not been pursuing their own agendas actively (Chirinko et al., 2004; De Jong et al., 2006). Three distinct features of the Dutch corporate governance system largely explain the entrenched position of management. First, while the market for corporate control is active in the United States and the United Kingdom (Lazonick & O’Sullivan, 2000), the Dutch market for corporate control used to be severely constrained by several anti-investor protection measures, such as preference shares and tradable depository receipts (cf. Chirinko et al., 2004; De Jong et al., 2005; Kabir et al., 1997; Van Ees & Postma, 2005). Second, while dispersed ownership is common in the United States and the United Kingdom (La Porta et al., 1998), the Dutch context used to be characterized by large block holdings of domestic institutional investors. In particular, financial institutions, such as banks, insurance companies and pension funds, used to have large ownership stakes in Dutch listed firms (Van Ees et al., 2003). The majority of these institutional investors, however, had a rather “passive attitude” (De Jong et al., 2005:482) and has been characterized as “long-term, patient investors” (Chirinko et al., 2004:125). The passive attitude of institutional investors is illustrated by low attendance rates at annual general meetings of shareholders and the limited number of rejected management proposals (De Jong et al., 2006). Third, the entrenched position of managers was supported by a small elite community of board members, referred to as the “old-boys network”, which used to occupy a central position in the Dutch network. In particular, the top-three listed banks (ABN Amro, Fortis and ING) played a central role in this board network during the 1990s (Heemskerk et al., 2003). Elite membership was often associated with prestigious functions in societal interest groups and membership of exclusive dining clubs (Heemskerk, 2007).

However, over the last decade, Dutch financial markets have seen dramatic changes. The globalization and liberalization of the financial market, (self)regulatory

initiatives (i.e., the codes by the committees Peters, Tabaksblat and Frijns), corporate governance scandals and societal pressure have led to increased shareholder rights and activism, abolished anti-investor protection devices and disintegrating managerial elite networks (Bezemer et al., 2007; Van Hamel et al., 1998; Heemskerk et al., 2003; Heemskerk, 2007; Maassen, 1999; Van Veen & Elbertsen, 2008). Among others, these developments have contributed to increasing convergence of the Anglo-American shareholder model and the Rhineland stakeholder model (Gamble & Kelly, 2001; Morris et al., 2008; Thomsen, 2003) and a convergence of the one-tier and the two-tier board models (Collier & Mahbub, 2005; Maassen, 1999; Maassen & Van Den Bosch, 1999).

Table 1.2: Main characteristics of the Dutch corporate governance context*

| Categories | Main Characteristics | Recent Developments |
|---|---|--|
| General economic characteristics | <ul style="list-style-type: none"> • Small and open economy. • Coordinated market economy with institutionalized stakeholder orientation. | <ul style="list-style-type: none"> • Increased pressure on the Dutch stakeholder model. • Move towards the Anglo-American shareholder model. |
| Board model | <ul style="list-style-type: none"> • Two-tier boards with a management board and supervisory board. • Structural separation of decision making and decision control. | <ul style="list-style-type: none"> • Increased pressure on the two-tier board model. • Move towards the one-tier board model. |
| Board network | <ul style="list-style-type: none"> • Dutch elite community of board members, referred to as the “old-boys network”. • Dutch banks used to have a central network position. | <ul style="list-style-type: none"> • Dutch network of board interlocks has been disintegrating. • Dutch banks (ING, ABN Amro and Fortis) have lost their central network position. |
| Shareholders | <ul style="list-style-type: none"> • Presence of large blockholders that used to be “rather passive”. • Presence of anti-investor protection measures (such as preference shares and TDRs). | <ul style="list-style-type: none"> • Increased shareholder activism. • Increased number of foreign investors. • Abolishment of several anti-investor protection devices. |

*Sources: Akkermans et al., 2007; Bezemer et al., 2007; Chirinko et al., 2004; De Jong et al., 2005; 2006; Groot, 1998; Heemskerk et al., 2003; Heemskerk, 2007; Hooghiemstra & Van Manen, 2004; Kabir et al., 1997; Maassen, 1999; Maassen & Van Den Bosch, 1999; Van Ees & Postma, 2005; Van Ees et al., 2003; Van Hamel et al., 1998; Van Veen & Elbertsen, 2008.

1.4 Research Approach

It is in this evolving research setting that we aim to enhance our understanding of the diffusion of corporate governance beliefs (board independence and shareholder value) among listed firms in a small and open economy. To achieve this aim, we conduct five research studies (see Table 1.3), all approaching our main research question from a slightly different theoretical and methodological angle. Applying such a pluralism in terms of lenses and methods increases our understanding of the phenomenon, i.e., the diffusion of corporate governance beliefs, as each theory and methodology highlights and uncovers another element of the “beast” (Mintzberg & Lampel, 1999:21).

However, before addressing this theoretical and methodological pluralism, the following paragraphs provide a summary of each study’s motives, research questions, method and intended contributions. The first four research studies investigate the roles of the board of directors and their chairman, and assess changes in these roles as a result of a stronger emphasis on board independence. The fifth study examines the diffusion of a shareholder value orientation among Dutch listed firms.

1.4.1 Study 1: The Board-Strategy Relationship

The appropriate role of boards of directors in formulating and implementing strategy has been long debated (Andrews 1981a, 1981b; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Useem, 2003). While the literature has acknowledged the importance and need for adequate board control and independence (Baysinger & Hoskisson, 1990; Jensen & Zajac, 2004), both the contributions of boards to strategy and the desirability of such practice have remained topics of debate (Daily et al., 2003; Golden & Zajac, 2001). In light of a multitude of theoretical lenses and inconclusive empirical findings in the management literature, Zahra and Pearce’s observation that “there is controversy over the nature of directors’ strategic role” (1989:328) still seems to be topical after twenty years of research. In this context, the first study of this dissertation assesses the literature on boards and strategy by highlighting emerging trends and identifying several avenues for future research. More formally, we investigate the following questions:

1. What is the status of research in the board-strategy domain?
2. How has research in this domain evolved over time?
3. What are the main challenges and future opportunities in this domain?

Table 1.3: Theoretical and methodological underpinnings of the five research studies

| Study | Topic | Theoretical Lenses | Method | Unit of Analysis | Sample | Time-frame | Data Source |
|-------|--|---|--|------------------------------|--|------------|---|
| 1 | Review of the literature on boards and strategy | | Content analysis | Academic journals and papers | Longitudinal: 150 articles published in 23 management journals | 1972-2007 | ISI-WEB, Business Source Premier, ABI Inform, Ebsco-Host, JSTOR and Swetsnet |
| 2 | The changing service tasks of non-executives in the Netherlands | Social network theory, resource dependency theory and the resource based view of the firm | Archival data | Board level | Longitudinal: top-100 listed firms in the Netherlands | 1997-2005 | Spencer Stuart Board Indices, Worldscope, Reach and annual reports |
| 3 | The changing role of the non-executive chairman in the Netherlands | Social network theory, resource dependency theory and the resource based view of the firm | Archival data & 30 interviews | Board and individual level | Cross-sectional: 30 CEOs and chairmen. Longitudinal: top-100 listed firms in the Netherlands | 1997-2007 | Spencer Stuart Board Indices, Worldscope, Reach, annual reports and interview notes of 30 conversations |
| 4 | Institutional antecedents of the disintegrating Dutch network of board interlocks. | Institutional theory | Archival data | Firm level | Cross-sectional: top-100 listed firms in the Netherlands | 2001-2005 | Spencer Stuart Board Indices, BoardEx, Worldscope and Reach |
| 5 | Antecedents and consequences of the espousal of a shareholder value orientation among firms in the Netherlands | Sociopolitical perspective | Archival data, content analysis & interviews | Firm level | Longitudinal: top-100 listed firms in the Netherlands | 1992-2006 | Spencer Stuart Board Indices, Worldscope, Thompson, BoardEx, and annual reports |

We research these questions through the use of a content analysis of all peer-reviewed publications in management journals until 2007. Papers were selected if they simultaneously contained the search terms “board” and “strateg*” or “director” and “strateg*” in the title, abstract and/or key words. In sum, our final sample consists of 150 articles published in 23 journals from 1972 until 2007. In order to describe and analyze how research on boards of directors and strategy has evolved over time, two raters independently analyzed and coded the set of 150 articles. The two raters codified all basic elements of a publication: (i) type of article, (ii) main research topic, (iii) use of theories, (iv) research setting, (v) source of data and (vi) the definition of board strategic involvement (cf. Coffey & Atkinson, 1996; Insch et al., 1997; Krippendorff, 2004). Finally, we statistically analyzed the obtained data.

Thereby, this study contributes to the literature on boards and strategy in three ways (see Table 1.4). First, it describes how studies on boards and strategy have been evolving and illustrates how certain topics, theories, settings and sources of data interact and have influenced our knowledge about board-strategy relationships during certain time periods. For instance, our data reveal that during the 1990s the field was dominated by empirical studies in a US setting that mainly refer to agency theory and focus on the determinants and consequences of boards’ strategic involvement. Second, this study complements previous literature reviews that have (partially) covered this domain (Deutsch, 2005; Johnson et al., 1996; Zahra & Pearce, 1989). Given the time elapsed since these reviews, the intensification of the corporate governance debate internationally and the large number of studies conducted on boards of directors and strategy more recently, it is the right time for due reflection on achievements in this area (Huse, 2005). Third, this study highlights several avenues to advance the field of study. Our findings encourage governance scholars to further investigate the impact of contextual forces at multiple levels, to further comprehend board processes and dynamics, and to adopt methods aimed at opening the black box of board research. Finally, the study has implications for practice. Existing board practices emphasize, in fact, board control and independence as antecedents of good governance, but these aspects may also hinder the board’s contribution to strategy-making. In line with some recent works, this suggests that the requirements for an effective strategic task should be taken into account while composing boards and devising new regulations.

Table 1.4 Intended contributions of the five research studies

| Study | Topic | Main contributions |
|-------|--|--|
| 1 | Review of the literature on boards and strategy | <ul style="list-style-type: none"> • Highlighting the evolution of the board-strategy debate in terms of topics, theories, settings and sources of data. • Complementing prior literature reviews by reflecting on emerging research paths and discussing avenues for future research. • Informing practitioners about the status of the board-strategy debate and highlighting key issues that should be taken into account. |
| 2 | The changing service tasks of non-executives in the Netherlands | <ul style="list-style-type: none"> • Investigating how the emphasis on board control and independence has affected the value creating potential of boards. • Highlighting how boards of directors fulfill their tasks in a two-tier board context. |
| 3 | The changing role of the non-executive chairman in the Netherlands | <ul style="list-style-type: none"> • Examining how the changing Dutch corporate governance context has affected the role of the chairman of the board of directors. • Investigating how the changing context and role of the chairman of the board of directors have affected their structural position. • Highlighting how chairmen of boards of directors fulfill their role in a two-tier board context. |
| 4 | Institutional antecedents of the disintegrating Dutch network of interlocks | <ul style="list-style-type: none"> • Examining how the positioning of firms affects their vulnerability to boardroom reform efforts. • Assessing the mechanisms firms have at their disposal to partially nullify reform pressures. • Highlighting the role and evolution of board networks in the Dutch corporate governance context. |
| 5 | Antecedents and consequences of the espousal of a shareholder value orientation among firms in the Netherlands | <ul style="list-style-type: none"> • Examining how the varying preferences of major owners influence the diffusion of contested corporate governance beliefs. • Investigating how the macro and micro political contexts influence the available maneuvering space major owners have to affect a firm's main orientation. • Assessing the performance implications of a company's referral to contested corporate governance beliefs. |

1.4.2 Study 2: The Changing Service Tasks of Non-Executive Directors

In the second study of this dissertation, we further investigate the aforescribed notion that existing board practices generally emphasize board control and independence as antecedents of good governance, while they might simultaneously hinder the board's contribution to strategy-making. In particular, globalization and liberalization of financial markets, changing societal expectations and corporate governance scandals have

increased the attention for the fiduciary duties of non-executive directors. In this context, recent corporate governance reform initiatives have emphasized the control task and independence of non-executive directors. However, the impact of these reform initiatives on the service tasks of non-executive directors has been largely neglected. In fact, the emphasis on board control and independence may hamper non-executive directors' external service task in providing access to resources on which corporations are dependent (Boyd, 1990; Pfeffer, 1972; 1973) and they may limit their task in corporate learning through board relationships (Mizruchi, 1996; Westphal et al., 2001). Furthermore, the emphasis on board control and board independence might undermine non-executive directors' internal service task in providing advice and counseling to executive directors (Carpenter & Westphal, 2001; McNulty & Pettigrew, 1999). After all, interdependence, maintenance of closeness and a focus on joint value creation are necessary for fostering the external and internal service tasks (cf. Forbes & Milliken, 1999; Van Hamel et al., 1998). Accordingly, we address the following research question in the second study:

How have external and internal service tasks of non-executive directors been affected by reform initiatives (i.e., provisions in corporate governance codes) that emphasize the control task and independence of non-executive directors?

We empirically investigate this question by analyzing the evolvement of board structures related to the functioning of the external and internal service tasks. We posit that non-executive directors will only be able to perform their service tasks adequately in the presence of mechanisms that facilitate the exchange of knowledge, information and other resources. Examples include network ties and joint board meetings with executive directors. Data on the board structures were collected for all top-100 listed companies at the Euronext in Amsterdam for the period 1997-2005. We deliberately chose this timeframe, given our focus on the influence of reform initiatives: during the first year of this period, the Peters Committee published its forty recommendations and started a formal national corporate governance debate in the Netherlands, which resulted in the Tabaksblat Code in 2003.

By doing so in the Dutch financial market, this study makes two main contributions (see Table 1.4, page 11). First, it describes how Dutch corporate governance codes with an emphasis on the control task and the independence of non-executive directors relate to the external and internal service tasks of non-executive directors. We find empirical evidence that corporate governance measures taken to reinforce board control may hamper non-executive directors' external service task, while reinvigorating their internal service task. Second, by describing how non-executive directors fulfill their service tasks in a two-tier board context, we provide a more thorough understanding of the functioning of the two-tier board model regarding these tasks.

1.4.3 Study 3: The Changing Role of the Non-Executive Chairman

In the third study of this dissertation, we extend our second study by focusing on a unit of analysis that has received limited scholarly attention in board research: individual board members. In this study, we posit that the chairman of the board of directors may be subject to changing role expectations, as (s)he is most visible to the outside world (cf. Kakabadse & Kakabadse, 2007a; 2007b; Roberts, 2002). Given the chairman's responsibility for (i) counterbalancing the power of the CEO and (ii) functioning of the board of directors (Hill, 1995; McNulty & Pettigrew, 1999), the changing role requirements may in fact have a far-reaching impact on the checks and balances within corporations. Yet, to date, relatively little is known about (i) contemporary challenges for chairmen, (ii) the evolution of the chairman's role vice versa key organizational bodies and individuals such as the CEO, and (iii) the drivers of the changing role of chairmen of boards of directors (Kakabadse et al., 2006; Kakabadse & Kakabadse, 2007a, 2007b; Roberts, 2002; Roberts & Stiles, 1999). Accordingly, we investigate the following questions:

1. Which environmental changes do non-executive chairmen observe?
2. What do these developments imply for their role and companies?
3. How has their structural position co-evolved with environmental changes?

We research these questions through combining two methods. First, we collect qualitative data by conducting thirty semi-structured interviews with non-executive

chairmen and CEOs of listed firms at the Euronext Stock Exchange in Amsterdam. In particular, we aim to improve our understanding of the nature of environmental change and its impact on the functioning of non-executive board chairmen. Second, we collect quantitative data on the structural position of all non-executive board chairmen of the top-100 listed firms at the Euronext in Amsterdam for the period 1997-2005 to address our third question.

This study offers three contributions (see Table 1.4, page 11). First, while prior research in general has examined the impact of environmental change on the role of the board of directors as a group, we explore its influence on the role fulfillment of the board's main individual actor, i.e., the chairman. Our results highlight that several environmental developments have significantly altered the level and scope of a chairman's involvement and working style. Interestingly, the opinions regarding the performance implications of the evolving role of board chairmen vary widely within our sample. Second, we illustrate that the changing role of board chairmen has co-evolved with their structural position. Our empirical results illustrate that the chairmen's increasing responsibilities are reflected in increased levels of cash payment, more turnover and fewer additional supervisory board positions. Simultaneously, the demographic profile of the supervisory board chairman (i.e., age, tenure, nationality and gender) remained similar, suggesting a disconnection between demographics and role fulfillment. Third, while one-tier boards have been investigated quite extensively, we provide a more thorough understanding of the challenges that board chairmen face in two-tier boards. We illustrate that the legal separation of decision control and decision management in two-tier boards adds an extra layer of complexity to changing societal expectations of board chairmen. Thereby, we tentatively highlight the opportunities and drawbacks chairmen face while operating in the two-tier board model.

1.4.4 Study 4: The Disintegrating Dutch Board Network

In the fourth study of this dissertation, we extend our second study by focusing on the diminishing involvement of non-executive directors in their external service task, i.e., the observed disintegration of the Dutch board network. While scholars have often emphasized the benefits of interlocking directorates (cf. Mizruchi, 1996), over the last years, board networks of firms have increasingly been scrutinized by the public and

policy makers (Heemskerk, 2007). Well-known corporate governance scandals (such as Enron, WorldCom, Parmalat and Ahold) have changed the opinion and expectations of the public. The media have paid more attention to corporate governance issues and renowned non-executive directors' have been accused of acting as mere rubber stamps. Accordingly, European corporate governance reform initiatives have attempted to strengthen the independence of non-executive directors (Daily et al., 2003; Enrione et al., 2006; Sheridan et al., 2006). However, little is known about how listed firms react and cope with normative beliefs to reform their board networks. Accordingly, we address the following research questions in the fourth study:

1. Why have certain corporations been affected more strongly by institutional pressures to reform their board networks?
2. What strategies have firms employed to counterbalance these pressures?

We empirically investigate these questions by analyzing the evolving board networks of listed companies at the Euronext in Amsterdam between 2001 and 2005. Archival data were collected for two years prior and two years after the introduction of the Tabaksblat Code (2003), at the time of data collection the latest Dutch reform initiative containing provisions regarding board networks. Our choice for the period 2001-2005 enables us to control for firms that have anticipated board reform provisions in the Tabaksblat Code and to take into account firms' delayed responses to the code. Data were obtained from multiple sources, such as the Spencer Stuart Netherlands Board Indexes, annual reports, and the BoardEx, Reach and Worldscope databases.

By doing so, this study makes three contributions (see Table 1.4, page 11). First, in line with institutional theory, we explore whether the larger listed firms have been affected more strongly by the boardroom reform efforts than smaller companies due to their higher visibility and closer monitoring by the public. Second, we investigate whether companies with foreign listings and with ties to regulatory bodies are better positioned to nullify pressures to reform their corporate board networks than less connected and nationally oriented companies. Third, by conducting our empirical study in a traditional two-tier board context in the Netherlands, we provide a more thorough understanding of the role of board networks in this setting.

1.4.5 Study 5: The Diffusion of a Shareholder Value Orientation

In the fifth study of this dissertation, we investigate the diffusion of another corporate governance belief: a shareholder value orientation. While coordinated market economies, such as the Netherlands, used to define corporations as communities of interests whose stakeholder should be served (e.g., De Wit & Meyer, 2004; Fiss & Zajac, 2004; Heemskerk, 2007), practitioners and scholars have noted that board members in these contexts are progressively struggling with pressures for the espousal of a shareholder value orientation (Lazonick & O’Sullivan, 2000; Tuschke & Sanders, 2003; Yoshikawa et al., 2007). However, both the rationale and consequences of a company’s referral to a shareholder value orientation in an institutional context with a competing logic, are subject to academic inquiry (e.g., Fiss & Zajac, 2004; 2006; Hillman & Keim, 2001; Sanders & Tuschke, 2007; Yoshikawa et al., 2007). We contribute to this stream of research by posing the following research questions:

1. Which power dynamics explain the diffusion of a contested practice (a shareholder value orientation) among Dutch listed firms?
2. What are the performance implications of the adoption this practice?

We investigate these questions by analyzing the (non)espousal of a shareholder value orientation by top-100 listed firms in their annual reports. These reports are still one of the major corporate tools in use to communicate with shareholders in the Dutch context. As such, the used language inside these reports regarding shareholder value is an important reflection of managerial predispositions towards this “normative governance paradigm” (Fiss & Zajac, 2004:512; Pye, 2002) and of the way in which a firm publicly presents itself to the capital markets. Subsequently, we related the (non)espousal of a shareholder value orientation to archival data on (i) the technical, cultural and political environments of companies and (ii) their financial performance, in order to assess the antecedents and consequences of a firm’s referral to contested beliefs.

In doing so, we contribute to the literature in three ways (see Table 1.4, page 11). First, building upon prior studies using a sociopolitical perspective (Fiss & Zajac, 2004; Westphal & Zajac, 1998; 2001; Zajac & Westphal, 1995; 2004), we examine how the varying preferences of major shareholders affect a company’s inclination to

espouse a shareholder value orientation in a context with an alternative logic. While prior studies on institutional change have generally examined the influence of “insiders” (Fiss & Zajac, 2004; Maguire & Hardy, 2009), we investigate the impact of “outsiders”. We posit that a firm’s espousal is more likely to be stimulated from without, i.e., by powerful owners who can associate themselves technically and culturally with the shareholder model, then from inside, i.e., by powerful owners who identify themselves technically and culturally with the status quo in a particular firm. Second, while the antecedents of institutional change have been examined extensively in prior studies, the sources of a firm’s refusal to refer to contested shareholder value practices have received scant attention. Scholars have noted that institutionalized practices are often highly resistant to change, as they are embedded in social phenomena such as national belief systems (cf. Granovetter, 1985; Maguire & Hardy, 2009; Reay & Hinings, 2005) and reflect the distribution of power in societies (Ansari et al., 2010; Jürgens et al., 2000; Yoshikawa & Rasheed, 2009). Accordingly, we extend our central argument by simultaneously incorporating inhibitors of change, i.e., macro and micro political factors. Third, we contribute to contemporary literatures by analyzing and discussing the performance implications of a firm’s referral to the shareholder value model. While some scholars have suggested a negative relationship between the espousal of a shareholder value orientation and performance in a stakeholder oriented context (cf. Mintzberg, 2000; Raynor, 2008), there exists little empirical evidence. In fact, Fiss and Zajac (2006), as one of the few studies, find a positive relationship between a firm’s espousal and market performance.

1.4.6 Multiple Lenses and Methods

While the preceding paragraphs highlight the variety of this dissertation in terms of theories and methods (see Table 1.3), applying such a pluralistic approach increases our basic understanding of the research phenomenon, i.e., the diffusion of corporate governance beliefs, as each theory and method highlights and uncovers another element of the “beast” (Mintzberg & Lampel, 1999:21). Thereby, we follow-up calls for:

- “a more holistic, interdisciplinary analysis of various aspects of corporate governance research that urge consideration of the multiple dimensions of corporate governance across a wide range of countries” (Filatotchev & Boyd, 2009:263).

- “a more context dependent understanding of corporate governance [which], in turn, will prove very useful for practitioners and policymakers interested in applying corporate governance in particular situations” (Aguilera et al., 2008:488).
- “[studies that] have a broader scope, encompassing such quite complex matters as multiple stakeholders, boardroom dynamics, managerial processes, managerial values and motives, and national systems (including culture, legal legacies, and so on)” (Hambrick et al., 2008:385).

Accordingly, on the theoretical side, we complement theories from the economics and finance fields by incorporating several other theoretical lenses in this dissertation (see Table 1.3). We use social network theory, resource dependency theory and the resource based view of the firm to highlight the value creating potential of boards of directors and their chairmen (studies 2 and 3). Furthermore, we utilize institutional theory to explain companies’ legitimacy seeking responses under conditions of macro institutional change (study 4). Finally, we apply a sociopolitical perspective while investigating how the preferences and predispositions of central actors, such as major owners and board members, enable and constrain a company’s referral to a shareholder value orientation (study 5).

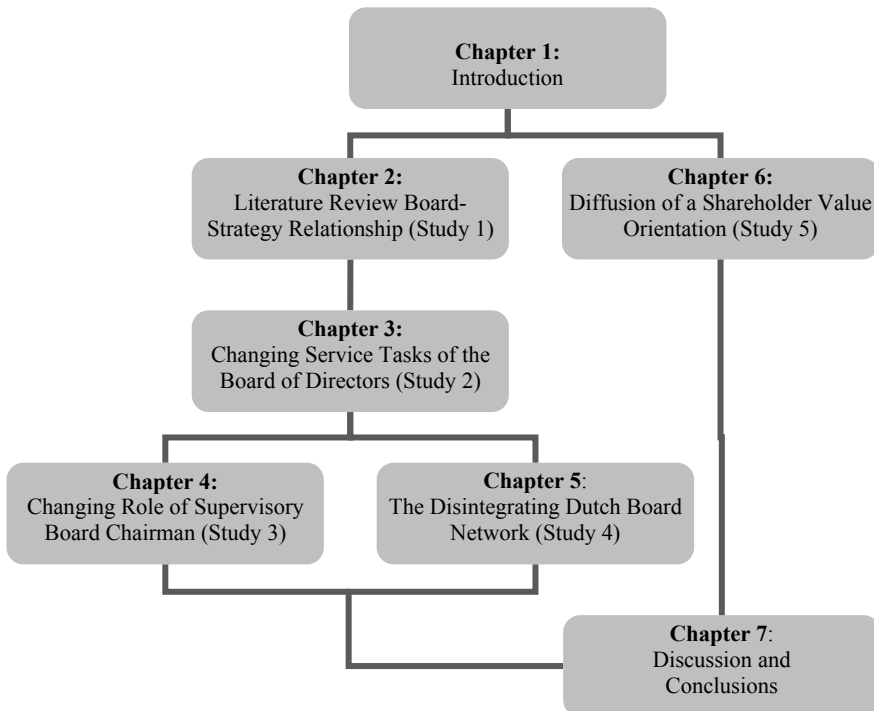
On the methodological side, we use multiple data sources for triangulation (see Table 1.3). Over the course of this dissertation, we analyzed the content of 150 papers and over 1400 annual report, we conducted 38 interviews with CEOs, board members and industry experts, and we collected secondary data on boards of directors and ownership structures of listed corporations in the Netherlands via the databases Thompson One Banker, Worldscope, BoardEx, Reach, LexisNexis, Spencer Stuart Board Indices and Handboek Nederlandse Beursfondsen. With the exception of study 4, all studies use longitudinal data, which logically follows from our aim to enhance our understanding of evolving corporate governance practices in the context of diffusing new beliefs (Edmondson & McManus, 2007; Yin, 2003). Furthermore, we address our main research question at varying levels: while studies 4 and 5 address the firm-level, studies 2 and 3 investigate the board and individual level. Although we do not apply multilevel techniques, most of the studies illustrate cross-level influences and issues. In conclusion, the adopted pluralistic research approach, in terms of theoretical lenses

and methods, reflects the importance of understanding the multi-faced nature of the diffusion of corporate governance beliefs across nations (Ansari et al., 2010).

1.5 Outline of the Dissertation

The remainder of this dissertation is structured as follows (see Figure 1.5): the chapters two to five each focus on studies on the changing role and tasks of boards of directors and non-executive chairmen. Chapter six contains the fifth study examining the diffusion of a shareholder value orientation among listed companies in the Netherlands. Finally, chapter seven highlights the main conclusions of this study and provides a reflection on our empirical results and approaches taken.

Figure 1.5: Dissertation Outline



Chapter 2: Boards of Directors' Contribution to Strategy: A Literature Review and Research Agenda²

Abstract

Over the last four decades, research on the relationship between boards of directors and strategy has proliferated. Yet to date there is little theoretical and empirical agreement regarding the question of how boards contribute to strategy. This paper assesses the extant literature by highlighting emerging trends and identifying several avenues for future research. Using a content analysis of 150 articles published in 23 management journals until 2007, we describe and analyze how research on boards of directors and strategy has evolved. We illustrate how certain topics, theories, settings and sources of data interact and influence insights about board-strategy relationships during three specific periods. In particular, our study illustrates that research on boards and strategy evolved from normative and structural approaches to behavioral and cognitive approaches. Our results encourage future studies to examine the impact of institutional and context-specific factors on the contribution of boards to strategy, and to apply alternative methods to fully capture the impact of board processes and dynamics on strategy-making. Moreover the increasing interest in boards' contribution to strategy echoes a movement towards more strategic involvement of boards. Best governance practices and the emphasis on board independence and control, however, may hinder the board contribution to the strategic decision-making. Our study invites investors and policy-makers to consider the requirements for an effective strategic task when they nominate board members and develop new regulations.

2.1 Introduction

Over the last few decades, corporate governance systems have undergone profound changes worldwide. The globalization and liberalization of financial markets, corporate governance scandals and stronger demands for accountability and transparency have placed the duties and functioning of boards of directors at the centre of the

² Published article by Pugliese, A., Bezemer, P., Zattoni, A., Huse, M., Van den Bosch, F.A.J. & Volberda, H.W. (2009), *Corporate governance: An International Review*, 17, 292-306.

corporate governance debate (Ingley & Van der Walt, 2005; Kiel & Nicholson, 2003). The societal call for an increasing involvement of the board of directors has raised the question what the appropriate role of boards should be. While scholars and practitioners have generally acknowledged the importance of adequate board control and independence (Baysinger & Hoskisson, 1990; Jensen & Zajac, 2004), boards' involvement in their strategic role, or the lack thereof, has been widely debated (Daily et al., 2003; Golden & Zajac, 2001; Zahra & Pearce, 1989).

The discussion on boards' strategic involvement has been fueled by a combination of contextual factors, alternate theoretical perspectives and inconclusive empirical results. First, in the 1970s, it was observed that US boards of directors had been rather passive in the wake of corporate failures and more strategic involvement was necessary to restore the public confidence (Clendenin, 1972; Heller & Milton, 1972; Mace, 1976; Machin & Wilson, 1979; Vance, 1979). More recently, corporate governance reforms (Aguilera & Cuervo-Cazurra, 2004; Enrione et al., 2006; Sheridan et al., 2006) and the increasing influence of institutional investors may have brought board members closer to strategic decision-making (Hoskisson et al., 2002; Judge & Zeithaml, 1992). These developments have stimulated boards of directors to challenge CEOs, and to become more involved in strategy, an area that in the past was exclusively controlled by CEOs (Monks & Minow, 1995; Ruigrok et al., 2006). Second, the emergence of alternative, partially conflicting theoretical viewpoints have contributed to the debate. Theories, such as agency theory, resource dependency theory and stewardship theory, have ascribed different responsibilities to boards of directors with regard to strategy (Davis, 1991; Maassen & Van Den Bosch, 1999). Third, while studies suggest that board members are becoming more aware of their strategy role (Demb & Neubauer, 1992; Heracleous, 2001; Huse, 2005), scholars have regularly highlighted the disagreement in the empirical research on the relationship between boards and strategy (Deutsch, 2005; Johnson et al., 1996).

The above theoretical pluralism and empirical inconclusiveness in the literature on boards of directors and strategy raises the following questions: what is the stance of research in this area? How has the field been evolving over time? And what are the main challenges and future opportunities? In this paper we analyze 150 articles on boards and strategy published in 23 management journals until 2007, in order to

provide answers to these questions. Thereby, this paper contributes to the literature on boards and strategy in three ways. First, it describes how studies on boards and strategy have been evolving and illustrates how certain topics, theories, settings and sources of data interact and have influenced our knowledge about board-strategy relationships during certain periods. For instance, our data reveal that during the 1990s the field was dominated by empirical studies in a US setting that mainly refer to agency theory and focus on the determinants and consequences of boards' strategic involvement. Second, the paper complements previous literature reviews that have (partially) covered this domain (Deutsch, 2005; Johnson et al., 1996; Zahra & Pearce, 1989). Given the time elapsed since these reviews, the intensification of the corporate governance debate internationally and the large number of studies conducted on boards of directors and strategy more recently, it is the right time for due reflection on achievements in this area (Huse, 2005). Third, the paper highlights several avenues to advance the field of study. Our findings encourage governance scholars to further investigate the impact of contextual forces at multiple levels, to further comprehend board processes and dynamics, and to adopt methods aimed at opening the black box of board research. Finally, the article has implications for practice. Existing board practices emphasize, in fact, board control and independence as antecedents of good governance, but these aspects may also hinder the board's contribution to strategy-making. In line with some recent works, our study suggests that the requirements for an effective strategic task should be taken into account while composing boards and devising new regulations.

The paper is structured as follows: section one describes the basics of the board-strategy debate and the theoretical pluralism and empirical inconclusiveness emerging from the literature on boards and strategy. Section two describes the research method, i.e., how we selected journals and determined our sample of 150 articles to be included in our review, how we coded the content of each article and how data were analyzed statistically. Next, in section three we present the results of our review, describe how the field has evolved and illustrate how certain topics, theories, settings and sources of data interact and have dominated in certain time periods. In our final section, we discuss the implications and avenues for future research.

2.2 Theoretical and Empirical Debate on Boards and Strategy

The appropriate role of the board of directors in formulating and implementing strategy has been long debated (Andrews 1981a, 1981b; Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Useem, 2003). While the literature has acknowledged the importance and need for adequate board control and independence (e.g., Baysinger & Hoskisson, 1990; Jensen & Zajac, 2004), both the contributions of boards to strategy and the desirability of such practice have remained topics of discussion (Daily et al., 2003; Golden & Zajac, 2001). In light of a multitude of theoretical lenses and empirical findings in the management literature, Zahra and Pearce's observation that 'there is controversy over the nature of directors' strategic role' (1989: 328) still seems to be topical after twenty years of research.

The debate on boards' strategic contribution dates as far back as the 1970s. During this decade, several US scholars and practitioners observed that boards were rather passive in the wake of US corporate failures and that more strategic involvement was necessary to restore public confidence (Clendenin, 1972; Mace, 1976; Vance, 1979). A growing theoretical debate was boosted by Fama and Jensen's seminal work (1983) in which they distinguished decision management, i.e. initiating and implementing (strategic) decisions, and decision control, i.e. ratifying and monitoring (strategic) actions. The two tasks were ascribed to the top management team and the board of directors respectively. Their rationale has influenced the debate ever since. By relying on a clear distinction of responsibilities between boards and management, scholars have viewed the potential contributions of boards to strategy as fairly limited due to their distance from day-to-day operations, the presence of information asymmetries and the need to remain independent (Charan, 1998; Conger et al., 2001; Hendry & Kiel, 2004). Instead, others have argued that boards of directors are legally responsible for the strategy of companies (Coffee, 2006; Harrison, 1987; Yawson, 2006) and that boards are in an excellent position to contribute to strategy (Andrews, 1980; Carpenter & Westphal, 2001; Goodstein et al., 1994; Tricker, 1984).

2.2.1 Theoretical Pluralism in the Board-Strategy Debate

From a theoretical standpoint, the debate around board strategic involvement has been fueled by conflict and consensus theories (Davis, 1991; Maassen & Van Den Bosch, 1999; Muth & Donaldson, 1998). A conflict perspective conceptualizes managers as

self-interested agents that should be closely monitored (Eisenhardt, 1989; Jensen & Meckling, 1976). For instance, agency theory posits that boards affect strategic choices by preventing managers from acting opportunistically at the expense of shareholders (Mizruchi, 1983). In this view, boards are not expected to initiate and implement strategies, but they contribute through ratifying and monitoring strategic decisions (Fama & Jensen, 1983; Goodstein et al., 1994). Board involvement in strategy appears to conflict with this view, as it would make boards of directors co-responsible for strategic decisions and it would jeopardize the required distance between board members and managers (Boyd, 1990, 1994; Huse, 1994; Sundaramurthy & Lewis, 2003).

A consensus perspective conceptualizes managers as intrinsically motivated agents acting in the best interest of the firm (Davis et al., 1997). Accordingly, through various theoretical lenses boards are defined as organizational bodies that may support empowered managers in strategy formulation and implementation (Bezemer, et al., 2007; Huse, 2007). For example, resource dependency theory suggests that board members are in an excellent position to contribute to (strategic) decision-making by providing access to resources on which firms depend (cf. Hillman & Dalziel, 2003; Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978). The stewardship theory challenges the rationale of agency theory by arguing that the interests of managers and board members do not necessarily collide (Davis et al., 1997; Muth & Donaldson, 1998). In this perspective, the role of boards is to facilitate and empower managers, also in the realm of strategy. More lately, cognitive and behavioral approaches have emphasized the importance of understanding cognitive contributions of board members and the impact of boardroom dynamics on strategic decision-making (McNulty & Pettigrew, 1999; Pettigrew, 1992; Pye & Camm, 2003; Rindova, 1999).

2.2.2 Empirical Inconclusiveness in the Board-Strategy Debate

Aside to the theoretical debate, empirical findings provide mixed results as well. In recent decades scholars have regularly emphasized the presence of a wealth of inconclusive empirical findings (Deutsch, 2005). On the one hand, studies have shown that boards have been rather passive and subject to CEOs and executives' dominance (e.g., Herman, 1981; Kosnik, 1987; Lorsch & MacIver, 1989; Mace, 1971). Furthermore, anecdotal evidence suggests that boards might destroy value when they become

involved in strategy (Fulghieri & Hodrick, 2006; Hitt et al., 2001; Jensen, 1993). On the other hand, scholars have shown that boards are becoming more actively involved in strategy (Ingley & van der Walt, 2005; Ravasi & Zattoni, 2006; Schmidt & Brauer, 2006; Zahra, 1990; Zahra & Filatotchev, 2004). Moreover, boards have affected important elements of strategies, such as the scope of the firm (Jensen & Zajac, 2004; Tihanyi et al., 2003), entrepreneurship and innovation (Fried et al., 1998; Hoskisson et al., 2002; Zahra et al., 2000), strategic change (Filatotchev & Toms, 2003; Johnson et al., 1993; Westphal & Fredrickson, 2001), R&D strategies (Baysinger et al., 1991; Kor, 2006) and internationalization (Datta et al., 2003; Sanders & Carpenter, 1998). In sum, the literature on boards of directors and strategy is characterized by theoretical pluralism and by empirical inconclusiveness, both originating from scholarly contributions and anecdotal evidence. In the remainder of this paper, we seek to highlight how distinct patterns of research have emerged over the years and their key attributes.

2.3 Method

2.3.1 Selection of Journals and Papers

To examine the evolving literature on boards and strategy, we decided to focus on peer-reviewed studies published in management journals, regardless of their impact factor (Seglen, 1994). We selected all journals included in the management category within the ISI-Web of Knowledge during 2007. Our search produced 81 records in total. In the next phase, we used the databases ABI/Inform, Business Source Premier, Ebsco-Host, JSTOR and Swetsnet to search for all paper publications containing simultaneously the terms ‘board’ and ‘strateg*’ or ‘director’ and ‘strateg*’ in the title, abstract and/or key words. This approach enabled us to identify a set of articles directly referring to the debate on boards’ and directors’ contribution to strategy. This procedure resulted in 371 hits in total: 150 papers (40.4%) turned out to be relevant to our examination. The large difference between the number of hits and the number of included papers is due to several factors. We excluded papers referring to board games, papers using the term across-the-board, fictive Harvard cases, letters from editors, book reviews, papers referring to organizations with the term ‘board’ in their name and papers referring to other management layers than the board of directors. In

sum, our final sample consists of 150 articles published in 23 journals from 1972 (first included paper) until 2007.

2.3.2 Content Analysis

In order to analyze the evolving nature of studies on boards of directors and strategy, two raters have independently analyzed and coded the set of 150 articles (Coffey & Atkinson, 1996; Krippendorff, 2004). The two raters were asked to codify all basic elements of a paper: (i) type of article, (ii) main research topic, (iii) use of theories, (iv) research setting, (v) source of data and (vi) the definition of board strategic involvement (Insch et al., 1997). The coding scheme was pretested on two sub-samples of 30 articles after which the raters came to an agreement about the final set of items to be used in the classification for each category. A review was then conducted on the whole set of articles (D'Aveni & MacMillan, 1990). At the end of the coding procedure, the two sets of data were matched. There appeared to be a high overlap in the responses: only 54 out of 828 items were coded differently by the two raters. Interrater reliability scores were calculated and the percent agreement (93.5%) and Cohen's Kappa (0.916) were both above the acceptance threshold (Cohen, 1960; Dewey, 1983). A final meeting was arranged to discuss the 54 inconsistencies in the responses. To reconcile the disagreements, the articles were reread and recoded. If the raters still did not agree on the coding, a senior strategy professor – who was involved in the research project – was asked to provide a clarifying interpretation (Lee, 1999). In the following sections we will discuss all categories in more detail.

(i) Type of article. The 150 articles were differentiated according to their nature: 'conceptual' versus 'empirical'. Papers were coded 'conceptual' when they aimed to advance or refine theory and were solely based on deductive reasoning without any empirical metrics. Papers were labeled 'empirical' if authors applied inductive logics, described their methods in a separate section and argued on the strength of data obtained from qualitative research methods (i.e. interviews, participant observation and anecdotes) and/or quantitative methods (i.e. archival data and surveys).

(ii) Main research topic. Building upon prior studies (e.g. Huse, 2005; Pearce & Zahra, 1992; Stiles, 2001; Zahra & Pearce, 1989) we distinguished four groups of papers in relation to the main research topic. The first group examines the *determinants of board strategic involvement*. Among others, scholars have sought to relate environ-

mental characteristics, ownership structure, board composition and incentive mechanisms to various levels of board strategic involvement. The second group of studies investigates the *consequences of board strategic involvement*. For instance, scholars have addressed the impact of specific board characteristics on strategic outcomes, such as diversification, internationalization, innovation and strategic change. The third group of papers explores boards' *participation in strategic decision-making processes*, i.e., the ways in which boards contribute internally to decision making processes by interacting with TMTs in various phases. Finally, the fourth group of papers discusses from a normative stance why board strategic involvement may or may not be desirable. Topics of debate include the reasons for the perceived passivity of boards in this respect and the question how far board involvement into strategy should be going.

(iii) Use of theories. To examine the theoretical development of the field, we mapped to which theories each paper explicitly referred. Given the widespread application of agency theory in the literature on boards and strategy, we decided to create a variable capturing whether a paper referred to: (i) agency theory solely; (ii) multiple theories, including agency theory and (iii) other theories than agency theory or no theory at all.

(iv) Research Setting. As highlighted by comparative corporate governance studies, institutional contexts widely vary between nations and have a profound impact on local corporate governance structures and practices (Aguilera & Cuervo-Cazurra, 2004; Aguilera et al., 2008; Zattoni & Cuomo, 2008). Therefore an important dimension to our analysis is added by examining the empirical setting in which research on boards and strategy has been conducted. As most empirical articles in our sample are based on US data, we decided to use the following categorization: (i) articles using exclusively data drawn from the US; (ii) articles using data from multiple-countries, including the US and (iii) articles using data drawn from a non-US context.

(v) Source of data. To provide insights in the use of different data sources, we coded the empirical articles with the following six categories: i) interviews, ii) anecdotal evidence, iii) archival data, iv) survey data, v) direct observations and vi) combinations of the above-mentioned sources. In the latter category we only included articles using combinations of interviews and survey data, interviews and archival data, and survey data and archival data.

(vi) Definition of board strategic involvement. Board strategic involvement is a latent construct and no single way to define or interpret it emerges from literature (Ravasi & Zattoni, 2006). Building upon prior studies (Judge & Zeithaml, 1992; McNulty & Pettigrew, 1999; Pearce & Zahra, 1992; Zahra & Pearce, 1990), we distinguished four broad categories to classify the definition of board strategic involvement. The first category includes studies assessing how boards of directors impact on the *general strategy* of companies. For example, by developing the mission, establishing long-term targets and allocating resources (Volberda et al., 2001; Zahra & Pearce, 1990). The second group of papers investigates how boards contribute to *specific strategic outcomes*. The majority of papers in this category are input-output studies that aim to identify how board composition affects strategic outcomes, such as innovation, change, diversification, and mergers and acquisitions (Johnson et al., 1996). The third group encompasses research that explores how boards participate in various phases of *strategic decision-making* through interacting with TMTs. Among others, the studies conducted by Judge & Dobbins (1995), Forbes & Milliken (1999) and Rindova (1999) are included in this category. Finally, the fourth category consists of papers in which the nature of board strategic involvement is *not clearly stated and defined*. Most papers published in the 1970s and 80's fit into this category, as the concept of board strategic involvement was in general ill-defined in the early years.

2.4 Empirical Results

2.4.1 Growing Attention to Research on Boards and Strategy

In recent decades, scholars and practitioners have debated the relationship between the boards of directors and strategy. Figure 2.1 illustrates the historical development of the number of published articles explicitly referring to boards and strategy in the management literature. As depicted, the first paper was published in 1972 and in the following decades the number of published articles steadily increased. Studies on boards and strategy were published irregularly during the early years, prior to the publication of Zahra and Pearce's study in 1989. Since then, the marked increase in the average number of articles on the topic has reflected the growing attention of scholars in the field of strategy and governance (from 1.3 in the period 1972-1989 to

9.6 in the period 2001-2007). Also in relative terms the space devoted to studies on boards of directors and strategy has increased: from 0.1 articles per management journal per year in the period 1972-1989 to 0.4 articles in the period 2001-2007. Finally, it is noteworthy that in the period 1972-1989 most papers were published in general, applied practice-oriented journals such as the Long Range Planning (8), California Management Review (6) and Harvard Business Review (5). Since 1990 two specialized journals in strategy and corporate governance, Corporate Governance: an International Review (24) and Strategic Management Journal (14), have contributed the most (see Figure 2.2).

Figure 2.1: Historical Development Research on Boards and Strategy

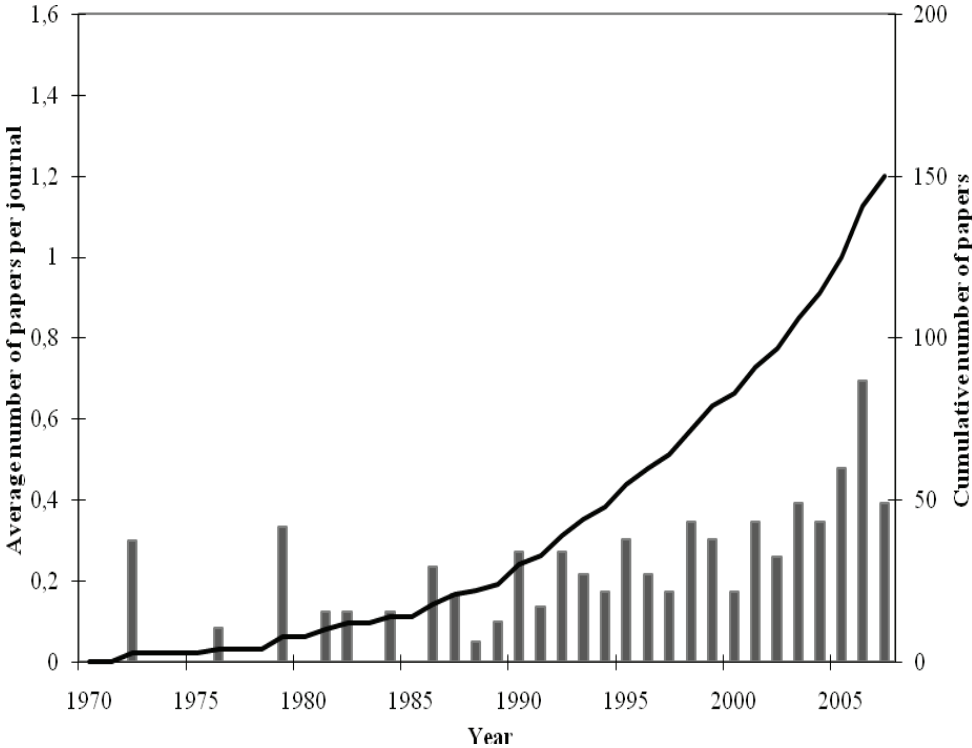


Figure 2.2: Overview of Journals with Included Publications per Time Period

| | 1972-1989 | 1990-2000 | 2001-2007 | overall |
|--|-----------|-----------|-----------|---------|
| Corporate Governance: An International Review | N/A* | 4 | 20 | 24 |
| Strategic Management Journal | 2 | 7 | 7 | 16 |
| Long Range Planning | 8 | 6 | 2 | 16 |
| Academy of Management Journal | 1 | 8 | 5 | 14 |
| Harvard Business Review | 5 | 6 | 2 | 13 |
| Journal of Management | 1 | 6 | 4 | 11 |
| Administrative Science Quarterly | 0 | 7 | 3 | 10 |
| Journal of Management Studies | 0 | 4 | 6 | 10 |
| California Management Review | 6 | 1 | 1 | 8 |
| Academy of Management Executive | 0 | 2 | 4 | 6 |
| Academy of Management Review | 0 | 3 | 0 | 3 |
| Organizational Dynamics | 0 | 0 | 3 | 3 |
| Organization Studies | 0 | 1 | 1 | 2 |
| Organization Science | N/A* | 2 | 0 | 2 |
| Journal of Small Business Management | 0 | 0 | 2 | 2 |
| British Journal of Management | N/A | 1 | 1 | 2 |
| International Journal of Technology Management | 0 | 1 | 1 | 2 |
| Management Science | 0 | 0 | 1 | 1 |
| Journal of International Business | 1 | 0 | 0 | 1 |
| Decision Science | 0 | 1 | 0 | 1 |
| Tourism Management | 0 | 0 | 1 | 1 |
| Journal of Organizational Change Management | 0 | 0 | 1 | 1 |
| Service Industries Journal | 0 | 0 | 1 | 1 |

*N/A: Journal was founded after this particular time period

2.4.2 Descriptives and Interactions of Topics, Theories, Settings and Data Sources

Figure 2.3 provides an overview of the characteristics of the articles that have contributed to the growing attention in boards of directors and strategy. The papers are overwhelmingly empirical (n=114; 76%). Most empirical studies have been conducted in the USA (n=72; 62%) or in multiple settings including the USA (n=5; 4%). With regard to the main research topic, most articles have contributed to the debate on the

desirability of board strategic involvement (n=41; 27%), although the overall sample is distributed evenly across all categories. In terms of use of theories, agency theory is the prevailing lens (n= 63; 42%): it has been used as the sole theoretical lens (n=27; 18%) and in combination with other theoretical lenses (n=36; 24%). The sources of data are quite diverse, although the use of archival data (n=45; 40%) and of multiple sources (n=22; 19%) is most common. Finally, the largest group of studies defines board strategic involvement in terms of boards' contributions to specific strategic outcomes (n=52; 35%), while the smallest group defines it as boards' participation to strategic decision-making (n=22; 15%).

Furthermore, Figure 2.3 illustrates how topics, theories, settings and data sources interact. Most notable are the key differences between empirical studies that have been conducted in a US context and those conducted in a non-US context. In the US context scholars have published most on the determinants (n=26; 36%) and consequences of board strategic involvement (n=21; 29%). Furthermore, these studies refer to agency theory in most instances (n=38; 53%) and mainly use archival data (n=39; 54%). Finally, board strategic involvement has generally been defined as the contribution of boards to specific strategic outcomes, such as innovation, strategic change and mergers and acquisitions (n=37; 51%). In contrast, studies conducted in a non-US context most often examine the participation in strategic decision-making by boards (n=14; 38%). Furthermore, these studies often refer to alternative theoretical lenses (n=25; 68%) and use qualitative methods, such as interviews (n=10; 27%) and direct observations (n=5; 14%) more often. Finally, these studies differ in their definition of board strategic involvement, i.e., all categories are evenly represented. Theoretical papers differ from both types of empirical papers. These papers generally address the practice and question the desirability of boards' strategic involvement (n=19; 53%), show a limited reference to agency theory (n=13; 36%) and the definition of board strategic involvement is in most instances rather unspecified (n=17; 47%). We tested the above-mentioned interactions for statistical significance. Several cross tabulations reveal that the relationships between the main research topic, use of theories, research setting and the definition of board strategic involvement are indeed statistically significant ($p < .05$).

Figure 2.3: Descriptives and Interactions of Topics, Theories, Settings and Data Sources**

| | Empirical Papers | | | | Theoretical Papers | Overall |
|--|------------------|-----------------------|----------------|------------|--------------------|------------|
| | US context | US context + other(s) | Non-US context | Total | | |
| | | | | | | |
| Main Research Topic*: | | | | | | |
| Determinants of board strategic involvement | 26 (36%) | 0 (0%) | 8 (22%) | 34 (30%) | 2 (6%) | 36 (24%) |
| Consequences of board strategic involvement | 21 (29%) | 1 (20%) | 10 (27%) | 32 (28%) | 4 (11%) | 36 (24%) |
| Boards' participation in strategic decision making | 11 (15%) | 1 (20%) | 14 (38%) | 26 (23%) | 11 (31%) | 37 (25%) |
| Desirability of strategic involvement (normative) | 14 (19%) | 3 (60%) | 5 (14%) | 22 (19%) | 19 (53%) | 41 (27%) |
| Total | 72 (100%) | 5 (100%) | 37 (100%) | 114 (100%) | 36 (100%) | 150 (100%) |
| Use of Theories*: | | | | | | |
| Articles referring to agency theory | 18 (25%) | 0 (0%) | 3 (8%) | 21 (18%) | 6 (17%) | 27 (18%) |
| Articles referring to multiple lenses (including agency) | 20 (28%) | 0 (0%) | 9 (24%) | 29 (25%) | 7 (19%) | 36 (24%) |
| Articles solely referring to other theories or no theory | 34 (47%) | 5 (100%) | 25 (68%) | 64 (56%) | 23 (64%) | 87 (58%) |
| Total | 72 (100%) | 5 (100%) | 37 (100%) | 114 (100%) | 36 (100%) | 150 (100%) |
| Source of Data*: | | | | | | |
| Interviews | 3 (4%) | 2 (40%) | 10 (27%) | 15 (13%) | - | 15 (13%) |
| Anecdotal Evidence | 10 (14%) | 0 (0%) | 4 (11%) | 14 (12%) | - | 14 (12%) |
| Archival Data | 39 (54%) | 0 (0%) | 6 (16%) | 45 (40%) | - | 45 (40%) |
| Survey | 5 (7%) | 1 (10%) | 7 (19%) | 13 (11%) | - | 13 (11%) |
| Direct Observations | 0 (0%) | 0 (0%) | 5 (14%) | 5 (4%) | - | 5 (4%) |
| Multiple Sources | 15 (21%) | 2 (40%) | 5 (14%) | 22 (19%) | - | 22 (19%) |
| Total | 72 (100%) | 5 (100%) | 37 (100%) | 114 (100%) | - | 114 (100%) |
| Definition of Board Strategic Involvement*: | | | | | | |
| Unspecified | 21 (29%) | 1 (20%) | 9 (24%) | 31 (27%) | 17 (47%) | 48 (32%) |
| Boards define strategy at a general level | 7 (10%) | 3 (60%) | 10 (27%) | 20 (18%) | 8 (22%) | 28 (19%) |
| Boards are responsible for specific outcomes | 37 (51%) | 1 (20%) | 9 (24%) | 47 (41%) | 5 (14%) | 52 (35%) |
| Boards participate to decision-making process | 7 (10%) | 0 (0%) | 9 (24%) | 16 (14%) | 6 (17%) | 22 (15%) |
| Total | 72 (100%) | 5 (100%) | 37 (100%) | 114 (100%) | 36 (100%) | 150 (100%) |

* Differences between different research settings are statistically significant ($p < .05$; two-tailed). ** Statistical tests show that the relationships between the main research topic, use of theories, definition of board strategic involvement and research setting are all significant ($p < .05$; two-tailed).

2.4.3 Three Distinct Research Periods

In order to observe an evolutionary pattern in previous research, we identified three periods and assigned each article to one of them according to the year of publication. Even though the three windows are not homogeneous in terms of time-length, we clustered them in accordance with two criteria. First, we observed changes in the slope of the curve with cumulative number of articles published over time (see Figure 2.1). We considered a cut-off for a 'new period' if (i) there was a sharp increase in the number of publications in a given year and if (ii) this number was significantly higher than the average during the previous years. Second, we identified a 'new period' if relevant and highly influential articles (or groups of articles) came out during a given year or the year before. Major changes in a field of study often occur thanks to breakthrough and innovative articles that suggest new theoretical approaches and/or methods and set a new agenda for future research (Kuhn, 1962). We checked for robustness by examining whether our findings would change if we slightly changed our cut-off points. Although our results became less significant, overall the witnessed developments proved to be robust.

Our first observation window covers the period from the first publication (1972) until Zahra and Pearce's literature review in 1989. In this period, the interest in studies on boards and strategy seems to be infrequent and concentrated around the years 1972, 1979 and 1986. In 1990, one year after Zahra and Pearce's literature review, six papers on the topic were published, i.e. Baysinger and Hoskisson (1990), Boyd (1990), Hoskisson and Turk (1990), Kosnik (1990), Lang and Lockhart (1990) and Zahra (1990). These papers provided input to a new strand of research and most of the literature in the following years sought to analyze the relationship between board composition and strategic outcomes. Our second observation window ends in 2000. In 1999 and 2000 great interest around boards and strategy arouse, as 17 articles were published in the two years. During this period an alternate stream of literature came out with a new perspective on boards' roles and behavior (Dalton et al., 1998; Forbes & Milliken, 1999; Gulati & Westphal, 1999; Hillman et al., 2000; McNulty & Pettigrew, 1999; Rindova, 1999). These researchers had a significant impact on the field and fueled the debate around cognitive and behavioral approaches. In the

following sections, we will discuss the distinctive characteristics of articles published during each period (see Figures 2.4 and 2.5).

Figure 2.4: Evolution of the Literature on Boards and Strategy

| | 1972-1989 | 1990-2000 | 2001-2007 | overall |
|--|-----------|-----------|-----------|------------|
| Summary: | | | | |
| Number of articles | 24 | 59 | 67 | 150 |
| Average number of articles per year | 1.33 | 5.36 | 9.57 | 4.16 |
| Average number of articles per journal per year | 0.10 | 0.23 | 0.42 | 0.20 |
| Type of Article[†]: | | | | |
| Conceptual | 10 (42%) | 14 (24%) | 12 (18%) | 36 (24%) |
| Empirical | 14 (58%) | 45 (76%) | 55 (82%) | 114 (76%) |
| Total | 24 (100%) | 59 (100%) | 67(100%) | 150 (100%) |
| Main Research Topic*: | | | | |
| Determinants of board strategic involvement | 3 (13%) | 16 (27%) | 17 (25%) | 36 (24%) |
| Consequences of board strategic involvement | 3 (13%) | 18 (31%) | 15 (22%) | 36 (24%) |
| Boards' participation in strategic decision making | 2 (8%) | 12 (20%) | 23 (34%) | 37 (25%) |
| Desirability of strategic involvement (normative) | 16 (67%) | 13 (22%) | 12 (18%) | 41 (27%) |
| Total | 24 (100%) | 59 (100%) | 67 (100%) | 150 (100%) |
| Use of Theories*: | | | | |
| Articles referring to agency theory | 2 (8%) | 13 (22%) | 12 (18%) | 27 (18%) |
| Articles referring to multiple lenses (including agency) | 1 (4%) | 19 (32%) | 16 (24%) | 36 (24%) |
| Articles solely referring to other theories or no theory | 21 (88%) | 27 (46%) | 39 (58%) | 87 (58%) |
| Total | 24 (100%) | 59 (100%) | 67 (100%) | 150 (100%) |
| Research Setting*: | | | | |
| Articles based on US data only | 7 (50%) | 38 (84%) | 27 (49%) | 72 (62%) |
| Articles based on multiple settings (including the US) | 4 (29%) | 1 (2%) | 0 (0%) | 5 (4%) |
| Articles based on non-US data | 3 (21%) | 6 (13%) | 28 (51%) | 37 (32%) |
| Total | 14 (100%) | 45 (100%) | 55 (100%) | 114 (100%) |
| Source of Data: | | | | |
| Interviews | 1 (7%) | 5 (11%) | 9 (16%) | 15 (13%) |
| Anecdotal Evidence | 3 (21%) | 4 (9%) | 7 (13%) | 14 (12%) |
| Archival Data | 3 (21%) | 22 (49%) | 20 (36%) | 45 (40%) |
| Survey | 2 (14%) | 3 (7%) | 8 (15%) | 13 (11%) |
| Direct Observations | 0 (0%) | 2 (4%) | 3 (6%) | 5 (4%) |
| Multiple Sources | 5 (36%) | 9 (20%) | 8 (15%) | 22 (19%) |
| Total | 14 (100%) | 45 (100%) | 55 (100%) | 114 (100%) |
| Definition of Board Strategic Involvement*: | | | | |
| Unspecified | 11 (46%) | 20 (34%) | 17 (25%) | 48 (32%) |
| Boards define strategy at a general level | 8 (33%) | 8 (14%) | 12 (18%) | 28 (19%) |
| Boards are responsible for specific outcomes | 3 (13%) | 26 (44%) | 23 (34%) | 52 (35%) |
| Boards participate to decision-making process | 2 (8%) | 5 (8%) | 15 (22%) | 22 (15%) |
| Total | 24 (100%) | 59 (100%) | 67 (100%) | 150 (100%) |

* Differences between the three time periods are statistically significant ($p < .05$; two-tailed). † Differences between the three time periods are statistically significant ($p < .10$; two-tailed).

Figure 2.5: The Evolution of Research on Board Strategic Involvement*

| | Time-Period 1 (1972-1989) | Time-Period 2 (1990-2000) | Time-Period 3 (2001-2007) |
|--|--|---|---|
| Type of Paper | Both conceptual and empirical papers give initial input to the field. Early articles are published in three practitioner-oriented journals (i.e., HBR, LRP and CMR). | Empirical articles gain considerable attention in the literature and become by far the largest category. | Empirical articles are still gaining importance, while the relative share of conceptual papers has halved compared to the period 1972-1989. |
| Main Research Topic | Researchers endeavor to define to what extent boards should (not) be actively involved, also in the realm of strategy. | This period is characterized by “input-output” studies which aimed at exploring determinants and consequences of board strategic involvement. | The focus of researchers switches to boards’ participation to strategic decision-making, while “input-output” studies remain the largest group. |
| Use of Theories | Most studies refer to other theories than agency theory (for example: resource dependency) or do not use a theory at all (as multiple studies are practice driven). | Agency theory becomes the most commonly used framework for exploring boards’ contribution to strategy. | This period is characterized by a multi-theoretical approach to the board-strategy debate. Agency theory is still the main framework but other theories slowly gain importance. |
| Research Setting | Empirical articles most often use US samples or multi-country samples (including the US as research setting) | US scholars are taking the lead in the field. US samples represent almost the totality of empirical studies. | European and Asian samples gain importance in the debate. They equal the number of published articles using US samples. |
| Sources of Data | Sources of information are quite varied. Anecdotes, archival data and mixed methods are the most widely used. | This period is mainly characterized by the use of archival data and mixed methods. | Sources of information are quite varied. Archival data, surveys and mixed methods are the most widely used. |
| Definition of Board Strategic Involvement | The definition of strategic involvement is ill-defined. The expected contributions of board members refer to strategy in general or remain rather undefined. | Researchers start to specify board strategic involvement and mainly focus on specific strategic outcomes. | A growing stream of research relates boards to strategic decision making, while studies referring to specific strategic outcomes remain dominant |

* The descriptives in this Figure are based upon the presented numbers in Figures 2.3 and 2.4.

Period 1 (1972-1989): The emerging debate about boards' strategic involvement

The early literature explicitly referring to boards and strategy dates back to the beginning of the 1970s. At that time, the debate was mostly driven by the practical needs that the US business community was facing. Corporate failures and governance scandals together with the increasing requirements for higher accountability fueled studies on boards and governance issues (Lorsch, 1986; Vance, 1979). At the same time, strategy started to become established as research field (Volberda & Elfring, 2001), fueled by major changes in the business environment of most Western countries (i.e. the increase in Japanese competition and the oil crisis) (Pettigrew, et al., 2002). During this first period, research on boards and strategy was characterized by a debate on the desirability of active board involvement, also in the realm of strategy. This discussion followed an ongoing US debate around a perceived passivity of boards of directors at that time (Herman, 1981; Mace, 1971; Stiles & Taylor, 2002). The ongoing debate has been hosted mainly by three general, applied practice-oriented journals (e.g., Long Range Planning, California Management Review and Harvard Business Review) that covered almost 80% of the studies in this period (see Figure 2.2). Regardless of the type of articles, both conceptual and empirical articles have generally sought to initiate a discussion around the desirability of boards' involvement in strategy (67%).

Overall, two strands of research with opposite views on the topic can be distinguished during this period. On the one hand, boards were considered one of the main actors in strategic decision-making processes, though they are not expected to formulate strategy. For instance, Andrews (1980; 1981a) emphasized that boards are in a perfect position to search for alternative corporate strategies. Furthermore, Felton (1979) argued that boards should confront management in case where results deviate from expectations, also in the realm of strategy. To support adequate fulfillment of the strategy role, Wommack (1979) and Harrison (1987) suggest that boards should create an internal board committee dedicated to this issue. On the other hand, another group of scholars strongly argued that boards should not be actively involved in strategy. For instance, according to Heller and Milton (1972) strategic issues are a difficult subject for directors to get into, as they are often not involved in the company on a daily basis. Moreover, Mace (1976) argues that outside directors are mostly hired through coop-

tation or hold board positions elsewhere; this practice may limit their commitment and involvement in strategic issues. Finally Rosenstein (1987) describes several hurdles that directors may face when they try to get involved in strategy.

In sum, the key characteristics of research during this period are (i) the lack of one prevailing theory, (ii) the predominance of articles discussing the desirability of board strategic involvement (67%) and (iii) a broadly defined concept of board strategic involvement in most instances (79%). Therefore, it comes as no surprise that Zahra and Pearce, at the end of this period, assert that “overall, empirical research on the boards’ strategic role is in its infancy stage” (1989:304).

Period 2 (1990-2000): The heyday of ‘input-output approaches’

Two breakthrough articles influenced the emerging literature on boards of directors and strategy at the beginning of the 1990s. Zahra and Pearce’s (1989) literature review highlighted the importance of understanding the relationship between board characteristics and structure, and strategy. Additionally, Baysinger and Hoskisson (1990) discussed the prominence of board-TMT dynamics and its implications for strategy. Furthermore, they emphasized also that ‘evaluating the strategic implications of boards of directors requires empirical analysis’ (1990:73). Following these suggestions, multiple studies were published during the next decade. Generally, they relate board characteristics and structure (i.e., board size, CEO-duality, board diversity, outsider ratio, tenure and directors’ equity stakes) to strategic outcomes, such as acquisitions (Haunschild, 1993; Haunschild & Beckman, 1998; Hayward & Hambrick, 1997), change (Bergh, 1995; Goodstein & Boeker, 1991; Goodstein et al., 1994), corporate restructuring (Daily, 1995; Sheppard, 1994), entrepreneurship (Zahra, 1996), R&D expenditures (Baysinger et al., 1991) and internationalization (Sanders & Carpenter, 1998). Generally, these studies provide mixed evidence of relationships between board characteristics and strategy (Daily et al., 2003; Deutsch, 2005).

Illustrative of this line of inquiry is that the majority of studies (i) refers to agency theory (54%), (ii) uses US samples (86%), (iii) analyzes archival data (49%) and (iv) was published in the journals *Academy of Management Journal*, *Administrative Science Quarterly* and *Strategic Management Journal* (37.3%) (see Figure 2.2). Interestingly, two different lines of inquiry started to develop as well. One group

examined the antecedents of board strategic involvement (Fried et al., 1998; Judge & Zeithaml, 1992; Zahra, 1990; Zahra & Pearce, 1990). A second group investigated the effects of the relationship between board and TMTs on strategic decision-making (Bradshaw-Camball & Murray, 1991; Fried & Hisrich, 1995; Gulati & Westphal, 1999; Judge & Dobbins, 1995; Westphal, 1998). At the end of the 1990s, contributions by Forbes and Milliken (1999), McNulty and Pettigrew (1999) and Rindova (1999) opened up the debate on boards' contribution to strategy processes and led to a new stream of research in this area.

Period 3 (2001-2007): Towards more pluralism in the board-strategy debate

As witnessed by the sharp increase in the average number of papers published each year (9.6), research on boards and strategy gained even more momentum during this period. These years are characterized by the co-existence of different research approaches. Most studies still focus on the determinants and consequences of board strategic involvement (47%), use archival data (36%) in a US setting (49%) and extensively refer to agency theory (42%). At the same time, studies with different features emerged in this period. First, empirical studies drawing on non-US data become more frequent. For example, the corporate governance contexts of Australia (Bonn & Fisher, 2005), Belgium (Van Den Heuvel et al., 2006), Italy (Zona & Zattoni, 2007), Japan (Yoshikawa & Phan, 2005), New Zealand (Ingley & Van der Walt, 2005), Norway (Huse et al., 2005) and the United Kingdom (Long et al., 2005; Yawson, 2006) were examined. Second, new theoretical standpoints have been used to interpret phenomena (Hendry & Kiel, 2004; Keenan, 2004) and most of the published articles do not refer to agency theory, but to alternate theoretical lenses (58%).

Building upon earlier contributions by Forbes and Milliken (1999), McNulty and Pettigrew (1999) and Rindova (1999), research on boards and strategy is also characterized by the emergence of behavioral and cognitive approaches also. Studies in this tradition aim to understand how boards participate in strategic decision-making as an active part of it (Stiles & Taylor, 1996). Based on this approach, Jensen and Zajac (2004) and Useem and Zelleke (2006) highlight that boards participate in these processes through continuously interacting with managers and/or other stakeholders. Moreover, Rindova (1999) and Fiegenger (2005) argue that board of directors' work is

not limited to ratification and monitoring only (cf. Fama & Jensen, 1983): boards of directors should rather be involved in all phases. Furthermore, Mueller et al. (2004) underline the conflicting requirements boards face in fulfilling the monitoring role (independence) and the strategy role (involvement). Scholars have also started to investigate the joint impact of board dynamics, working style and structure on strategic issues (Golden & Zajac, 2001; Huse, 2005), as well as how the expertise, abilities and network ties of board members affect their ability and motivation to contribute to strategy formulation (Carpenter & Westphal, 2001; Hillman, 2005; Roberts, 2002) and the boards' overall capacity to impact on CEOs and TMTs (Arthaud-Day et al., 2006; Grossman & Cannella, 2006; Westphal & Fredrickson, 2001).

2.5 Discussion

Over the last four decades, the interest in research on the relationship between boards of directors and strategy has grown significantly (see Figure 2.1). Scholars and practitioners have extensively discussed the potential contribution of boards as well as the (un)desirability of active boards in this domain. Witnessing pluralism and controversy in the literature on boards and strategy in terms of theoretical underpinnings and empirical findings, our review provides insights on previous research contributions illustrating the way in which the literature evolved, highlighting implications for both scholars and practitioners, and suggesting avenues for future research. In particular, our results highlight two important trends in literature on boards and strategy.

First, our findings illustrate that research on boards of directors and strategy developed from normative and structural approaches to behavioral and cognitive approaches (see Figures 2.4 and 2.5). While early studies mainly discussed the desirability of board strategic involvement (period 1) and used 'input-output approaches' (period 2), a more recent strand of research posits boards as decision-making groups whose internal processes and external context should be better understood (e.g. Forbes & Milliken, 1999; Huse, 2005; McNulty & Pettigrew, 1999; Ravasi & Zattoni, 2006). This evolution is in line with the general shift in strategic management from studying 'strategy as content' to understanding 'strategy as process and context' (cf. Pettigrew et al., 2002).

Second, our results highlight that research questions, theories, settings and sources of data interact and influence our insights about the relationship between

boards and strategy (see Figure 2.3). On the one hand, most empirical studies analyze US companies, refer to agency theory, examine the role of boards with regard to specific outcomes, and use archival data as main source of data. On the other hand, a relatively limited number of studies analyze non-US companies, define board strategic involvement as boards' participation in decision-making, and use qualitative methods (cf. Deutsch, 2005).

2.5.1 Theoretical Implications

Our study has several scholarly implications and highlights avenues for future research. First, our results reveal the need to understand the role of context at multiple levels as (i) most of the contemporary wisdom originates from US-samples of large public companies and (ii) comparative corporate governance studies are sparse (see Figure 2.3). As a result, the impact of the national setting (e.g. the legal system, culture and economic conditions) and firm characteristics (e.g. the ownership structure, board structure, firm performance and lifecycle) on the relationship between boards and strategy is not fully understood (Aguilera & Cuervo-Cazurra, 2004; Hambrick et al., 2008; Ravasi & Zattoni, 2006). For example, as the majority of studies referring to agency theory used US samples and 'input-outcome approaches', the application of agency theory to strategic decision-making processes in different national contexts may lead to the discovery of new theoretical and empirical issues (Peck & Ruigrok, 2000). Furthermore, the growing number of studies that define board strategic involvement as participation in strategic decision-making may stimulate more dynamic theories and promote research designs explicitly investigating the changing contributions of boards of directors over time (Ravasi & Zattoni, 2006). In sum, multi-level approaches and international comparative corporate governance studies may contribute to the development of a better understanding of interactions between macro, meso and micro dynamics and how these forces jointly shape the relationship between boards of directors and strategy (Hambrick et al., 2008; Volberda et al., 2001; Volberda & Lewin, 2003).

Second, our results highlight the number and variety of theoretical perspectives and inconclusive empirical findings. More recently, scholars emphasized the need to go beyond structuralism and to examine board processes, board behavior and directors' cognition. This movement encourages scholars to investigate what boards

and their members actually do, think and/or perceive (Forbes & Milliken, 1999; Lawrence, 1997; Pettigrew, 1992). Although our literature review shows an increasing interest to these topics, the number of studies in this area is still rather limited. Given the importance of understanding politics and bargaining processes between key actors (cf. Bradshaw-Camball & Murray, 1991; Parker, 2007; Ravasi & Zattoni, 2006) and the impact of overlapping and conflicting preferences within and between groups of actors (Hambrick et al., 2008), a considerable amount of research remains to be done in this area in order to clarify and improve our understanding of the board of directors' contribution to strategy-making. For example, future studies should investigate the interaction between large shareholders, board members and top management teams inside and outside board meetings (Useem & Zelleke, 2006). To reach this purpose, governance scholars are encouraged to open the black box of board research developing longitudinal studies aimed at exploring processes over an extensive time period and collecting primary data using interviews, surveys and direct observation techniques (Huse, 2005; Pettigrew et al., 2002).

2.5.2 Practical Implications

Our empirical findings have also implications for practitioners. First, the increasing attention in boards' contribution to strategy echoes a movement towards more board strategic involvement. Interestingly, this development seems to be conflicting with principles from agency theory that consider decision control as the primary role of boards of directors (Fama & Jensen, 1983). Based on principles from agency theory, governance recommendations and best practices have generally encouraged independence and formality between independent directors and executive directors (Huse, 1994; Sundaramurthy & Lewis, 2003; Van Hamel et al., 1998). This view has been reinforced after each wave of corporate governance scandals, as reform initiatives (such as SOX, EU directives and national corporate governance codes) have generally emphasized board control and board independence as key mechanisms to ensure corporate accountability (Daily et al., 2003; Enrione et al., 2006). However, clearly separating decision control from decision management might pose a serious threat on a board's ability to perform its strategic role (Bezemer et al., 2007). Scholars have highlighted that the maintenance of openness, pro-activeness and a focus on joint

value creation are important antecedents of the board's contribution to the strategic decision-making process (Zona & Zattoni, 2007). Moreover, an effective contribution of board members to strategy requires both (i) an adequate composition and structure, and (ii) well-organized internal processes (Minichilli et al., 2009). Furthermore, the introduction of governance practices, such as board induction programs and annual board reviews, may contribute to an increased awareness of the expected contribution of boards to strategy (Huse, 2005). In sum, an increase in the directors' awareness of their strategic function should be associated to a higher consideration from regulators: board composition and processes should be designed to allow all members of the board to contribute to strategic decision-making (Roberts et al., 2005).

Second, practitioners should be aware that most of the contemporary wisdom originates from a limited set of empirical contexts. As there may be important differences across contexts in terms of role expectations, board structures and actors, practitioners should be careful in applying practices in their own national context (Aguilera et al., 2008; Bamberger, 2008). The witnessed theoretical and empirical pluralism in the board-strategy literature is supportive in this respect.

2.5.3 Limitations

Our literature review has several limitations. First, in this review only 81 journals in the management domain were included. There could be further research potential in investigating to what extent journals in other research fields (e.g. most notably finance, accounting and law) have contributed to research on boards and strategy. Second, in this study we solely focused on published articles which explicitly mentioned the search terms director or board together with strateg* in their title, abstract and/or key words. By choosing this exploratory approach, one risks missing important papers that do not claim to be in this domain explicitly and/or refer to strategic content directly. Future studies could examine to what extent our findings hold when a broader definition is employed (i.e. governance and strateg*). Third, as a result of the above choices, leading books on the topic were not included in our statistical analysis (e.g. Charan, 1998; Conger et al., 2001; Demb & Neubauer, 1992; Huse, 2007; Leblanc & Gillies, 2005; Stiles & Taylor, 2002). Future studies could assess how other types of publication (e.g. academic books and consultancy reports)

have contributed to the development of the board-strategy field. However, we believe that also this limitation should not be overemphasized as our analysis includes both academic and practitioners journal.

2.6 Conclusion

Our review of the literature on boards and strategy revealed that research on the contribution of boards of directors to strategy has rapidly developed and expanded in the last four decades. Several changes are observable across different periods in terms of the questions addressed and the methods applied. The growing attention witnessed in this review can be ascribed both to new challenges companies face in multiple contexts, and to the theoretical advancements in the fields of strategic management and corporate governance. Nevertheless, the proliferation of studies and the increasing call for more contributions have not provided a clear answer to the question of how boards of directors contribute to strategy. Despite all the endeavors undertaken in the past, we highlight that the debate on boards and strategy still provides a very promising and challenging research agenda. Corporate governance scholars are encouraged to open the black box of board research in order to develop a better understanding of the interactions between macro, meso and micro dynamics, and how these forces jointly shape the relationship between boards of directors and strategy.

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Chapter 3: Investigating the Development of the Internal and External Service Tasks of Non-Executive Directors - The case of the Netherlands (1997-2005)³

Abstract

During the last decade, globalization and liberalization of financial markets, changing societal expectations and corporate governance scandals have increased the attention for the fiduciary duties of non-executive directors. In this context, recent corporate governance reform initiatives have emphasized the control task and independence of non-executive directors. However, little attention has been paid to their impact on the external and internal service tasks of non-executive directors. Therefore, this paper investigates how the service tasks of non-executive directors have evolved in the Netherlands. Data on corporate governance at the top-100 listed companies in the Netherlands between 1997 and 2005 show that the emphasis on non-executive directors' external service task has shifted to their internal service task, i.e. from non-executive directors acting as boundary spanners to non-executive directors providing advice and counseling to executive directors. This shift in board responsibilities affects non-executive directors' ability to generate network benefits through board relationships and has implications for non-executive directors' functional requirements.

3.1 Introduction

Over the last ten years, the globalization and liberalization of financial markets and stronger societal demands for accountability and transparency of companies have placed the fiduciary duties of non-executive directors in the centre of the corporate governance debate. Recent corporate governance scandals such as Enron and WorldCom in the United States, Parmalat in Italy and Ahold in the Netherlands have heated the international corporate governance debate (Ingley & Van der Walt, 2005; Jonsson, 2005; Kiel & Nicholson, 2003) and they have triggered worldwide corporate

³ Article published by Bezemer, P., Maassen, G.F., Van den Bosch, F.A.J. and Volberda, H.W. (2007), *Corporate governance: An International Review*, 15, 1119-1129.

governance reforms (Aguilera & Cuervo-Cazurra, 2004; Enrione et al., 2006; Sheridan et al., 2006). This has resulted in the Sarbanes-Oxley Act in the United States, corporate governance directives in the European Union and additional national corporate legislation across the European Continent. In addition, most European countries have introduced new corporate governance codes such as the Cromme Code in Germany (2002), the Bouton Report in France (2002) and the Combined Code in the United Kingdom (2003).

Although the effectiveness of corporate governance codes in disciplining corporations and preventing corporate governance scandals has been questioned (Cools, 2006; Enrione et al., 2006), these codes are important reflections of corporate governance developments, societal norms and values, and expectations of key stakeholders. They highlight to society which improvements are central for regaining the trust in corporate governance systems and how corporations can enhance their legitimacy (Dacin, 1997; Ocasio, 1999; Oliver, 1997). Given this background, it is not strange that corporate governance codes, in line with principles from the agency theory, have attempted to strengthen the control task and the independence of non-executive directors (Daily et al., 2003; Enrione et al., 2006). However, the impact of these reform initiatives on the service tasks of non-executive directors has been largely neglected. In fact, the emphasis on board control and board independence may hamper non-executive directors' external service task in providing access to resources on which corporations are dependent (Boyd, 1990; Pfeffer, 1972; 1973) and they may limit their task in corporate learning through board relationships (Mizruchi, 1996; Westphal et al., 2001). Furthermore, the emphasis on board control and independence may undermine non-executive directors' internal service task in providing advice and counseling to executive directors (Carpenter & Westphal, 2001; McNulty & Pettigrew, 1999). After all, interdependence, maintenance of closeness and a focus on joint value creation are necessary for fostering the external and internal service tasks (Forbes & Milliken, 1999; Van Hamel et al., 1998).

This raises the question as to how the external and internal service tasks of non-executive directors have been affected by corporate governance codes, triggered by broad corporate governance developments. By addressing this question in the Dutch financial market, the paper makes two main contributions. First, it describes

how two Dutch corporate governance codes with an emphasis on the control task and the independence of non-executive directors relate to the external and internal service tasks of non-executive directors. We find empirical evidence that corporate governance measures taken to reinforce board control may hamper non-executive directors' external service task, while reinvigorating their internal service task. Second, by describing how non-executive directors fulfill their service tasks in a two-tier board context, we provide a more thorough understanding of the functioning of the two-tier board model regarding these tasks.

The paper is structured as follows: Section one provides a short description of the Dutch corporate governance context, i.e. the two-tier board system, recent developments and corporate governance reform initiatives. Section two elaborates on the external and internal service tasks of non-executive directors and discusses how provisions in two Dutch corporate governance codes - aimed at strengthening the control task of non-executive director - are related to their service tasks. Section three portrays the evolution of the service tasks of non-executive directors on supervisory boards of the top-100 listed corporations at the Euronext in Amsterdam between 1997 and 2005. Section four concludes with a discussion of our main findings and their implications for corporate governance scholars and practitioners.

3.2 Corporate Governance in the Netherlands

Most Dutch listed corporations have a two-tier board consisting of a management board and a supervisory board. The supervisory board solely consists of non-executive directors to assure its independence. It is responsible for the supervision of the management board and it assists executive directors with advice and counseling (Maassen & Van Den Bosch, 1999; Hooghiemstra & Van Manen, 2004). In line with this board model, the supervisory board has the fiduciary responsibility to act in the best interests of the company and all the company's stakeholders.

Over the last ten years, Dutch financial markets have seen dramatic changes. The liabilities of non-executive directors have increased, the influence of shareholders has grown significantly, the financial press and general public have become more vocal and critical, and private equity and hedge funds have become more active (Van Hamel et al., 1998; Maassen, 1999). Moreover, Dutch supervisory boards have

internationalized and the financial board' networks have changed (Heemskerk et al., 2003; Heemskerk, 2007; Spencer Stuart, 2006a). These developments have resulted in an increasing convergence of the Anglo-American shareholder model and the Rhineland stakeholder model in the Netherlands, i.e. increasing communalities between the one-tier board model and the two-tier board model (Collier & Mahbub, 2005; Maassen & Van Den Bosch, 1999). In this context two Dutch corporate governance codes have been introduced since 1997. Both codes address the above mentioned corporate governance developments, societal norms and values and the expectations of key stakeholders. Thereby, they highlight several important topics of the corporate governance debate in the Netherlands and their development and introduction might have affected and adjusted what non-executive directors in reality are doing (e.g., Mace, 1971; 1972; Ocasio, 1999; Huse, 2007).

The first corporate governance committee, the *Peters Committee*, was an initiative of representatives from the Association of Securities Issuing Companies and the Amsterdam Stock Exchange. The committee published its forty recommendations in 1997 and initiated a public corporate governance debate to introduce best practice provisions and to improve board practices on the basis of self-regulation (Maassen, 1999). In 2003, a second corporate governance committee published the *Tabaksblat Code*. In contrast to its predecessor, this code was an initiative of the Ministry of Finance and Economic Affairs, its scope was wider and aimed at legislative changes if needed. Although the Tabaksblat Code is based on self-regulation, a recent amendment to Dutch corporate law legally binds listed companies to explain deviations from the Tabaksblat code's recommendations in their annual reports. The amendment also requires companies to obtain the approval of the general meeting of shareholders for any deviation from the code based on a "comply or explain" regime. Table 3.1 provides an overview of the main commonalities and differences between the Peters Code and the Tabaksblat Code.

3.3 The external and internal tasks of non-executive directors

Traditionally, the primary responsibility of the supervisory board has been to control the management board to assure that executive directors are acting in the best interests of shareholders. This control responsibility is rooted in agency theory and deemed

necessary for counteracting the potential for managerial opportunism, which can arise as a result of the separation between corporate ownership and management (Davis et al., 1997; Zahra & Pearce, 1989). Supervisory boards are an important internal control mechanisms for shareholders (Daily et al., 2003; Hendry & Kiel, 2004) as they have the authority to nominate, reward and remove executive directors from office and to ratify audit reports, capital investments and other key corporate decisions (Baysinger & Hoskisson, 1990; Johnson et al., 1996). Based on principles from the agency theory, corporate governance reform initiatives have generally emphasized board independence to avoid conflicts of interest of directors and third parties. By maintaining a distance from executive directors and by having a focus on the prevention of failures, non-executive directors are ascribed the position to adequately supervise management boards.

Table 3.1: The Peters Code versus the Tabaksblat Code

| Code Attributes | Peters Code | Tabaksblat Code |
|---|---|--|
| Publication Date | October 28, 1997 | December 9, 2003 |
| Initiator(s) | Association of Securities Issuing Companies (VEUO), Amsterdam Stock Exchange (AEX) | Ministry of Finance and Economic Affairs |
| Composition of the governance committee | Representatives from the VEUO and AEX, non-executive directors, and professional experts | Representatives from the VEUO and AEX, non-executive directors, and professional experts |
| Main Purpose | Initiating a national corporate governance debate | Improving the corporate governance system by providing principle-based best practices |
| Short description | 40 best practices about the relations between management boards, supervisory boards and investors | Detailed principles and best practice provisions about the relations between management boards, supervisory boards and investors |
| Audience | All companies with registered offices in the Netherlands and whose shares are listed on a recognized stock exchange | All companies with registered offices in the Netherlands and whose shares are listed on a recognized stock exchange |
| Legal grounding principle | No; Self-regulation | Yes; Comply or explain |

Sources: Peters Code (1997), Tabaksblat Code (2003) and Maassen (1999).

As an additional task, scholars have recognized the service tasks of non-executive directors and supervisory boards. Social network theory, resource dependence theory and the resource based view have emphasized that non-executive directors are able to contribute positively to corporate decision-making as sources of knowledge (Huse, 1998; Zahra & Pearce, 1989). Huse (2005; 2007) distinguishes between the external and internal service tasks of non-executive directors. The external service task focuses on value that is created through the relationships non-executive directors have with external actors and is rooted in social network theory and resource dependence theory. The internal service task emphasizes corporate value that is created by non-executives by providing advice and counseling to executive directors and originates from the resource based view. In contrast to the control task with its emphasis on board independence, the maintenance of interdependence, closeness and a focus on joint value creation is necessary to be able to utilize the external relations and internal knowledge and capabilities that non-executives bring along (Forbes & Milliken, 1999; Van Hamel et al., 1998). Table 3.2 provides an overview of the external and internal service tasks and juxtaposes them against the control task. The following sections discuss both service tasks in more detail.

Table 3.2: The Building Blocks of the Control and External and Internal Services Tasks

| Building blocks | Control Task | External Service Task | Internal Service Task |
|----------------------------|--|--|--|
| Description Task | Monitoring and supervision of executive directors | Acquiring access to resources on which the corporation is dependent and networking | Provision of advice and counseling to executive directors |
| Theoretical Perspective(s) | Agency Theory | Resource dependence theory and social network theory | Resource based view of the firm |
| Value creation through... | ... monitoring skills and capabilities of non-executives | ... external relations of non-executives | ... knowledge and cognitive capabilities of non-executives |
| Characteristics | Independence, distance, focus on prevention of failures | Interdependence, closeness, focus on joint value creation | Interdependence, closeness, focus on joint value creation |

Sources: Zahra and Pearce (1989), Johnson et al. (1996), Daily et al. (2003). Adapted from Huse (2005:72, Table 1), Huse (2007:39, Table 3.1) and Van Hamel et al. (1998:201).

3.3.1 The External Service Task of Non-Executive Directors

Social network theory and resource dependence theory emphasize corporate value that accrues from the external network position of non-executive directors (Huse, 2005; Mizruchi, 1996). Social network theory asserts that interlocking directorates constitute an important learning vehicle through which corporations can tap into the knowledge base of interlock partners (Mizruchi, 1996). Past evidence suggests that these board ties can influence a whole array of corporate decision-making outcomes, such as mergers and acquisitions (Haunschild, 1993), the initiation of strategic renewal (Westphal et al., 2001) and the adoption of board protection devices (Davis, 1991). Furthermore, resource dependence theory asserts that board connections are used to incorporate resources from the environment, like legal expertise, political lobbying power and financial resources on which companies are dependent. Past evidence suggests that organizations indeed use board relationships to secure access to financial resources (Pfeffer, 1972) and adjust their board structure and composition to cope with environmental uncertainties (Boyd, 1990; Hillman et al., 2000).

While interlocking directorates may provide corporations with network benefits and improve corporate performance, Dutch corporate policy makers have been worried about these relationships for several reasons. First, board relationships might jeopardize the independence of non-executive directors. Stakeholders, while influencing firms through interlocking directorates, may become too involved in the boards' decision-making processes and may have serious conflicts of interests. Second, a highly centralized and dense network of non-executive directors might create a social insular system in which board members are loyal to each other and merely act as rubber stamps. Third, as the number of board positions of non-executive directors increases, it may become more difficult for non-executive directors to devote enough time and effort to profoundly understanding the particularities of a company and to be an effective monitor. To negate these board network effects, the Peters Code (1997) and the Tabaksblat Code (2003) have introduced (1) a limitation on the total number of board positions a non-executive director may have on supervisory boards of listed companies (a maximum of five within listed corporations; chair positions count as two board positions) and (2) a limitation on the election of non-executive directors who had significant business relationships with the firm one year prior to their appointment.

Table 3.3 provides an overview of the recommendations in the Peters Code (1997) and the Tabaksblat Code (2003).

Table 3.3: Control enhancing recommendations also relating to the external service task

| Board Mechanisms | Specific Recommendations in Peters Code and Tabaksblat Code |
|---|---|
| Network Ties | <ul style="list-style-type: none"> • “The number of supervisory seats at listed companies held by a single individual should be limited in such a way as to guarantee the satisfactory fulfillment of the allotted tasks” (Recommendation 9, Peters Code, 1997). • “A management board member may not be a member of the supervisory board of more than two listed companies. Nor may a management board member be the chairman of the supervisory board of a listed company” (II.1.7, Tabaksblat Code, 2003). • “The number of supervisory boards of Dutch listed companies of which an individual may be a member shall be limited to such an extent that the proper performance of this duties is assured; the maximum number is five, for which purpose the chairmanship of a supervisory board counts double” (III.3.4, Tabaksblat Code, 2003). |
| Network Ties Representing Financial Resource Dependencies | <ul style="list-style-type: none"> • “A supervisory board member shall be deemed independent if [...] he has [not] had an important business relationship with the company, or a company associated with it, in the year prior to the appointment. This includes the case were the supervisory board member, or the firm of which he is shareholder, partner, associate or advisor, has acted as advisor to the company (consultant, external auditor, civil notary and lawyer) and the case where the supervisory board member is a management board member or an employee of any bank with which the company has a lasting and significant relationship” (III.2.2.c, Tabaksblat Code, 2003). |

3.3.2 The Internal Service Task of Non-Executive Directors

The resource based view of the firm emphasizes value that accrues from the internal position of non-executive directors (Huse, 2005). With their (management) experience, industry knowledge and decision-making capabilities, non-executive directors may provide valuable advice and counseling during corporate decision-making processes (e.g., Johnson et al., 1996; Pettigrew & McNulty, 1995; Rindova, 1999; Stiles, 2001). Recent evidence from Anglo-American oriented countries suggests that non-executive directors perceive their contributions in this area to be important to the performance of firms (Heracleous, 2001; Ingley & Van der Walt, 2005; Stiles, 2001). Other studies

indicate that non-executive directors are increasingly involved in decision-management (e.g., Hendry & Kiel, 2004; McNulty & Pettigrew, 1999). Joint board meetings of executive and non-executive directors on the board and board committees composed of executives and non-executives facilitate the internal service task of non-executive, because these two structural communication mechanisms enable the regular exchange of knowledge and ideas between executive and non-executive directors.

Although joint board meetings and board committees composed of executive and non-executive directors might compromise the independence of non-executive directors and hamper the adequate execution of the control task, Dutch policy makers have been relatively silent about this. The Peters Code (1997) and the Tabaksblat Code (2003) only suggest that the supervisory board evaluate its own functioning and relation with the management board once a year without executive directors being present. Generally, supervisory boards in the Netherlands comply with this principle (83.5%; Spencer Stuart, 2006a). Furthermore, seen from an agency perspective, both Dutch corporate governance reforms have advocated the use of independent monitoring committees (selection and appointment, remuneration and audit committees) to support the internal control task of supervisory boards (see Table 3.4 for the code recommendations).

At the same time, the code provisions may have supported the internal service task with their emphasis on the installation and role of board committees. First, executive directors often attend meetings of supervisory board committees, which in the Dutch two-tier board system by default consist of non-executives (Maassen, 1999; Maassen & Van Den Bosch, 1999). Thereby, board committees become consultative forums also. Second, the scope of topics discussed in (monitoring) board committees tends to go beyond control issues and touches upon service issues as well (Spira & Bender, 2004). Third, the use of additional board committees associated with the internal service task, such as strategy and integrity committees, might have been promoted as well (Maassen & Van Den Bosch, 1999; Spencer Stuart, 2006a). In a similar vein, the stronger emphasis on board control might have stimulated the number of supervisory board meetings. As it is common practice in the Netherlands that executive directors join the meetings of non-executive directors, the intensity of advising and counseling may have increased also. In conclusion, the strengthening of

the control task of non-executive directors as a result of corporate governance developments and the introduction of the codes may therefore have fostered the internal service task simultaneously.

Table 3.4: Control enhancing recommendations also relating to the internal service task

| Board Mechanisms | Specific Recommendations in Peters Code and Tabaksblat Code |
|------------------|---|
| Board committees | <ul style="list-style-type: none"> • “The supervisory board should consider the appointment of a selections and appointments committee from among its members, as well as an audit committee and a remunerations committee” (Recommendation 15, Peters Code, 1997). • “If the supervisory board consists of more than four members, it shall appoint from among its members an audit committee, a remuneration committee and a selection and appointment committee. The function of the committees its to prepare the decision-making of the supervisory board” (III.5, Tabaksblat Code, 2003). |

3.4 Methods and Sample

The empirical research focuses on the supervisory boards of the top-100 listed companies at the Euronext in Amsterdam, including all AEX, AMX and AScX companies. Together, these companies represent seven industries (construction, manufacturing, transport and communication, wholesale, retail, financial services, and other services) and constitute the backbone of the Dutch economy. The top-100 listed corporations for each year were selected on the basis of the average market capitalization. Supervisory board data for the companies were collected for the period 1997-2005. During this period, 54 percent of the composition of the top-100 remained the same. During the first year of this period, the Peters Committee published their forty recommendations and started a formal national corporate governance debate in the Netherlands, which resulted in the Tabaksblat Code in 2003. The data were obtained from the Spencer Stuart Netherlands Board Indexes that contain information on non-executive directors who occupied more than 8,000 board positions on supervisory boards in the Netherlands during this time period. The data were checked and complemented by data obtained from the Worldscope and Reach databases, and annual reports. Overall, this resulted in 900 firm-year observations.

To utilize the external relationships and internal knowledge and capabilities that non-executive directors bring along and to manage resource dependencies (Forbes & Milliken, 1999; Van Hamel et. al., 1998), interdependence, maintenance of closeness and focus on joint value creation are necessary (Table 3.2). Therefore, an important indicator for the functioning of the service tasks is the presence of organizational mechanisms that facilitate the actual exchange of knowledge, information and resources, i.e. structural communication mechanisms at the board level (Zahra & George, 2002). In this study we assess how several board communication mechanisms related to the functioning of the external and internal service tasks have evolved in the light of corporate governance developments and reform initiatives in the Netherlands.

To portray developments in the external service task of non-executive directors, the following indicators were used: (1) the average number of ties a focal top-100 listed company has with other top-100 listed companies through formal ties at the supervisory board level, (2) the average number of ties a top-100 listed company has with financial service providers listed in the top-100 (banks, insurance companies and investment funds) through formal ties at the supervisory board level, and (3) the average number of ties a focal top-100 listed company has with the top-3 listed banks (ABN Amro, ING, Fortis) through formal ties at the supervisory board level. Multiple interlocks with the same company were counted as one, because we are not interested in the strength of network relationships in the light of our research question. All indicators represent formal board mechanisms that facilitate the external service task of non-executive directors, i.e. the first indicator represents networking and the other two indicators used represent the presence of financial resource dependencies at the supervisory board level (see Table 3.2).

To portray developments in the internal service task of non-executive directors, the following indicators were used: (1) the average number of joint board meetings of non-executive and executive directors per listed company, (2) the average number of board committees per listed company, (3) the average number of board committee meetings of listed companies that operate at least one board committee, and (4) the average size of board committees of listed companies that operate at least one board committee. The indicators reflect characteristics of two formal board communication mechanisms (joint board meetings and board committees) that facilitate the

internal service task of non-executive directors, i.e. providing advice and counseling to executive directors (see Table 3.2).

3.5 Empirical Findings

3.5.1 Developments in the External Service Task of Non-Executive Directors

As corporate policy makers in the Netherlands are concerned with the adverse impact of board relations on the independence of non-executive directors, the corporate governance codes introduced a limitation on the number of board memberships and a restriction on resource dependencies within board relationships. Table 3.5 provides an overview of the developments with regard to interorganizational board relations. As shown, the average number of board relationships has decreased over time (-34.3%). Interestingly, the largest drop in the average number of board ties is observable right after the Tabaksblat Code became effective: from 6.1 ties in 2003 to 5.0 ties in 2004 (-18.3%). Overall, this indicates that the potential for board network benefits is diminishing.

Table 3.5: The Changing External Service Task of Non-executive Directors within Top-100 Listed Companies – Evidence from the Netherlands (1997-2005)

| Board Mechanisms | 1997 | 2005 | % change 1997-2005 |
|---|--------------------|--------------------|--------------------|
| Average number of ties with top-100 listed firms through supervisory board ties | 7.49 ^{a)} | 4.92 ^{a)} | -34.3%* |
| Average number of ties with top-100 financial services providers through supervisory board ties | 0.94 ^{a)} | 0.66 ^{a)} | -29.8 %* |
| Average number of ties with top-3 listed banks (ING, ABN Amro, Fortis) through supervisory board ties | 0.56 ^{a)} | 0.28 ^{a)} | -50.0%* |

* T-tests show that the difference is statistically significant ($p < .05$; two-tailed; $n=100$).

Scholars have noted that financial services providers often have a central role in the network of interlocking directorates. These network relationships provide financial services providers an ability to monitor and control indebted firms, while organizations may have greater access to financial resources (Mizruchi, 1996; Pfeffer,

1972). Although Dutch financial services providers have been the most highly networked corporations for a long period, their position has been declining since 1976 (Heemskerk et al., 2003). The provisions in the Dutch corporate governance codes seem to have affected their network position also. Table 3.5 reveals that the average number of ties top-100 listed companies have with listed financial service providers (banks, insurance companies and investment funds) through ties at the supervisory board level decreased from 0.94 ties in 1997 to 0.66 ties in 2005 (-29.8%). Furthermore, the average number of board relations focal top-100 listed companies have with the top-3 listed banks (ABN Amro, ING, Fortis) through ties at the supervisory board level decreased from 0.56 ties in 1997 to 0.28 ties in 2005 (-50.0%). Interestingly, the largest drops in average numbers of finance-related board relationships are again observable right after the Tabaksblat Code became effective.

3.5.2 Developments in the Internal Service Task of Non-Executive Directors

As noted earlier, the attention paid to the monitoring task and the independence of non-executive directors has prevailed in the Netherlands. Corporate policy makers have been relatively silent about the internal service task of non-executive directors. Table 3.6 portrays the developments of two board mechanisms that facilitate the internal service task of non-executive directors: (1) joint board meetings with executive and non-executive directors, and (2) board committees (the average number, number of meetings and size). As shown, the average number of joint board meetings increased from 5.9 to 7.0 meetings between 1997 and 2005 (+18.6%). During this period, the average number of board committees per company increased as well from 0.67 board committees in 1997 to 1.04 and 1.94 board committees in 2001 and 2005 (+189.6%). Interestingly, most corporations seem to have established board committees in anticipation of the Tabaksblat Code, as the largest growth in the number of board committees is observable during the period 2001-2003 and the trend increasingly flattens thereafter. The average number of meetings of these board committees increased from 2.3 to 3.5 times annually (+36.2%). The average size of board committees developed differently. Until 2002, the average size decreased from 3.3 to 3.0, while it subsequently increased to 3.5 in 2005 (+4.9% over the period). However, the change in average committee size appeared to be not significant.

Table 3.6: The Changing External Service Task of Non-executive Directors within Top-100 Listed Companies – Evidence from the Netherlands (1997-2005)

| Board Mechanisms | 1997 | 2005 | % change 1997-2005 |
|---|--------------------|--------------------|---------------------------|
| Average number of joint board meetings per listed company | 5.90 ^{a)} | 7.00 ^{a)} | + 18.6%* |
| Average number of board committees used per listed company | 0.67 ^{b)} | 1.94 ^{b)} | + 189.6%* |
| Average number of board committee meetings of listed companies that have at least one board committee | 2.32 ^{c)} | 3.51 ^{c)} | + 36.2%* |
| Average size of board committees of listed companies that have at least one board committee | 3.29 ^{d)} | 3.45 ^{d)} | + 4.9% |

* T-tests show that the difference is statistically significant ($p < .05$; two-tailed). ^{a)} Number of cases is 70 (1997) and 96 (2005); ^{b)} Number of cases is 85 (1997) and 100 (2005) ^{c)} Number of cases is 14 (1997) and 70 (2005); 36 (1997) and 74 (2005) firms had committees ^{d)} Number of cases is 21 (1997) and 74 (2005).

3.6 Discussion and Conclusion

Several self-regulatory and legislative corporate governance initiatives were introduced to financial markets during the last decade. These initiatives are important reflections of corporate governance developments, societal norms and values and expectations of key stakeholders. Seen from an agency perspective, these reform initiatives have emphasized the control task of non-executive directors, while non-executive directors' service tasks have not been in the center of policy makers' attention. Archival data of the top-100 listed companies in the Netherlands between 1997 and 2005 reveal that the two Dutch corporate governance codes have affected non-executive directors' external and internal service tasks. Non-executive directors in the Netherlands have become less involved in their external service task between 1997 and 2005 as:

- the average number of ties with top-100 listed firms through supervisory board ties decreased significantly (-34%),

- the average number of ties with top-100 listed financial firms through supervisory board ties decreased significantly (-30%),
- the average number of ties with top-3 listed banks (ABN Amro, Fortis and ING) through supervisory board ties decreased significantly (-50%).

At the same time non-executive directors in the Netherlands have become more involved in their internal service task between 1997 and 2005 as:

- the number of joint board meetings increased significantly (+19%),
- the average number of board committees per company (+190%) and the intensity of their involvement increased significantly (+36%).

3.6.1 Implications

The changing involvement of non-executive directors in their external and internal service tasks in response to corporate governance reform initiatives has three major implications for non-executive directors and corporations. First, as the task of providing advice and counseling to executive directors grows in importance, the scope of board's responsibilities broadens and non-executive directors increasingly spent more time and effort on fulfilling their internal service task adequately. Together with increasing board liabilities, more pressure is put on the non-executive function and therefore the pool of willing and well-qualified non-executive directors becomes more limited. According to Peij (2005), this will increasingly lead to a professionalization of the non-executive directors' function in the Netherlands. Second, the changing service position of non-executives has implications for the selection of non-executive directors. Instead of mainly selecting non-executives on the basis of their external board network position, other qualifications may become more important. This suggests that selection criteria such as the cognitive fit with other board members, industry experience and decision-making capabilities will grow in importance in the near future (Rindova, 1999). Third, the declining importance of interlocking directorates may adversely affect the strategic and financial performance of listed companies. As learning opportunities become more scarce and the management of resource

dependencies through board ties becomes more difficult, corporations have to search for alternative information means to secure their overall external network position.

3.6.2 Limitations and Avenues for Future Research

The study has several limitations, but provides avenues for future research also. First, in the study we have solely focused on formal board communication mechanisms associated with the internal and external service tasks of supervisory boards. This raises for example the question how informal board communication mechanisms relate to these formal mechanisms. Scholars have for instance noted that informal board network relations may be more influential and insular than formal board network relations (Ghoshal et al., 1994; Tsai, 2002). Future studies could investigate whether the development of these informal board communication mechanisms follows the same pattern as the development of formal board mechanisms (see for example Heemskerck, 2007) and what both developments jointly imply for board task performance and corporate performance.

Second, the board network measures we used provide no direct evidence on the quality and importance of board relationships. Companies may have reacted to corporate governance pressures by disposing non-vital board relations only. Furthermore, the board network measures used only take into account board relationships between top-100 listed corporations. Increasing levels of internationalization at the supervisory board level may have made the international board network more important (the number of foreign non-executive directors grew from 16.0% in 1997 to 24.6% in 2005 (Spencer Stuart, 2006a)), while board network ties with non-listed corporations may provide valuable alternatives as well. Future research should take these issues into consideration when assessing developments in the board network in the Netherlands.

Third, the described board developments might be contingent on the specifics of the corporate governance context in the Netherlands. Future cross-country research studies could investigate to which extent the same patterns are observable in other countries with two-tier board systems (e.g., Germany and Austria) and in countries with one-tier board systems (e.g., Great Britain and the United States).

Fourth, the study is silent about the dynamic processes by which listed companies have reacted to corporate governance reform initiatives and have adapted the external and internal service tasks. Interestingly, the indicators show that in the case of board network ties (Table 3.5), companies appear to react to code recommendations afterwards. In the case of internal communication mechanisms (Table 3.6), companies appear to have anticipated the codes' recommendations. Future studies applying institutional theory (e.g. Dacin et al., 2002; Ocasio, 1999) would be valuable to investigate how corporations in different institutional contexts have responded to corporate governance reforms. And whether the different legal groundings of the Peters Code (self-regulation) and the Tabaksblat Code ('comply or explain') led to different changes and patterns in board practices discussed.

3.6.3 Concluding Remarks

The study indicates that although corporate governance reforms have mainly emphasized the control task and independence of non-executive directors, they seem to have changed as unintended consequences the involvement in the external and internal service tasks of non-executive directors also. Corporate policy makers should take these unanticipated effects into account prior to the introduction of corporate governance reform initiatives.

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Chapter 4: The Changing Role of the Supervisory Board Chairman: The Case of the Netherlands (1997-2007)⁴

Abstract

Over the last ten years, the corporate governance context in most Western countries has changed as a result of irregularities, increased regulation, heightened societal expectations and shareholder activism. This paper examines the impact of the changing context on the role of chairmen of supervisory boards in the Netherlands. Based on a combination of thirty semi-structured interviews with board members of leading Dutch corporations and secondary data on the position of supervisory board chairmen at the top-100 listed firms in the Netherlands, the study reveals that board chairmen have become increasingly involved in both their control and service roles. While the demographics (i.e., age, tenure, gender and nationality) of chairmen have hardly changed over the last decade, chairmen are spending considerably more time on boards and committees, have reduced the number of board interlocks and have become more active on the forefront of the corporate governance discussion. The paper highlights several implications for scholars and practitioners.

4.1 Introduction

Over the last decade, the corporate governance system in most Western countries has changed significantly. Global mobility of capital and the spread of the Anglo-American shareholder value model have fueled the debate on corporate governance practices around the globe (Fiss & Zajac, 2004; Ingley & Van Der Walt, 2005; Kiel and Nicholson, 2003; Yoshikawa et al., 2007). Moreover, in the wake of corporate governance scandals, financial markets have introduced stringent corporate governance regulations such as the Sarbanes-Oxley Act, EU Company Law Directives and numerous national corporate governance codes (Aguilera & Cuervo-Cazurra, 2004; Enrione et al., 2006; Sheridan et al., 2006). A communality in these reform initiatives has been the emphasis on (i) restoring the public's trust and (ii) ensuring that

⁴ Article by Bezemer, P., Peij, S., Maassen, G.F. and Van Halder, H. Forthcoming in *Journal of Management & Governance*.

appropriate “checks and balances” are put in place in the regulatory system and corporations (Daily et al., 2003). Among others, the rights and duties of shareholders, the importance of financial transparency and risk management, and the fiduciary role of auditors have been addressed and redefined in these corporate governance reform initiatives.

Another key topic of debate has been the appropriate role of boards of directors in changing corporate governance systems (Corley, 2005; Huse, 2007; Huse & Rindova, 2001). Scholars have noted that expectations for boards’ involvement in decision-making and supervision have changed and that board roles and structures in most Western countries are evolving as a result (Akkermans et al., 2007; Bezemer et al., 2007; Chhaochharia & Grinstein, 2007; Hillier & McColgan, 2006; Hooghiemstra & Van Manen, 2004; Long, 2006; Samuels et al., 1996; Valenti, 2008; Wintoki, 2007). Particularly, two factors are contributing to this development. First, multiple corporate governance reform initiatives, in line with principles of the agency theory, are being introduced to strengthen board control and board independence (Daily et al., 2003; Enrione et al., 2006; Finegold et al., 2007). Second, boards of directors have come under closer scrutiny of the public and shareholder activists (Cogut, 2007; Loring & Taylor, 2006; Wu, 2004). As a consequence, members of boards of directors are increasingly faced with the challenge to “demonstrate effective leadership, quality decision-making processes and the ability to exercise corporate controls” (Long, 2006:547).

Whereas the influence of changing societal expectations on roles and structures at board level is fairly well-established, the consequences for the role of individual board members have received less scholarly attention. In this paper, we posit that, in particular, the chairman of the board of directors may be subject to changing role expectations, as he is most visible to the outside world (Kakabadse & Kakabadse, 2007a; 2007b; Roberts, 2002). Given the chairman’s responsibility for (i) counterbalancing the power of the CEO and (ii) the functioning of the board of directors (Hill, 1995; McNulty & Pettigrew, 1999), the changing role requirements might in fact have a far-reaching impact on the checks and balances within corporations. Yet, to date, relatively little is known about (i) contemporary challenges for chairmen, (ii) the evolution of the chairman’s role versus key organizational bodies

and individuals such as the CEO, and (iii) the drivers of the changing role of chairmen of boards of directors (e.g., Kakabadse et al., 2006; Kakabadse & Kakabadse, 2007a, 2007b; Roberts, 2002; Roberts & Stiles, 1999).

By exploring the evolving role of chairmen of boards of directors in the Dutch context, we contribute to the literature in three ways. First, while prior research in general has examined the impact of environmental change on the role of the board of directors as a group, we explore its influence on the role fulfillment of the board's main individual actor, i.e., the chairman. Our results highlight that several environmental developments have significantly altered the level and scope of chairmen' involvement and working styles. Interestingly, the opinions regarding the performance implications of the evolving role of board chairmen vary widely within our sample. Second, we illustrate that the changing role of board chairmen has co-evolved with their structural position. Our empirical results illustrate that the chairmen' increasing responsibilities are reflected in increased levels of cash payment, more turnover and fewer additional supervisory board positions (interlocks). Simultaneously, the demographic profile of the chairmen (i.e., age, tenure, gender and nationality) remained similar, suggesting a disconnection between demographics and role fulfillment. Third, while one-tier boards have been investigated quite extensively, we provide a more thorough understanding of the challenges that board chairmen face on two-tier boards. We illustrate that the legal separation of decision control from decision management in two-tier boards adds an extra layer of complexity to the changing societal expectations of board chairmen. Thereby, we highlight the opportunities and drawbacks chairmen face while operating in alternative board models.

The paper is structured as follows: section one describes recent developments, the two-tier board model and reform initiatives in the Netherlands. Section two summarizes previous research on the roles of the chairman of the board of directors in one-tier and two-tier boards. Section three describes the research method, i.e., a combination of 30 semi-structured interviews with CEOs and chairmen and archival data on the structural position of chairmen in top-100 listed firms in the Netherlands. Section four portrays the evolution of the role of the supervisory board chairman during the period 1997-2007 and discusses the drivers and consequences of board trends. Section five concludes with a discussion of our key empirical findings and

highlights the implications for the market for chairmen, activities of corporations, and the viability of the two-tier board model.

4.2 The Dutch Corporate Governance System

The roots of the contemporary Dutch open economy can be found in the glory days of the Golden Age. In this era, when the Netherlands were one of the largest trading nations, the Dutch founded the ‘Dutch United East India Company’, the first joint stock company in the world. With a small group of large, internationally diversified firms and a GDP that is dependent on foreign investment and trade (more than 60%), the Dutch trade origins and international orientation are still prominent. The Netherlands are a welfare state with a long tradition of balancing the interests of societal groups. The Dutch corporate governance system is unique in the sense that company law explicitly defines corporations as legal entities which must take into account the rights of all stakeholders affected by the company. The institutionalized stakeholder approach is supported by a two-tier board model consisting of a management board and a supervisory board. The supervisory board solely consists of non-executive directors to assure its independence and has the duty by law to supervise and advise the management board while acting in the best interests of the company and all stakeholders involved (cf. Akkermans et al., 2007; De Jong et al., 2005; 2006; Hooghiemstra & Van Manen, 2004; Maassen, 1999; Maassen & Van Den Bosch, 1999).

Over the last decade, the corporate governance landscape in the Netherlands has changed dramatically with the internationalization of the shareholder base of listed firms. Particularly, the share of Anglo-American oriented investor groups (Abma, 2006) and the number of foreign directors have increased (Spencer Stuart, 2006a). As a result, board members are more exposed to foreign investors’ corporate governance expectations and their willingness to actively challenge boards of directors. Examples of “successful” shareholder activism by foreign investors are the ABN Amro takeover by a consortium led by the now split up Fortis Bank, and Stork, a Dutch technology company, where a hedge fund forced the corporation to restructure. Corporate governance scandals (e.g., Ahold, Enron, WorldCom and Parmalat) also have fueled the Dutch debate and contributed to amendments to the Dutch company law in 2004 and the introduction of a new corporate governance code, the Tabaksblat Code, in

2003, which was amended by the committee Frijns in 2008. In sum, these developments have contributed to a convergence of the institutionalized stakeholder model and the Anglo-American shareholder model in the Netherlands (Bezemer et al., 2007).

4.3 The Position of Chairmen on One-Tier and Two-Tier Boards

Traditionally, the primary responsibility of the board of directors has been to control the top management team to ensure that executives act in the interests of shareholders. The boards' control role is rooted in agency theory and deemed necessary for counteracting managerial opportunism that may arise as a result of the separation of corporate ownership from management (Davis et al., 1997; Zahra & Pearce, 1989). In addition, scholars have recognized the service role of boards, i.e., board members may positively contribute to corporate decision-making by providing advice and counseling to executive directors (Huse, 2005; 2007; Zahra & Pearce, 1989). Both board roles appear to be conflicting as the control role requires board independence, distance and a focus on the prevention of managerial opportunism, while the service role requires from directors interdependence, closeness and a focus on joint value creation (Forbes & Milliken, 1999; Van Hamel et al., 1998; Sundaramurthy & Lewis, 2003).

The control and service roles of boards are organized differently in corporate governance systems around the globe. Most investors are familiar with the one-tier board model in which executives and non-executives are jointly responsible for both roles. In this model, executive directors provide in-depth knowledge of the daily operations of the corporation and may raise issues that might otherwise have been neglected in board meetings (Davis, 1991; Kesner & Johnson, 1990; Muth & Donaldson, 1998). The presence of executive directors enables the board to contribute to the decision-making process and to evaluate the outcomes (Maassen, 1999; Williamson, 1985) at greater speed with fewer bureaucratic hurdles (Davis, 1991; Muth & Donaldson, 1998). However, scholars have observed that insider dominated boards may overlook the opportunities that outsiders may offer in terms of alternate knowledge (Carpenter & Westphal, 2001; McNulty & Pettigrew, 1999; Rindova, 1999) and external relationships (Boyd, 1990; Mizruchi, 1996; Pfeffer & Salancik, 1978; Westphal et al., 2001). Insider dominated boards may also jeopardize checks

and balances as non-executive directors may be better able to provide independent board control (Daily et al., 2003; Sundaramurthy & Lewis, 2003).

While the one-tier model integrates decision management and decision control (Fama & Jensen, 1983), the two-tier board model provides for a formal separation of executive and non-executive directors who operate in separate boards with their own specific roles. Executive directors are responsible for the day-to-day operations of the firm and the supervisory board is responsible for the supervision of management and for providing advice and counseling to executives (Christensen & Westenholz, 1999; Hooghiemstra & Van Manen, 2004; Maassen & Van Den Bosch, 1999). The independence of the board from management is provided by law to ensure that “checks and balances” are in place as the supervisory board has the duty to act in the best interests of the firm and its stakeholders. Non-executives also may bring in useful resources and knowledge. For instance, directors of banks have always played an important role in the inter-corporate network in the Netherlands (Heemskerk, 2007). A disadvantage of the two-tier system, however, is the additional bureaucratic burden on the corporation that may hamper the speed of decision-making (Maassen, 1999; Muth & Donaldson, 1998) and create information asymmetries among executive directors and non-executive directors (Davis, 1991; Hooghiemstra & Van Manen, 2004).

Scholars have observed that chairmen of boards perform their role(s) in a wide variety of ways in different board models (Kakabadse & Kakabadse, 2007a; Stewart, 1991). However, all board chairmen are responsible for: (i) the conduct and composition of the board, (ii) determining the agenda of board meetings, (iii) appointing and dismissing the CEO, (iv) chairing the annual general meeting of shareholders and (v) ensuring that all board members have the necessary information to perform their job (Hill, 1995; McNulty & Pettigrew, 1999; Roberts & Stiles, 1999). Furthermore, the chairman’s responsibility to maintain a healthy bilateral dialogue with managing directors is often posited as critical to the effectiveness of boards of directors and their contribution to a firm’s long-term survival (Kakabadse & Kakabadse, 2007a).

While the basic role expectations of chairmen are shared on one-tier and two-tier boards, the differences between both board models have a significant imprint on the role and position of chairmen. Whereas the role of board chairmen in the two-tier

model is to refrain from day-to-day management of the firm and to focus on decision control, chairmen of one-tier boards are often actively involved in both decision management and decision control. Instead of being a distant monitor, board chairmen in one-tier boards are often operating as “chairman-leader”. Parker (1990:35), for example, describes that the typical board chairman “entertained important customers and shareholders; that he spoke for the company in the City and elsewhere; and when appropriate, conducted high-level negotiations with governments and major customers”. Accordingly, Garratt (1999:33) argues that “CEOs need to accept that the chairman is the boss of the board. The managing director, or CEO, is the boss of the operations of the company”. Furthermore, Treadwell (2006:66) posits that the “chairman is the primary interface with the institutions along with the CEO and the finance director”. In sum, these studies highlight that while board chairmen in two-tier boards are mainly responsible for ensuring that the board of directors adequately supervises management, board chairmen on one-tier boards more often operate at the forefront and appear to have broader responsibilities.

The different role requirements also manifest themselves in the structural position of board chairmen. For example, in the two-tier model, chairmen cannot hold the position of CEO or another executive position in the firm simultaneously. However, CEO duality is not uncommon for one-tier boards (Faleye, 2007; Davidson III et al., 2008; Spencer Stuart, 2006a; 2006b; 2008). Furthermore, as a result of the supervisory board chairmen’ distance from daily management, the liabilities of chairmen in two-tier boards are generally significantly lower compared to chairmen who have the same legal position as executive directors. Finally, the average time spent on a board chairmanship is significantly higher on one-tier boards as the responsibilities generally appear to be broader than for chairmen of two-tier boards. As a consequence, board chairmen of one-tier boards generally earn significantly more than chairmen on supervisory boards (Spencer Stuart, 2006a; 2006b). Table 4.1 provides a concluding summary of the main communalities and differences between the role and position of chairmen in both board models. In the remainder of this paper, we will discuss how the traditional role and position of the supervisory board chairman have evolved during the period 1997-2007 in the Netherlands.

Table 4.1: Role of the Chairman in Different Board Models*

| Board characteristics | One-tier Board Model | Two-tier Board Model |
|--------------------------------------|--|---|
| Composition | Executive and non-executive directors operate in one board. | Executive and non-executive directors operate in separate boards. |
| Committees | Mandatory or recommended. | Recommended. |
| Orientation | Shareholder/Stakeholder oriented. | Stakeholder oriented. |
| Countries | Most countries, among others used in the United Kingdom and United States. | Quite uncommon. Among others used in Germany and the Netherlands. |
| Chairman's characteristics | | |
| CEO Duality | Possible. | Not possible. |
| Independence | Not necessary. | Required. |
| Authority, liability | Same (legal) position as executives. | Different (legal) position as executives. |
| Tasks, responsibilities | Co-directing. | Supervising. |
| Time spent on chairmanship | More than in two-tier board model. | Less than in one-tier board model. |
| Chairman's role | | |
| Corporate governance code provisions | The chairman is responsible for leadership of the board, ensuring its effectiveness of all aspects of its role and setting its agenda. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders. The chairman should also facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors (Financial Reporting Council, 2003; 2008). | The chairman of the supervisory board shall ensure the proper functioning of the supervisory board and its committees, and shall act on behalf of the supervisory board as the main contact for the management board and for shareholders regarding the functioning of the management and supervisory board members. In his capacity of chairman, he shall ensure the orderly and efficient conduct of the general meeting. (Netherlands, Monitoring Commission, 2008). |

* Sources: Maassen, 1999; Spencer Stuart 2006a, 2006b and 2008; Monitoring Commission, 2008; Financial Reporting Council, 2003; 2008.

4.4 Research Method

To analyze the evolving role of supervisory board chairmen in the Netherlands between 1997 and 2007, we utilize two research methods. In collaboration with Spencer Stuart Amsterdam, thirty semi-structured interviews were held in 2007/2008 with supervisory board chairmen and CEOs of listed firms on the NYSE Euronext in the Netherlands (see Appendix A). As to the selection of participants, we used convenience sampling (all interviewees were contacts of Spencer Stuart Amsterdam), given well-known difficulties for researchers to obtain access to individuals at this level of analysis (Daily et al., 2003; Pettigrew, 1992). We approached both supervisory board chairmen (22) and CEOs (8). We chose this approach in order to ensure that we obtained a comprehensive overview where CEOs might highlight other environmental developments and related changes in role expectations of board chairmen than the chairmen. As the participants were asked to reflect on the developments during the period 1997-2007, we made sure that they already had experience with supervisory boards in 1997, so that all participants at least had a senior management position in 1997. The thirty interviews lasted one to two hours and were conducted in the mother tongue of the interviewee (Dutch or English). Given the sensitivity and confidentiality of the discussions, we were not allowed to record the interviews. Notes were taken by two interviewers and interviewees were asked to fill in a short questionnaire. Among others, directors were asked to provide a top-3 of changes in their environments and a top-3 of implications for the role of the supervisory board chairman.

We also collected archival data on the structural position of the chairmen of supervisory boards of the top-100 listed companies at the NYSE Euronext in Amsterdam. The companies operate in multiple industries (construction, financial services, manufacturing, communication, wholesale and retail) and significantly contribute to the Dutch economy. Top-100 lists were created by calculating the average market capitalization of all corporations listed at the NYSE Euronext in Amsterdam during a specific year. We collected data on supervisory board chairmen for the years 1997, 2001 and 2005 in order to portray the position of chairmen at regular time intervals. The year 1997 is a natural starting point as this was when the first Dutch corporate governance code was published that initiated a national debate on corporate governance and the role of supervisory boards. The data were obtained

from the Spencer Stuart Netherlands Board Indexes that contain information on non-executive directors who occupied more than 5,000 supervisory board positions in the Netherlands during the period 1997-2005. The data were checked and complemented by information obtained from annual reports and the Thompson, BoardEx and Reach databases.

To analyze the structural position of the supervisory board chairman over time, we tracked chairmen' demographics, network position, board activities, remuneration and turnover. More specifically, we collected the following demographic information: (i) the age in number of years, (ii) the tenure in a focal firm in number of years, (iii) gender and (iv) nationality. The network position of chairmen was mapped with (i) the number of additional board positions of a chairman at other top-100 listed firms and (ii) the number of additional chairmanships at other top-100 listed firms in the Netherlands. To portray the board activities of chairmen, we used two indicators for the formal involvement of chairmen in corporate decision-making: (i) the number of chaired board meetings during a specific year and (ii) the number of board committees they worked with during a specific year. We also collected data on chairmen' annual cash remuneration in Euros and turnover as the percentage of the chairmen whose contracts expired during a specific year. Finally, we statistically analyzed differences with independent-samples t-tests.

4.5 Empirical Findings

Scholars and practitioners have observed that corporate governance has been in transition over the last decade (Ingley & Van Der Walt, 2005; Kiel & Nicholson, 2003). Yet, to date, relatively little is known about (i) which environmental changes are perceived as important by supervisory board chairmen, (ii) what these developments imply for their day-to-day functioning, and (iii) how their structural position (i.e., demographics, network position, board activities, remuneration and turnover) has co-evolved with changes in the environment. In the following paragraphs these aspects will be discussed.

4.5.1 Key Developments in the Dutch Corporate Governance Context (1997-2007)

Table 4.2 provides an overview of the five main trends that supervisory board chairmen and CEOs of the largest listed firms in the Netherlands observe. The most

significant development has been the expansion of the regulatory framework, including the introduction of the Sarbanes-Oxley Act (2002), the second Dutch corporate governance code (2003) and IFRS (2005). In particular, CEOs highlight the significance of this development. Fifty per cent of the interviewed directors refer to the growing influence and rights of shareholders, heightened levels of shareholder activism and an increasing focus on shareholder value in the day-to-day operations of firms. As a third development, supervisory board chairmen (32%) and CEOs (25%) mention the international wave of corporate governance scandals as this has fueled the attention for corporate governance of regulatory bodies and society. Furthermore, interviewees observe (about one quarter) the convergence of the one-tier board model and the two-tier board model, where executives and non-executives tend to work more intensively together than traditionally in the two-tier model (cf. Hooghiemstra & Van Manen, 2004; Maassen, 1999; Maassen & Van Den Bosch, 1999). One director even remarked that *“The Anglo-Saxon one-tier board system is in fact already the board system used by Dutch supervisory and executive boards”*. Finally, 23% of the board chairmen mentioned that media attention for the functioning of supervisory boards and the call for more transparency and accountability have increased. Overall, supervisory board chairmen and CEOs seem to observe the same key environmental changes in the Dutch corporate governance context.

Table 4.2: The Changing Institutional Context of Dutch Supervisory Boards (1997-2007)

| | Institutional Developments in the Netherlands | Perceptions Chairmen (n=22) | Perceptions CEOs (n=8) |
|---|---|--|-----------------------------------|
| 1 | Stronger focus on regulation and compliance (i.e., SOX, IFRS and the Dutch corporate governance code). | 13 (66.7%) | 7 (87.5%) |
| 2 | Increasing influence of (activist) shareholders and more espousal and implementation of a shareholder value orientation. | 11 (50.0%) | 4 (50.0%) |
| 3 | Corporate governance scandals (i.e. Enron, Parmalat, WorldCom and Ahold). | 7 (31.8%) | 2 (25.0%) |
| 4 | Increasing convergence of one-tier and two-tier boards. | 6 (27.3%) | 2 (25.0%) |
| 5 | Increasing media attention for the functioning of supervisory boards and societal claims for heightened levels of transparency. | 5 (22.7%) | 0 (0.0%) |

4.5.2 Key Implications for the Role of Supervisory Board Chairmen (1997-2007)

Interviewees were asked to reflect on the implications of the changes for the functioning of supervisory board chairmen. Table 4.3 provides an overview of the most mentioned implications. *First*, a majority of the directors mention that supervisory board chairmen are more in a leadership role and more visible than in the past, while their responsibilities have broadened (implication 1). More specifically, 44% of the directors emphasize that the amount of board control has significantly increased and that the level of discretion of executives has become more limited (implication 3). Two supervisory board chairmen exemplified this development as follows: *“Today’s supervisory board chairman keeps the CEO more on his toes”* and *“In today’s world, supervisory board members are supervisors rather than sparring partners”*. Simultaneously, 27% of the board chairmen mentioned that they have become more and earlier involved in strategic decision-making (implication 5). Moreover, 18% of the chairmen stated that they communicate more with shareholders and other stakeholders (implication 6). For instance, one supervisory board chairman remarked that in particular, *“there are more contacts between the chairman and institutional investors. I am definitely more exposed than in the past”*. Supervisory board chairmen report that they are struggling with new role expectations as these seem to be in conflict with independent board control. Two supervisory board chairmen observed that *“capital markets expect more from the supervisory board chairman than usual in the two-tier system”* and put forward that *“supervisory board directors should not be afraid to step into the shoes of the CEO if necessary”*.

The changing governance context in the Netherlands is affecting the working style of the supervisory board chairman as well. A majority of the interviewees (63%) observe that the workload of supervisory board chairmen has significantly increased (implication 2). Particularly, interviewees mention that the relationship between the chairman and CEO has intensified. A chairman phrases the potential benefit of more involvement as follows: *“A one-tier supervisory directorship takes more time. But then you will be present when all important decisions are made”*. Furthermore, 23% of the directors remarked that the changing context has led to a better understanding of their own role requirements and the need for more board and personal accountability (implication 4). One chairman put it as follows: *“Self-evaluation was a bit of a joke*

when I first put it on the agenda. Today, however, it has become a regular annual item on the board agenda”. Furthermore, 18% of the supervisory board chairmen also witness a more cautious, pro-active and formal working style as a result of the increasing liabilities (implication 7). Finally, 10% of the interviewees mention that the relationship of the chairman with the second management echelon has intensified and chairmen do not focus solely on the management board anymore (implication 8).

Table 4.3: The Implications for the Supervisory Board Chairman (1997-2007)

| | Key Changes Role Supervisory Board Chairmen | Perceptions Chairmen (n=22) | Perceptions CEOs (n=8) |
|----------|---|------------------------------------|-------------------------------|
| 1 | The supervisory board chairman has become more visible to society; more in a leadership role than in the past. | 19 (86.4%) | 4 (50.0%) |
| 2 | The workload of the supervisory board chairman has increased significantly; more intensive relationship with the CEO. | 16 (72.7%) | 3 (37.5%) |
| 3 | Stronger focus on board control and monitoring; less room for intuition and chairman as a sparring partner/trusted advisor. | 8 (36.4%) | 5 (62.5%) |
| 4 | Better understanding of role expectations, involved risks and need for board/personal accountability. | 6 (27.2%) | 1 (12.5%) |
| 5 | More and earlier involvement in key strategic decision making processes. | 6 (27.2%) | 0 (0.0%) |
| 6 | More intensive communication with shareholder groups and other stakeholders | 6 (27.2%) | 0 (0.0%) |
| 7 | Working style has become more cautious, formal and pro-active; as reputation risks have increased significantly. | 4 (18.2%) | 1 (12.5%) |
| 8 | Increased attention for the second echelon; next to attention for the management board. | 3 (13.6%) | 0 (0.0%) |

Although supervisory board chairmen observe the benefits of the increased level and scope of their involvement, they are outspoken on potential disadvantages as well. For instance, fifty per cent of the supervisory board chairmen consider laws and regulations as an obstacle that may lead to risk-avoiding behavior: *“I observe that increasingly responsibilities are put on the plate of supervisors; I observe that*

supervisors increasingly consult lawyers for legal advice”, “SOX is a disaster and the Dutch corporate governance code relies too much on the UK Combined Code” and “the focus on legal responsibilities is too strong; governing is no longer self-evident”. The remaining fifty per cent and most CEOs consider regulations to be a useful guideline for the improvement of corporate governance. Furthermore, directors mentioned that the intensified relationship between CEOs and chairmen “is based on a delicate balance” and that “there is of course a risk that matters will be dealt with between the CEO and the supervisory board chairman too much on a bilateral basis”. One chairman summarized the impact of the increased challenges and tensions as follows: “The best way to throw a magnificent career away is to become chairman of a supervisory board”. To conclude, it is noteworthy that CEOs and chairmen seem to hint at different key implications. While CEOs emphasize the stronger focus on board control and more limited space for sparring with board chairmen, chairmen emphasize their increasing involvement in multiple areas, the increasing work load and the professionalization of the supervisory board as a key organizational body.

4.5.3 The Structural Position of Supervisory Board Chairmen (1997-2005)

As discussed in the previous two paragraphs, both CEOs and supervisory board chairmen have witnessed significant changes in the Dutch corporate governance context that have had a profound impact on the role of the supervisory board chairmen. This raises the question as to how the structural position of board chairmen (such as demographics, network position, board activities, remuneration and turnover) has changed in the light of the environmental developments. Table 4.4 provides an overview of the evolving structural position of board chairmen. As shown, the demographics of supervisory board chairmen have, in fact, not significantly changed: a supervisory board chairman is typically around 65 years old, has a tenure of some 9 years on the board, is male and is likely to have Dutch nationality. However, the network position of supervisory board chairmen has changed significantly: while chairmen on average held 1.94 other supervisory board positions in 1997, this number decreased to 1.10 in 2005 (-43%). Similarly, the average number of additional supervisory board chairmanships decreased from 0.58 in 1997 to 0.38 in 2005 (-35%).

At the organizational level, several structural changes are visible. First, the number of board activities in which board chairmen are involved has significantly

changed over time: the number of board meetings has increased from 6.5 a year in 1997 to 8.3 a year in 2005 (+27%) and the number of board committees of the board has increased from 0.7 in 1997 to 2.0 in 2005 (+193%). The increasing workload is reflected in the remuneration policies of companies as the average cash salary of board chairmen has increased from €25,400 in 1997 to €56,000 in 2005 (+82%; inflation-adjusted). Simultaneously, the average level of turnover among supervisory board chairmen increased significantly: while 6 supervisory board chairmen were replaced in 1997, 18 board chairmen left their company in 2005 (+200%) in the top 100 listed corporations. In sum, the empirical results suggest that while the ongoing developments in the Dutch corporate governance context have coincided with increased levels of cash payment, more turnover and less additional supervisory board positions, board chairmen demographics, such as their age, tenure, gender and nationality, remained quite stable during our observation horizon.

Table 4.4: The Structural Position of the Supervisory Board Chairman (1997-2005)

| Chairman's demographics | 1997 | 2001 | 2005 | % change |
|---|-------------|-------------|-------------|--------------------------------|
| Average Age (years) | 63.95 | 64.02 | 65.60 | +2.6% (p=.145) |
| Average Tenure (years) | 9.84 | 9.68 | 9.03 | -8.2% (p=.246) |
| Gender (% male) | 99% | 100% | 100% | +1.0% (p=.320) |
| Nationality (% Dutch) | 96% | 92% | 94% | -2.1% (p=.312) |
| Chairman's network | | | | |
| Number of other supervisory board positions at top-100 listed firms | 1.94 | 1.45 | 1.10 | -43.4%* (p=.000) |
| Number of other chairmanships at top-100 listed firms | 0.58 | 0.44 | 0.38 | -34.5%* (p=.002) |
| Chairman's board activities | | | | |
| Number of board meetings | 6.51 | 7.50 | 8.27 | + 27.0%* (p=.000) |
| Number of board committees | 0.67 | 1.04 | 1.96 | +192.5%* (p=.000) |
| Miscellaneous | | | | |
| Average amount of cash remuneration | €25.350 | €34.580 | €56.000 | +120.9%* ^A (p=.001) |
| Average level of turnover (%) | 6% | 12% | 18% | +200.0%* (p=.000) |

* T-test shows that the difference is statistically significant ($p < .05$; two-tailed; $n=100$).

^A Inflation-corrected % change in cash remuneration = 81.9%*.

4.6 Discussion and Conclusion

Over the last decade, the corporate governance context in most Western countries has been changing rapidly and intensively (e.g., Ingley & Van Der Walt, 2005; Kiel & Nicholson, 2003; Yoshikawa et al., 2007). Generally, scholars have shown that these changes had a significant impact on the “checks and balances” and role of different stakeholders. In this paper, we have discussed the impact of institutional change on the role and position of the chairman on Dutch supervisory boards. A combination of thirty semi-structured interviews with supervisory board chairmen and CEOs, and archival data on the structural position of chairmen within the top-100 listed firms in the Netherlands, revealed that their role has been in transition during the period 1997-2007. Triggered by more regulation, greater influence of (activist) shareholders, corporate governance scandals and increasing convergence of the one-tier and two-tier board models, supervisory board chairmen have become more involved in their control and service roles. Interestingly, the opinions regarding the desirability of the evolving role of board chairmen varied widely within our sample. This development has also coincided with an increased workload (more board committees and meetings) resulting in fewer other board positions (interlocks), more cash remuneration and higher levels of chairman turnover during our observation window. At the same time, the demographic profile of chairmen has remained unaltered during the last decade.

The changing level and scope of the involvement of supervisory board chairmen has three major implications. First, greater societal expectations pose new challenges to board chairmen as they operate beyond their traditional roles and legal requirements in the two-tier model. In particular, supervisory board chairmen are increasingly challenged to combine the seemingly conflicting demands of control (such as independence, distance, focus on the prevention of managerial opportunism) and service (i.e., interdependence, closeness, focus on value creation) in their role fulfillment (cf. Forbes & Milliken, 1999; Sundaramurthy & Lewis, 2003; Van Hamel et al., 1998). However, Dutch corporate law does not provide clear guidance on this matter. As a consequence, supervisory board chairmen increasingly operate in a grey area in which their independent non-executive position is at stake. The tensions between the new expectations of chairmen and the regulatory context manifest themselves especially in the ongoing national debate whether or not to employ the

one-tier board model as a legal alternative to the two-tier board model in the Netherlands.

Second, the combination of increased workloads and liabilities for supervisory board chairmen is putting more pressure on supervisory board chairmen and the pool of willing and qualified future candidates. While the unchanged demographics suggest that firms are still searching for supervisory board chairman with the same background and demographic profile, the developments may provide opportunities for executive search firms. Their services may become more valuable as it may be more difficult for corporations to find qualified candidates who are able to perform multiple roles. The need for such firms to provide aid in educating and evaluating supervisory board chairmen may increase as well. In this context, it can be expected that the market for directors will lead to a professionalization of the function of the board chairman (Peij, 2005; Schilling, 2001).

Third, while the growing involvement of the supervisory board chairman may have a positive impact on the functioning of the board of directors and corporate performance, this development may also have negative consequences. The emphasis on board control, compliance, and shareholder value may result in more risk-averse behavior, more focus on short term efficiency and less a focus on innovation, R&D and strategic renewal (Hendry & Kiel, 2004; Sundaramurthy & Lewis, 2003). Furthermore, the decreasing network connectivity of supervisory board chairmen may limit the number of learning opportunities for firms. Both social network theory and resource dependency theory have emphasized that board ties are an important learning vehicle through which firms can tap into the knowledge base of interlocking partners (cf. Boyd, 1990; Mizuchi, 1996; Westphal et al., 2001) and are useful devices to co-opt resources from the environment on which corporations are dependent (cf. Mizuchi, 1996; Pfeffer & Salancik, 1978). Board chairmen and regulatory bodies should be aware of these positive and negative consequences of the contemporary corporate governance developments and should take them into account in their role fulfillment.

The study has several limitations, but also provides avenues for future research. First, this study has treated all supervisory board chairmanships similarly in order to

establish a general trend. However, the changing role of the supervisory board chairman may be contingent on the specifics of a firm's internal and external context. For example, future studies could investigate how a firm's size, ownership structure (family versus dispersed ownership), network structure (peripheral versus central network position) and international exposure affect the extent to which the role of the supervisory board chairman has changed as a result of national and international corporate governance developments. Furthermore, in line with our choice for the individual as the unit of analysis, the evolving role of the board chairman might be contingent on a chairman's background, i.e., his/her status, professional training and experience.

Second, the study has remained silent on the impact of the changing role of the board chairman on board processes, boards' task performance and corporate performance (Hambrick et al., 2008; Huse, 2005; 2007; Pugliese et al., 2009). Ideally, future research could examine these issues by taking a longitudinal and multi-level approach, i.e., an in-depth investigation of the individual and group behavior of directors during an extensive time period.

Third, the evolving role of the supervisory board chairman may be contingent on the Dutch context. Future research studies could examine to which extent the similar developments are observable in other countries with a two-tier board model (for instance, Austria and Germany) and in countries with mixed board models (for instance, Denmark, France, Italy and Macedonia). The growing popularity and use of 'lead directors' on one-tier boards suggest that the observed trend may actually be part of a two-way convergence of board models.

Fourth, given the exploratory nature and relatively limited number of study participants, a total of thirty board members were selected through convenience sampling, our empirical findings should be interpreted with care. Future research at a larger scale is necessary to confirm the observed developments.

Our study has shown that the role of the supervisory board chairman is undergoing significant changes in the Netherlands. The changing role expectations pose new challenges and provide new opportunities for managers and supervisory board members, shareholders, regulators and executive search firms. In particular, regulators

are being confronted with shareholder and societal expectations that go beyond the legal possibilities that exist in the two-tier board model. And last but not least, supervisory board chairmen are facing the challenge to manage the increasing complexity and conflicting stakeholder expectations. The future will show how supervisory board chairmen will cope with these tensions and to what extent their role will converge to that of the “one tier board chairman”.

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Chapter 5: Assessing Corporate Responses to Changing Board Network Expectations in the Netherlands: An Institutional Theory Perspective⁵

Abstract

While scholars often emphasize a positive relationship between board ties and corporate performance, financial market regulators are increasingly being concerned that board ties create a social insular elite network in which members are loyal towards each other and not necessarily seek to maximize shareholder wealth. Therefore, corporate governance reform initiatives seek to limit board connectivity among listed firms. However, little is known about how listed corporations cope with societal expectations to reform their board networks. We adopt an institutional theory perspective to examine the extent to which companies have broken board ties. Using longitudinal data on 75 top-100 listed corporations in the Netherlands from 2001 to 2005, we find that firms with large board networks have been affected most. Meanwhile, the largest and most prestigious firms have become structurally disconnected from the rest. Moreover, we observe that companies with exposure to international financial markets and participation in board reform initiatives partially nullified the perceived negative influence of market regulation. In conclusion, our study indicates the need for studies that go beyond mere compliance, i.e., research that unravels the complex processes associated with firm responses to board reforms and changing governance expectations.

5.1 Introduction

Scholars and practitioners have discussed the benefits and disadvantages of corporate board networks to a great extent (e.g. Daily et al., 2003; Huse, 2007; Mizruchi, 1996). Proponents of resource dependency theory have emphasized that board ties are valuable tools to obtain access to resources on which corporations depend. Prior studies suggest that companies indeed use board connections to secure access to financial resources and expertise (Pfeffer, 1972) and that corporate board structures are adjusted to cope with environmental turbulence (cf. Boyd, 1990; Hillman et al., 2000). Others

⁵ Paper by Bezemer, P., Maassen, G.F., Van den Bosch, F.A.J. and Volberda, H.W. Earlier versions of this paper have been presented at the Norefjell Workshop (2008) and EURAM Conference (2008).

have pointed to the opportunities board ties offer to tap into the knowledge base of network partners. For instance, past evidence suggests that network ties influence the merger and acquisition activities (Haunschild, 1993) and strategic renewal behavior of companies (Westphal et al., 2001).

Nonetheless, recent institutional developments and financial market reform seem to turn connections at the board level into serious liabilities for corporations while it used to be common practice for non-executive directors to serve on numerous boards. Thereby, they constituted an elite network in which non-executive directors were loyal towards each other and social distancing was used as control mechanism (Westphal & Khanna, 2003). However, over the last years, board networks of companies have increasingly been scrutinized by the public and policy makers (Heemskerk, 2007). Well-known corporate governance scandals (i.e., WorldCom, Enron, Parmalat and Ahold) have changed the opinion and expectations of the public. The media have paid more attention to corporate governance issues and renowned non-executive directors' have been accused of acting as rubber stamps. Numerous corporate governance reforms have attempted to strengthen the control task and independence of non-executive directors internationally and nationally (Daily et al., 2003; Enrione et al., 2006; Sheridan et al., 2006). For instance, the German Cromme Code (2002), the English Combined Code (2002) and the Dutch Tabaksblat Code (2003) have provisions aimed at limiting the number of positions a non-executive director may have on boards of directors of listed corporations and limiting the presence of non-executive directors who had a business relationship with the corporation prior to their appointment.

In the Dutch financial market, both scholars and policy makers have generally observed that corporations comply with these provisions in the latest corporate governance code (Akkermans et al., 2007; Monitoring Commission, 2006) and as a result a decline of the Dutch corporate board network is noticeable (Bezemer et al., 2007; Heemskerk, 2007). However, it remains a puzzle why certain corporations have been affected more strongly by the changing institutional environment than others, and what strategies firms have employed to counterbalance the influence of institutional pressure to reform their board networks. By addressing these two questions, this paper makes three contributions. First, in line with institutional theory, we explore whether

larger listed companies have been affected more strongly by the boardroom reform efforts than smaller firms due to their higher visibility and closer monitoring by the public. Second, we investigate whether corporations with foreign listings and with ties to regulatory bodies are better positioned to nullify pressures to reform their corporate board networks than less connected and nationally oriented companies. Third, by conducting our empirical study in a traditional two-tier board context in the Netherlands, we provide a more thorough understanding of the role of board networks in this setting.

The study is structured as follows: Section one provides a short description of the Dutch corporate governance context, i.e. the two-tier board system, corporate governance reforms and changing societal expectations with regard to corporate board networks. In section two we use the institutional theory to develop three working hypotheses. The first one addresses the impact of changing societal expectations and the societal visibility of firms on corporate board networks. The last two address how exposure to international financial markets and ties with regulatory bodies may assist firms to reduce the impact of regulatory reform. Section three of the paper provides an overview of our methodology, sample and measures. Section four portrays the evolution of board networks of 75 top-100 listed companies at the Euronext in Amsterdam between 2001 and 2005, and we test our three working hypotheses statistically. Section five concludes with a discussion of our key findings and their implications for corporate governance scholars and practitioners.

5.2 The Dutch Corporate Governance Landscape: Board Networks

The Netherlands is a welfare state with a long political tradition of balancing the interests of societal groups. Key national issues, such as wage negotiations and labor relations, the protection of the environment and racial tensions, are solved through institutionalized collective bargaining between the government, businesses, unions and non-governmental organizations. Dutch company law explicitly defines listed corporations as legal entities which must take into account the rights and preferences of stakeholders affected by the corporation. This institutionalized stakeholder approach is supported by the Dutch two-tier board system with its independent supervisory board. Under Dutch company law, the supervisory board has the duty to supervise and advice the management board while acting in the best interests of the company and all

the company's stakeholders (cf. Akkermans et al., 2007; Hooghiemstra & Van Manen, 2004; Maassen, 1999; Maassen & Van Den Bosch, 1999).

Traditionally, two intertwined groups of actors have been very influential in the Dutch corporate governance context. First, the top-three Dutch banks (ABN Amro, ING and Fortis) used to possess large ownership stakes of top-100 listed firms and occupied a central position in corporate board networks (Heemskerk, 2007). For instance, ABN Amro and ING maintained respectively 34 and 18 supervisory board ties with other top-100 listed corporations in the Netherlands in 1997. Second, an elite group of directors (referred to as the 'old-boys network') occupied the central positions in the corporate board networks. In 1997, more than ten percent of the supervisory board positions of top-100 listed firms in the Netherlands were occupied by thirteen individuals (Spencer Stuart, 1997). Elite membership was often associated with highly prestigious functions in interest groups, such as the employers' organization (VNO-NCW) and 'society of friends of the Concertgebouw', and membership of exclusive dining clubs, such as 'De Pijp' and 'De Schoorsteen'.

In the wake of corporate governance scandals, the institutional context has changed in the Netherlands. The Dutch media and public policy makers have become critical of the role of corporate elite networks and societal debate has altered national beliefs about corporate board networks over the last five years (Bezemer et al., 2007; Van Hezewijk & Peij, 2006). Critics have pointed to the fact that the centralization of power in the hands of a small group of elite members could create a social insular system in which board members are loyal to each other only, protect their mutual self interests and prevent the inflow of new talent. Furthermore, the presence and involvement of board members affiliated with Dutch banks might give rise to conflicts of interests and jeopardize the independence of boards of directors. Therefore, the latest Dutch corporate governance code, the Tabaksblat Code (2003), has attempted to break open the old boys network (De Monchy & Legein, 2004). The Tabaksblat Code introduced a limitation of the total number of positions a supervisory board member may have on boards of other listed corporations: a maximum of five board positions; chair positions count as two positions. Furthermore, the Tabaksblat Code limits the presence of representatives of financial institutions on boards of directors if both firms have a business relationship.

Although the Tabaksblat Code is based on soft law (comply or explain principle), the development and introduction of the code highlights key societal issues and may have influenced corporate board networks. As the code provisions signal to corporate boards how they may enhance their legitimacy in the wake of corporate governance scandals and media criticism (Dacin, 1997; Ocassio, 1999; Oliver, 1997). Given the fierceness of the Dutch contemporary corporate governance debate, it can be expected that listed companies have been sensitive to changing board network expectations and have reduced the size of their corporate board networks. Tentatively, prior empirical studies provide support for the presence of this trend in the Dutch context (Bezemer et al., 2007; Heemskerk, 2007; Van Hezewijk & Peij, 2006). In the remainder of this paper, we adopt an institutional theory perspective to investigate the drivers behind broken board ties in the time period surrounding the development and introduction of the Tabaksblat Code (2001-2005), and to investigate whether listed firms have tools at their disposal to mitigate the perceived negative effects of market regulation and changing governance expectations.

5.3 Board Networks and Institutional Theory

Institutional theory examines at multiple levels how values, norms and beliefs constitute reality and influence practice. At the corporate level, scholars have examined how societal values, norms and beliefs constrain and enable corporate practices (D'Aunno et al., 1991; Dimaggio & Powell, 1983; Scott, 2001). According to its proponents, firms pursue close alignment with societal expectations, because this enhances organizations' legitimacy: their license to operate (Meyer & Rowan, 1977; Oliver, 1997; Vermeulen et al., 2007). Among others, one of the key benefits of legitimacy is that it fosters societal support: it enables companies to acquire resources at more favorable terms (Deephouse, 1999), it helps corporations to circumvent legal charges, it reduces exposure to liabilities and it opens up opportunities for firms to cooperate with other prestigious corporations (Gulati & Gargiulo, 1999).

5.3.1 Pressures for Change

Scholars have noted that the perceived amount of institutional pressure differs among firms (Fiss & Zajac, 2006; Oliver, 1991; Pfeffer & Salancik, 1978). In particular, large

companies might be more vulnerable to institutional pressures, because of their prominent role in society and because they are more closely monitored by a variety of stakeholders, media and the public. Large listed corporations are often expected to be frontrunners in the development and implementation of best practices. As a result, the risks and related costs associated with nonconformance with institutional values, norms and beliefs, significantly increase with organizational size (Finkelstein & Boyd, 1998; Finkelstein & Hambrick, 1990). Thus, regarding changing societal beliefs about the appropriate design of board networks, larger corporations should display greater response to corporate board reform initiatives than smaller firms.

Hypothesis 1: Due to their higher visibility and exemplary roles in society, larger listed firms are more likely to respond to national institutional pressures to reform their board networks than smaller listed firms.

5.3.2 Corporate Tools to Counterbalance Pressures for Change

Recent studies on institutional entrepreneurship reveal that companies are not necessarily guided by prevailing norms and beliefs. Moreover, scholars have started to examine how firms in turn enact changes in institutional templates (Dacin et al., 2002; Greenwood & Suddaby, 2006; Seo & Creed, 2002). For example, studies suggest that firms initiate self regulatory reforms as protection against competition and as a means to obtain preferred access to key resources (D'Aunno et al., 2000; Edelman & Suchman, 1997). In this study, we examine in the context of corporate board ties how exposure to international financial markets and the participation in regulatory initiatives might give companies a competitive advantage.

Exposure to international financial markets might enable corporations to mitigate national institutional pressures in two ways. First, scholars have argued that firms become less vulnerable to field-level institutional pressures (i.e., national governance expectations) when corporations operate beyond the boundaries of a field, i.e., in multiple international markets (Greenwood & Suddaby, 2006; Seo & Creed, 2002), because corporate nonconformance with national institutional values, norms and beliefs can be legitimately explained by referring to best practices elsewhere. Second, awareness of international corporate governance developments and expectations might provide companies with a more profound understanding and anticipation

of the drivers and impact of new board regulations, enabling corporations to design their board network in advance. Accordingly, we hypothesize the following:

Hypothesis 2: Listed firms with exposure to international financial markets exposure are less likely to respond to national institutional pressures to reform their board networks than those without exposure to international financial markets.

Furthermore, the participation of a board member in a committee responsible for the drafting of board reform initiatives might provide companies with opportunities to nullify national institutional pressures for three reasons. First, companies' directors may influence new regulation and advance their own corporate best practices, i.e., recommend regulations that will challenge competitors while their firms already comply with these regulations (D'Aunno et al., 2000; Edelman & Suchman, 1997). Second, the mere involvement in board reform committees may already signal to society that a company takes its responsibilities seriously, i.e., thereby being a substitute for actions aimed at the disintegration of board networks. Third, companies involved in regulatory reform may be more able to assess the intensity of institutional pressures and the consequences of nonconformance for the legitimacy of firms. Therefore, they may respond less strongly than corporations that are not able to assess properly when their responsive actions will be sufficient.

Hypothesis 3: Listed corporations with ties to regulatory bodies are less likely to react to institutional pressure to reform their board network than firms which are not tied to reform bodies.

5.4 Methods and Sample

The empirical research focuses on board networks of the top-100 listed corporations at the Euronext Stock Exchange in Amsterdam between 2001 and 2005. The top-100 listed companies for each year were selected based on their average market capitalization. Given several new entrants and delistings during our observation window, we decided to focus on the 75 corporations that were part of the top-100 lists for each year. Data was collected for two years prior and two years after the introduction of the Tabaksblat Code (2003). This approach enables us to control for corporations that

have anticipated board reform provisions in the Tabaksblat Code and to take into account corporations' response time to the code. Corporate board network data were obtained from multiple sources to make sure that our data were accurate and complete. We used the Spencer Stuart Netherlands Board Indexes, annual reports, and the BoardEx, Reach and Worldscope databases. Overall, this resulted in a database covering network developments of 75 firms over a five year period.

5.4.1 Dependent Variables

To portray developments in the board network of listed corporations in the Netherlands, we use the following two indicators: (1) the number of lost board ties of a focal company with other top-100 companies and (2) the number of lost board ties of a focal company with the top-3 listed banks (ABN Amro, ING and Fortis). Both measures were calculated by subtracting the number of board ties (with banks) in 2005 from the number of board ties (with banks) in 2001. International board ties were not included in our study, because societal debate has focused solely on national elite networks. Moreover, the number of international board ties remained approximately the same during our observation horizon: from 4.24 international ties in 2001 to 4.10 international ties in 2005 ($t=.13$; $p>.10$).

5.4.2 Independent Variables

To examine our working hypotheses, we created the following three additional variables: societal visibility, international financial market exposure and participation in regulatory bodies. As *societal visibility* is closely linked to organizational size, our measure is based on the classification used by the Euronext Stock Exchange: AEX traded companies have the largest market capitalization and market turnover (approximately the top-25), AMX traded companies are the runner-ups (approximately the remaining part of the top-50) and other indices (AscX and "other corporations as they are known at the Euronext) include corporations with a relatively small market capitalization and market turnover. We coded all corporations for each year (i.e. AEX=3, AMX=2 and other=1) and used the weighted average over our five year window as our measure. *International market exposure* was operationalized using a dummy variable capturing the presence of a secondary listing at a leading international stock exchange (i.e. London Stock Exchange, NASDAQ and NYSE) in one of the

years of our observation window. Finally, *participation in regulatory bodies* was operationalized by a count variable indicating the number of board reform initiatives in which a board member(s) of a focal corporation participated. In the Dutch context, two corporate governance initiatives have been important: the Peters' Committee (1997) which came up with 40 best practice provisions, and the Tabaksblat Committee (2003) which developed and implemented the first Dutch corporate governance code (Akkermans et al., 2007; Bezemer et al., 2007). Given the fact that both committees have expressed concerns about the role of elite networks, we used the participation in either one or both reforms.

5.4.3 Control Variables

By including various additional variables, we controlled for possible confounding effects. First, as the code provisions apply to corporations with an extended board network only, we controlled for the initial size of the corporate board network by including three count variables: a) the number of board ties with top-100 listed corporations, b) the number of board ties with the top-3 listed banks (ABN Amro, ING and Fortis), and c) the number of international board ties. Second, resource dependency theory suggests that the amount of debt determines the extent to which firms will establish board ties with banks (Pfeffer, 1972; Pfeffer & Salancik, 1978). Therefore, we included the log of the average amount of debt of firms during the period 2001-2005. Third, extensive experience with corporate governance mechanisms and practices might make companies more resistant to change. We included organizational age, i.e., the number of years passed after founding, to control for this effect.

5.5 Empirical Findings

As noted earlier, the Dutch media, public and policy makers have recently become more critical about corporate board networks. In particular, the Tabaksblat Code (2003) has attempted to break open the old-boys network with several limitations on board connectivity. From an institutional theory perspective, we expected that listed firms would be sensitive to changing institutions and would realign their corporate board networks with emerging societal expectations. A first indicator that listed corporations have indeed changed their board networks is the significant increase in the level of

supervisory board turnover after the introduction of the Tabaksblat Code (2003): from 8.3% of the non-executives leaving the supervisory board in 2001 to 13.0% in 2003 and 2005. Moreover, Table 5.1 provides an overview of developments with regard to the Dutch corporate board network and presents descriptive statistics for all study variables. As shown, the average number of board ties with other top-100 listed companies decreased during our observation window: on average with 1.53 ties per company (-21.4%). Likewise, the average number of board connections with the top-3 listed banks significantly decreased: on average with 0.55 ties per company (-38.2%). Overall, this indicates that companies have been reforming their board network during the period surrounding the Tabaksblat Code, in line with institutional theory.

To test our hypotheses regarding antecedents of broken board ties, a series of hierarchical regression analyses were conducted. The first five models examine all broken ties (see Table 5.2), while the next five models investigate broken ties with the top-3 banks (see Table 5.3). To examine the issue of multicollinearity, we calculated variance inflation factors (VIF) for each of the models. The maximum VIF was not higher than 3.0 in any model, which is well below the rule-of-thumb cut-off of 10.

5.5.1 Societal Visibility and Broken Board Ties

Scholars have emphasized that the amount of perceived institutional pressure depends on the societal visibility of corporations. As larger corporations are more visible and more closely monitored by society, these companies are expected to have stronger incentives to conform to prevailing expectations and norms (hypothesis 1). Tables 5.2 and 5.3 reveal that our first hypothesis is not supported. Contrary, less visible, smaller corporations have responded more strongly to institutional pressures to break board ties with other top-100 firms and banks ($p < .05$). Interestingly, a closer examination reveals that this effect can be explained by the fact that the most prestigious and largest corporations (AEX firms) have broken board connections with less prestigious corporations (AMX, AscX and other companies), while they retained their collective ties (see Table 5.4). This suggests that the corporate board networks among the most heavily interlocked companies have been maintained despite the board reform efforts in the Netherlands, while the interconnectivity with lower tier corporations has been reduced as a result of the development and introduction of the Tabaksblat Code (2003).

Table 5.1: Descriptive Statistics and Pearson Correlation Coefficients (N=75)

| | Mean | SD | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. |
|---|-------|-------|-------|-------|-------|-------|------|-------|-----|-----|-----|
| 1. Number of national board ties | 7.15 | 5.33 | | | | | | | | | |
| 2. Number of national board ties with banks | .55 | .70 | .53** | | | | | | | | |
| 3. Number of international board ties | 4.20 | 6.72 | .38** | .20 | | | | | | | |
| 4. Organizational debt | 5.87 | 2.60 | .56** | .12 | .57** | | | | | | |
| 5. Organizational age | 73.61 | 69.26 | -.05 | .05 | -.12 | .04 | | | | | |
| 6. Societal Visibility (size) | 1.83 | .83 | .59** | .27* | .65** | .68** | -.17 | | | | |
| 7. International financial market exposure | .23 | .42 | .39** | .12 | .60** | .43** | -.11 | .55** | | | |
| 8. Participation in regulatory bodies | .29 | .51 | .35** | -.08 | .22 | .22 | .08 | .30** | .13 | | |
| 9. Number of lost board ties (all) | 1.53 | 3.62 | .66** | .30 | .21 | .32** | -.01 | .21 | .09 | .12 | |
| 10. Number of lost board ties (banks) | .21 | .66 | .11 | .53** | -.21 | -.13 | .04 | -.16 | .13 | .01 | .21 |

* p<.05; ** p<.01 (two-tailed).

Table 5.2: Regression Analyses for the Number of Broken Board Ties (N=75)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|---|---------|---------|---------|---------|---------|
| Societal Visibility (size) | | -1.67** | | | -1.28* |
| International financial market exposure | | | -1.88* | | -1.59* |
| Participation in regulatory bodies | | | | -1.39* | -1.28* |
| Controls: | | | | | |
| Number of national board ties | .53*** | .58*** | .57*** | .60*** | .67*** |
| Number of national board ties banks | -.46 | -.32 | -.55 | -.86 | -.79 |
| Number of international board ties | .02 | .06 | .04 | .02 | .12 |
| Organizational debt | -.13 | .08 | -.11 | -.18 | -.00 |
| Organizational age | .00 | -.00 | -.00 | .00 | -.00 |
| Constant | -1.17 | .18 | -1.23 | -.99 | -.03 |
| R² | .46*** | .51*** | .49*** | .49*** | .55*** |
| Change R² | | .05** | .03* | .03* | .09** |

* p<.05; ** p<.01; *** p<.001. Significance tests are one-tailed for directional hypothesis and two-tailed for control variables. Standard errors are in parentheses.

Table 5.3: Regression Analyses for the Number of Broken Board Ties with Top-3 Banks (n=75)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Main Effects: | | | | | |
| Societal Visibility (size) | | -.17 (.11) | | | -.23* (.12) |
| International financial market exposure | | | .04 (.18) | | .15 (.18) |
| Participation in regulatory bodies | | | | .29* (.14) | .34* (.13) |
| Controls: | | | | | |
| Number of national board ties | -.01 (.02) | -.01 (.02) | -.02 (.02) | -.03 (.02) | -.03 (.02) |
| Number of national board ties banks | .61*** (.11) | .63*** (.11) | .62*** (.11) | .69*** (.11) | .73*** (.11) |
| Number of international board ties | -.04* (.02) | -.03 (.02) | -.04* (.02) | -.04** (.02) | -.04* (.02) |
| Organizational debt | .01 (.03) | .03 (.04) | .01 (.03) | .03 (.03) | .05 (.04) |
| Organizational age | -.00 (.00) | -.00 (.00) | -.00 (.00) | -.00 (.00) | -.00 (.00) |
| Constant | .08 (.17) | .22 (.19) | .08 (.17) | .05 (.17) | .23 (.19) |
| R² | .41*** | .43*** | .41*** | .45*** | .48*** |
| Change R² | | .02 | .00 | .04* | .07* |

* p<.05; ** p<.01; *** p<.001. Significance tests are one-tailed for directional hypothesis and two-tailed for control variables. Standard errors are in parentheses.

However, it is important to note, that in absolute terms, companies with larger board networks prior to the introduction of the Code have more broken ties ($p < .001$).

Table 5.4: Broken Board Ties Ordered by Company Size

| | 2001 | 2005 | % change 2001-2005 |
|---|------|------|-----------------------|
| Board ties – AEX firms with other AEX firms | 5.24 | 5.13 | -2.01% |
| Board ties – AEX firms with AMX firms | 2.62 | 1.35 | -48.5%* |
| Board ties – AEX firms with AScX and other firms | 3.57 | 2.17 | -39.2%* |
| | | | |
| Board ties – AMX firms with AEX firms | 3.38 | 1.63 | -51.8%* |
| Board ties – AMX firms with other AMX firms | 2.00 | 1.53 | -23.5% |
| Board ties – AMX firms with AScX and other firms | 2.31 | 2.21 | -4.3% |
| | | | |
| Board ties – AScX firms with AEX firms | 1.13 | 0.88 | -22.1% |
| Board ties – AScX firms with AMX firms | 0.58 | 0.97 | +67.2% |
| Board ties – AScX firms with other AScX and other firms | 2.84 | 1.79 | -37.0%* |

* T-tests show that the difference is statistically significant ($p < .05$; two-tailed).

Similarly, less visible, smaller firms have responded more strongly to institutional pressures to break board ties with the top-3 banks ($p < .05$). While the largest corporations (AEX firms) did not react at all to code's provisions aimed at limiting the presences of board members affiliated with the three Dutch banks (+2.9%), medium-sized and smaller listed companies lost respectively 81.4% and 67.5% of their board ties with ABN Amro, ING and Fortis. One explanation of this result may be that the benefits of board ties with top-3 banks (i.e. access to up-to-date financial information and resources), may outweigh the costs associated with nonconformance (i.e., loss of legitimacy if a firm does business with this bank) when firms become larger and have access to international capital markets. The negative impact of the number of international board ties ($p < .05$) tentatively supports this view.

5.5.2. International Financial Market Exposure and Broken Board Ties

As argued, one way to nullify national pressures to reform corporate board networks is having a presence at leading international financial markets (hypothesis 2) as this may provide corporations timely insights in the spread of new corporate governance best practices. Moreover, their nonconformance with national norms can be explained by referring to best practices abroad. Tables 5.2 and 5.3 reveal that our second hypothesis is partially supported. Corporations without international financial market exposure display stronger institutional responses, i.e. they have more broken board ties with other top-100 corporations ($p < .05$). Contrary, the number of broken board ties with the top-3 listed banks was unaffected by international financial market exposure ($p > .05$). Overall, this indicates that international financial market exposure assists corporations in certain areas in dampening the impact of national institutional forces.

5.5.3. Participation in Regulatory Bodies and Broken Board Ties

Another way to counteract national pressure to reform board networks is to stimulate the participation of a board member in a corporate governance committee responsible for the development and implementation of board reforms (hypothesis 3). Because participation signals to society that a company takes its responsibilities seriously, it offers opportunities to influence the new institutional regime, and it provides useful insights in the intentions behind provisions. As shown in Tables 5.2 and 5.3, we find partial support that firms with ties to regulatory bodies have been disintegrating their board networks to a lesser extent, i.e., generally they have less broken ties with other top-100 corporations ($p < .05$). On the contrary, they have more broken ties with the top-3 banks also ($p < .05$). An explanation might be that companies with participating board members in regulatory bodies have been particularly sensitive to specifics of board independence provisions and their exemplary role, and have responded more strongly. Thus, participation in regulatory bodies proved a useful tool to prevent disintegration in certain areas, while being a disadvantage in others.

5.6 Conclusions and Discussion

Over the last years, public policy makers, media and the public have become concerned about the presence and influence of corporate board networks. In the wake

of corporate governance scandals, worldwide corporate governance reform initiatives have introduced provisions aimed at limiting connections between boards of listed companies. Drawing upon institutional theory, we developed a framework to examine the responses of listed firms on changing societal expectations and beliefs about the appropriate design of board networks. We hypothesized that institutional responses of corporations would depend on company characteristics and entrepreneurial attitude, i.e. societal visibility, international financial market exposure and participation in regulatory bodies. Archival data on 75 top-100 listed corporations in the Netherlands from 2001 to 2005 reveal that the structure of the Dutch corporate network has been altered as a result of board reform initiatives and the changing institutional context. Our main observations are the following:

- The number of board ties with top-100 listed corporations (-21%) and the number of board ties with top-3 banks (-38%) have significantly decreased during the period surrounding the implementation and introduction of the Tabaksblat Code (2003).
- Corporations with larger board networks have been affected more heavily by national pressure to reform their board network.
- Larger and more visible companies have been relatively successful in maintaining their central board network position by reducing their interconnectivity with lower tier companies. As a result the Dutch board network has become more structurally stratified.
- Corporations with international market exposure and ties with regulatory bodies have been able to partially counteract national pressure to reform board networks.

5.6.1 Implications

The changing structure of the Dutch board network has three important implications for companies and public policy makers. First, while board network provisions in the Tabaksblat Code (2003) appear to be successful in terms of disintegrating the overall corporate board network, negative side effects exist for medium-sized and smaller firms. Our results indicate that the top-3 banks in particular have broken board ties with medium-sized and smaller companies. Moreover, the largest and most prestigious

companies have become disconnected through diminishing board ties with medium-sized and smaller listed companies. Policy makers should take these unanticipated effects for smaller firms into account prior to the introduction and midterm adjustment of corporate governance reform initiatives.

Second, our study reveals that firms are not necessarily guided by corporate governance reform initiatives, but, instead, are able to influence institutional templates or to nullify their impact. Thus, it may be beneficial to conceptualize changing societal expectations as a strategic question and opportunity that may give a firm a competitive advantage. In our research setting, several (larger) corporations in the Netherlands have proven to be good at this game, as their foreign listings and their participation in key regulatory bodies buffered them against certain institutional pressure within the Netherlands. Thereby, our results support the recent literature on institutional entrepreneurship. Further examination of opportunities, consequences and limitations of specific corporate tools with regard to institutional entrepreneurship in the context of corporate governance may shed light on successful strategies and actions that firms could deploy to maintain their status quo in a changing institutional environment or, even, benefit from future board reform initiatives.

Third, the changing structure of the corporate board network in the Netherlands may adversely affect the strategic and financial performance of listed companies. Prior studies have revealed that board ties are useful communication mechanisms that spread information about innovation, mergers and acquisitions, and board connections constitute mechanisms to manage resource dependencies (i.e., legal expertise, political lobbying power and financial resources) in the light of environmental turbulence (cf. Mizruchi, 1996). To get a first insight in the relationship between broken ties and financial performance, we calculated the correlations of our dependent variables with the ROA, ROE and EPS of firms in 2005. The number of lost board ties (all) proved to be negatively correlated with ROA ($r=-.269$; $p<.05$) and the number of lost board ties with the top-3 banks proved to be negatively correlated with ROE ($r=-.268$; $p<.05$). This tentatively suggests that firms should carefully manage their board connections and have to search for new mechanisms to secure their overall position. Furthermore, this finding fuels ongoing debate whether it is still beneficial to have a listing at a stock exchange, as non-listed companies face far less stringent corporate governance regu-

lations. Future longitudinal research is necessary to entangle the exact chain of causality and strategic and financial consequences.

5.6.2 Limitations and Avenues for Future Research

The study has several limitations, but provides avenues for future research also. First, in the study we have solely focused on formal board connections between top-100 listed in the Netherlands. This raises the question how informal connections between members of the corporate elite relate to formal board connections, i.e., we have to examine the impact of informal meetings between board members during football matches, at golf courts and during dinners in exclusive elite clubs. Scholars have suggested that informal networks actually may be more influential and insular than formal networks (Ghoshal et al., 1994; Tsai, 2002). Future studies could investigate whether the development of these informal networks follows the same pattern as the development of formal board networks (see for example Heemskerk, 2007) and whether the initiatives of the Tabaksblat Code (2003) have been successful in this respect.

Second, the network measures we used provide no direct evidence of the quality and importance of board connections. While corporations may have responded to societal expectations to limit their board network, they might have eliminated non-vital board ties only, i.e., they might be symbolically complying with the provisions in the Tabaksblat Code without actually altering their board network practices. The persistence of board ties between the 25 largest corporations (AEX corporations) tentatively supports this view. Furthermore, corporations might have swapped board ties with top-100 corporations for board connections with large non-listed companies and banks, such as Rabobank, Maxeda and VolkerWessels, i.e., thereby retaining their board network position without violating the provisions in the Tabaksblat Code. Future research could assess to which extent corporations have really adopted new societal expectations and what the consequences are of real versus symbolic adoption. Because listed firms in the Netherlands are obligated to “comply or explain” their compliance with provisions of the Tabaksblat Code, analyzing their self-reported statements in annual reports might be a useful starting point.

Third, the described network developments might be contingent on the specifics of the Dutch corporate governance context. Future cross-country research studies

could investigate to which extent the same patterns are observable in other countries with two-tier board systems (e.g., Germany and Austria), in countries with one-tier board systems (e.g., Great Britain and the United States) and in countries with mixed board systems (e.g., France).

5.6.3 Concluding Remarks

While scholars emphasize the benefits of board ties, societal attention has shifted to their disadvantages more recently. Although corporate governance reform initiatives have been successful to open corporate board networks, our findings reveal complex sociopolitical and institutional processes that guide companies and their board members in maintaining and breaking corporate connections. For instance, international financial market exposure and participation in reform bodies support corporations in counterbalancing the negative of corporate governance reform initiatives, while they become liabilities in other areas at the same time. Furthermore, existing corporate elite networks associated with larger listed corporations have been relatively successful in maintaining their network position, while medium-sized and small listed companies have become more disconnected from the elite and financial institutions. Policy makers should take these unintended consequences into account prior to the introduction of new corporate governance reform initiatives or mid-term adjustments of the Tabaksblat Code.

Chapter 6: Change from Without: The Dutch Response to Pressures for Shareholder Value⁶

“There are of course competing claims about the meaning of a paradigm, indeed, about the meaning and significance of any body of beliefs. But none is correct, and which among them secures local “hegemony” is a matter of social, political, economic and other sorts of power”

(Rosenberg, 2005:177)

Abstract

During the last decades, scholars and practitioners have witnessed a worldwide increase in the attention for the Anglo-American shareholder model. However, the antecedents and performance implications of a firm’s referral to this model in a stakeholder oriented context, are topic of societal debate. Using a sociopolitical perspective, we investigate how the technical and cultural preferences of major owners influenced a firm’s inclination to espouse a shareholder value orientation. A panel of top-100 listed corporations in the Netherlands from 1992 to 2006 shows that change has been primarily instigated from without, i.e., by major Anglo-American owners and financial institutions. We also find evidence that the political context in which firms are embedded constrains the influence of outsiders. Surprisingly, our findings indicate a negative relationship with performance, although this effect becomes less strong if companies demonstrate a visible commitment to this new logic and managers align a firm’s goals with the preferences of major owners.

6.1 Introduction

The purpose of the public corporation is topic of debate among scholars and practitioners around the world (Freeman et al., 2004; Sundaram & Inkpen, 2004). Historically, coordinated market economies (e.g., Germany and Japan) used to conceptualize corporations as communities of interests whose stakeholders should be served. Liberal market economies (e.g., the United States) used to view corporations

⁶ Paper by Bezemer, P., Zajac, E.J., Van den Bosch, F.A.J. and Volberda, H.W. Earlier versions of this paper have been presented at the Academy of Management (2008) and SMS Conference (2008 and 2009).

as instruments to create value for its shareholders (De Wit & Meyer, 2004; Letza et al., 2004; Stadler et al., 2006). There is, however, growing evidence that the systems are converging (Gamble & Kelly, 2001; Morris et al., 2008; Thomsen, 2003) and that executives in contexts with a historical emphasis on stakeholder value, ranging from Germany (Fiss & Zajac, 2004; Sanders & Tuschke, 2007; Tuschke & Sanders, 2003) and France (Morin, 2000) to Japan (Jackson, 2003; Yoshikawa et al., 2007; Yoshikawa & McGuire, 2008) and Sweden (Lazonick & O'Sullivan, 2000), are struggling with pressures for the espousal of a shareholder value orientation.

The rationale of a firm's referral to a shareholder value orientation in a national context with a competing logic is subject to academic inquiry (Fiss & Zajac, 2004; 2006; Hillman & Keim, 2001; Sanders & Tuschke, 2007; Yoshikawa et al., 2007). Scholars have suggested that the rise of the shareholder value model is driven by capital- and product-market pressures, i.e., that a firm's espousal of a shareholder value orientation is the result of a quest for enhanced legitimacy in these markets (Aglietta, 2000; Khanna & Palepu, 2004; Lazonick & O'Sullivan, 2000; Yoshikawa & Rasheed, 2009). Others have pointed to the impact of sociopolitical processes and the institutional context. For instance, Fiss and Zajac (2004; 2006) illustrate how the varying preferences of major domestic owners influenced the espousal of a shareholder value orientation among German firms. Furthermore, Sanders and Tuschke (2007) describe how a company's exposure to multiple institutional contexts in which contested shareholder value practices are more legitimate, promotes their diffusion across national boundaries.

In this study we contribute to this debate in three ways. First, building upon prior studies using a sociopolitical perspective (Fiss & Zajac, 2004; Westphal & Zajac, 1998; 2001; Zajac & Westphal, 1995; 2004), we examine how the varying preferences of major owners affect a firm's inclination to espouse a shareholder value orientation in a national context with an alternative logic. While prior research on institutional change has generally examined the influence of "insiders" (Fiss & Zajac, 2004; Maguire & Hardy, 2009), we investigate the impact of "outsiders" (cf. Ansari et al., 2010). We posit that a firm's referral to a shareholder value orientation is more likely to be stimulated from without, i.e., by powerful owners who can associate themselves technically and culturally with this alternative model, then from inside, i.e., by

powerful owners who identify themselves technically and culturally with the status quo in a particular corporation. Taking this into consideration, we expect that Anglo-American oriented investors and financial institutions will be primary instigators of the shift towards a shareholder value orientation in a stakeholder oriented context (Jürgens et al., 2000; Lane, 2003; Vitols, 2004; Yoshikawa et al., 2007).

Second, while the drivers of institutional change have been examined extensively in prior studies, the sources of a firm's refusal to refer to contested shareholder value practices have received scant attention. Scholars have noted that institutionalized practices are often highly resistant to change, as they are embedded in social phenomena such as national belief systems (Granovetter, 1985; Maguire & Hardy, 2009; Reay & Hinings, 2005) and reflect the distribution of power in societies (Jürgens et al., 2000; Lane, 2003; Yoshikawa & Rasheed, 2009). As a result, several scholars have argued that the shift towards the shareholder value model should not be overstated (Deakin, 2005; Morris et al., 2008), that symbolism plays an important role as companies might decouple espousal from implementation (Fiss & Zajac, 2004) and that the Anglo-American push towards a shareholder orientation may actually result in "hybrid models" in which core elements of the old logic are being preserved (e.g., Ponsard et al., 2005; Vitols, 2004; Yoshikawa et al., 2007; Yoshikawa & McGuire, 2008). To examine the resistance that contested beliefs might encounter, we extend our central argument by simultaneously incorporating inhibitors of change. Particularly, we illustrate that contexts in which practices diffuse are far from neutral (Ansari et al., 2010), i.e., they are often highly political (Cyert & March, 1963; Davis & Thompson, 1994). As such, we expect that the influence of "outsiders" will be constrained by macro and micro political factors.

Third, we contribute to contemporary literatures by analyzing and discussing the performance implications of a company's referral to the shareholder value model. While provocative statements such as "End shareholder value tyranny: Put the corporation first" (Raynor, 2008) and "So if others are stupid enough to do it [adopting a shareholder value orientation], that will only help North American businesses" (Mintzberg, 2000:38) suggest a negative relationship between the espousal a shareholder value orientation and performance in a stakeholder oriented context, there exists little empirical evidence. In fact, Fiss and Zajac (2006), as one of the few

studies, find a positive relationship between a firm's espousal and market performance. As the performance implications of espousal might be contingent on the extent to which contested practices are actually put into practice and are supported by the dominant coalition of major owners (cf. Fiss & Zajac, 2004; 2006), we also incorporate these effects in our analysis.

We conduct our research within the Netherlands, a small and open economy that is heavily reliant on the global economy. While prior research in this area has mainly focused on larger economies, such as Germany (Fiss and Zajac, 2004; 2006; Sanders and Tuschke, 2007; Tuschke & Sanders, 2003) and Japan (Jackson, 2003; Yoshikawa et al., 2007; Yoshikawa & McGuire, 2008), we expect that sociopolitical tensions and resulting struggles between "outsiders" and "insiders" will be closer to the surface in this setting, as companies are less buffered against international capital market pressures. In doing so, our study cautiously touches upon the question whether observed sociopolitical forces are idiosyncratic or whether they bridge national boundaries.

The remainder of this paper is structured as follows: section one briefly introduces the Dutch context and discusses its main particularities. In section two, using a sociopolitical perspective, we develop our hypotheses regarding the drivers and inhibitors of a company's espousal of a shareholder value orientation and its performance implications. Section three describes our methods, i.e., we use panel data on top-100 listed Dutch firms from 1992 to 2006 to assess their (non)response to international pressures for shareholder value. In section four we discuss the results emerging from our study and in section five we elaborate on our findings, their implications and avenues for future research.

6.2 The Dutch Corporate Governance Context

The roots of the contemporary Dutch open economy can be found in the glory days of the Golden Age (1600-1700). In this era, when the Netherlands were one of the largest trading nations, the Dutch founded the "Dutch United East India Company (VOC)", the first joint stock company in the world (Maassen, 1999). With a small group of large, internationally diversified firms and a GDP that is earned abroad for more than 60 per cent, the Dutch trade origins and its international orientation are still prominent.

The Netherlands are a welfare state with a long tradition of balancing the interests of societal groups. The Dutch corporate governance system is unique in the sense that company law explicitly defines publicly listed firms as legal entities that must take into account the rights of all stakeholders affected by the firm. The institutionalized stakeholder approach is supported by a two-tier board model consisting of a management board and a supervisory board. The supervisory board consists of non-executive directors to assure its independence and has the duty by law to supervise and advise the management board while acting in the best interests of the company and its stakeholders (Akkermans et al., 2007; De Jong et al., 2005; 2006; Hooghiemstra & Van Manen, 2004; Maassen & Van Den Bosch, 1999).

Within the Dutch institutionalized stakeholder model, it has been put forward that management basically holds “the control rights of the firm” instead of the shareholders (Van Ees et al., 2003:92; Van Veen & Elbertsen, 2008). Hostile takeovers have been rare for a long period (Groot, 1998; Kabir et al., 1997) and, until more recently, shareholders have not been pursuing their own agendas actively (Chirinko et al., 2004; De Jong et al., 2006). Three distinct features of the Dutch corporate governance system largely explain the entrenched position of management. First, while the market for corporate control is active in the United States and the United Kingdom (Lazonick & O’Sullivan, 2000), the Dutch market for corporate control used to be severely constrained by several anti-investor protection measures (Chirinko et al., 2004; De Jong et al., 2005; Kabir et al., 1997; Van Ees & Postma, 2005). Examples include preference shares and tradable depository receipts. Preference shares are shares with normal voting rights that can be issued against 25% of the nominal value to a “friendly” holder in case management feels threatened, thereby increasing their voting power for a limited period. Tradable depository receipts are shares with normal cash flow rights, but without any voting power, i.e., the voting rights reside with a trust office that is usually “friendly” to the board of directors.

Second, while dispersed ownership is common in the United States and the United Kingdom (La Porta et al., 1998), the Dutch context used to be characterized by large blockholdings by domestic institutional investors. In particular, financial institutions, such as banks, insurance companies and pension funds, used to have large ownership stakes in Dutch listed companies (Van Ees et al., 2003). Scholars have

proposed that their presence may alleviate agency problems that remain due to the (in)active market for corporate control, as institutional investors have the power and incentives to actively monitor managers in the light of the limited liquidity of their investments (Dharwadkar et al., 2008; Schnatterly et al., 2008; Shleifer & Vishny, 1986). The majority of these domestic institutional investors, however, used to have a rather “passive attitude” (De Jong et al., 2005:482) and has been characterized as “long-term, patient investors” (Chirinko et al., 2004:125). The rather passive attitude of institutional investors is illustrated by low attendance rates at annual general meetings of shareholders and the limited number of rejected proposals which were sponsored by the management (cf. De Jong et al., 2006).

Third, the entrenched position of managers is supported by a small elite community of board members, referred to as the “old-boys network”, which used to occupy a central position in the Dutch network of board interlocks. In particular, the top-three listed banks (ABN Amro, Fortis and ING) played a central role in this network during the nineties (Bezemer et al., 2007; Heemskerk et al., 2003). Elite membership was often associated with highly prestigious functions in societal interest groups and membership of exclusive dining clubs (Heemskerk, 2007). An important characteristic of this elite has been their support for the institutionalized stakeholder model which resulted in various efforts to reinforce this model in the Dutch board-rooms.

So far, our discussion of the Dutch corporate governance context has illustrated the institutionalized nature of the stakeholder model in the Dutch society and the resulting entrenched position of managers. However, over the last decade, Dutch financial markets have seen dramatic changes. The globalization and liberalization of the financial market, (self)regulatory initiatives, corporate governance scandals and societal pressure have led to broadened shareholder rights, increased shareholder activism, abolished anti-investor protection devices and disintegrating managerial elite networks (Bezemer et al., 2007; Heemskerk et al., 2003; Heemskerk, 2007; Van Veen & Elbertsen, 2008). Among others, these developments have contributed to pressure on the institutionalized stakeholder model and to increasing commonalities between the one-tier board model and the two-tier board model (Collier & Mahbub, 2005; Maassen & Van Den Bosch, 1999). It is in this evolving research

setting that we to aim to enhance our understanding of the spread of a shareholder value orientation among large listed firms in a small and open economy.

6.3 Theoretical Framework

Over the last decade, a growing body of research on institutional change has emphasized the importance of sociopolitical processes driving the diffusion of organizational practices (Fiss & Zajac, 2004; Westphal & Zajac, 1998; 2001; Zajac & Westphal, 1995; 2004), i.e., companies do not only need to deal with demands from their technical environments, but also with demands from their cultural environments. Accordingly, the interpretations of organizational and societal actors about “the way things are” and “the way things are to be done” (Scott, 1987:496; Suchman, 1995) have a significant imprint on their responses to new beliefs, logics and practices. In fact, corporations may adopt practices, structures or strategies for motives of societal legitimacy rather than efficiency (Davis, 1991; Meyer and Rowan, 1977; Westphal & Zajac, 1994) or even with the knowledge that the practice, structure or strategy is technically inefficient (Abrahamson & Rosenkopf, 1993; Yoshikawa & Rasheed, 2009). Moreover, scholars have shown that symbolism, i.e., espousing the adoption of new normative beliefs without implementing them, may already generate market reactions, because prevailing financial market logics also tend to be socially constructed (Westphal & Zajac, 1998; Zajac & Westphal, 2004).

Given that corporate practices are embedded in social phenomena such as national belief systems (Granovetter, 1985; Reay & Hinings, 2005; Witt & Redding, 2009) and reflect the distribution of power in societies (Jürgens et al., 2000; Lane, 2003; Yoshikawa & Rasheed, 2009), the sociopolitical perspective posits corporate control as the outcome of the struggle between varying preferences and motivations of involved actors. While several actors have an interest to be involved in this process (Jensen & Warner, 1988; Yoshikawa & Rasheed, 2009), in particular, controlling shareholders have incentives to participate in the light of the limited liquidity of their investments (Dharwadkar et al., 2008; Schnatterly et al., 2008; Tuschke and Sanders, 2003). Accordingly, several studies have indicated that the dispositions of major owners are reflected in a firm’s value orientation. For example, Brouthers et al. (2007) describe that government ownership has a significant imprint on a company’s strategic

orientation and managers' leadership style. Furthermore, Fiss and Zajac (2004) illustrate that varying preferences of major domestic owners influenced the espousal of a shareholder value orientation among German firms. In the next section, we build on this argument while discussing the varying predispositions major owners may have towards contested institutional change.

6.3.1 Technical Fit, Cultural Fit and Contested Institutional Change

With regard to the spread of the shareholder value model, we expect that a firm's espousal is most likely to be stimulated from without, i.e., by powerful owners who identify themselves technically and/or culturally with the shareholder value model. They may stimulate the adoption in several ways. First, these owners might acquaint a firm with alternative logics, mental models and norms, thereby educating managers about the merits of the shareholder value model (cf. Elsbach & Kramer, 1996; Hillman et al., 1999; Maguire & Hardy, 2009; Sanders and Tuschke, 2007). Second, these owners might put more pressure on managers to reflect on their current logics, mental models and norms, and to pay more attention to the creation of shareholder value (Jürgens et al., 2002; Vitols, 2004; Yoshikawa et al., 2007). Accordingly, Kraatz & Moore (2002) argue that the entrance of a powerful actor with a different background is often necessary to overthrow prevailing institutions. Third, managers might monitor the ownership composition of their company and symbolically or substantively react to meet the expectations of their (new) owners and reassure their long-term commitment (Fiss & Zajac, 2004; Lane, 2003).

However, while outsiders might have the willingness and incentives to act as a change agent, they may encounter embedded norms and values, and power constellations that are highly resistant to change (Maguire & Hardy, 2009; Yoshikawa & Rasheed, 2009). In particular, "insiders" might have an interest in resisting the spread of contested beliefs (Anand & Peterson, 2000; Fiol and O'Connor, 2002; Munir, 2005). As contested change resembles the disruption of taken for granted norms, values and practices, it often tends to threaten the vested interests and identities of insiders (Fiol & O'Connor, 2002; Greenwood & Suddaby, 2006; Hannan et al., 2006). Some scholars have highlighted that insiders may also function as champions of change (Lane, 2003; Maguire & Hardy, 2009) as they have a better understanding of how to apply and adapt new practices in the prevailing institutional context

(Greenwood et al., 2002; Lee & Pennings, 2002). Insiders, however, have generally been associated with resistance to change (Pardo Del Val & Martinez Fuentes, 2003). Accordingly, we expect that a firm's espousal is most likely to be opposed from the inside, i.e., by owners who identify themselves technically and/or culturally with the status quo in a particular firm and its governance practices.

Following prior work on the diffusion of practices (Ansari et al., 2010; Zeitz, et al., 1999), two different accounts can be given for the identification of major owners with the shareholder value model: a technical and a cultural one. Regarding the first account, scholars have referred to the shareholder value model in technical terms, i.e., as an "instrument of corporate control" (Pfeffer, 2000:68) and as a "product and promise that purposive management action will be rewarded" (Froud et al., 2000:80). Originating from the field of economics, the shareholder value model emphasizes the profit-maximizing function of a firm and is generally associated with legitimacy in global financial markets (cf. Aglietta, 2000; Ghoshal, 2005; Khanna & Palepu, 2004; Lazonick & O'Sullivan, 2000; Mintzberg et al., 2002). Given the roots of the shareholder value model, financial institutions should be more predisposed towards the espousal of a shareholder value orientation, as managers in these companies daily operate in line with the market logic. Not surprisingly, recent evidence suggests that private equity and hedge funds are among the frontrunners striving for a stronger emphasis on shareholder value in financial markets around the globe (Brav et al., 2008; Clifford, 2008; Kahan & Rock, 2007; Klein & Zur, 2009). While financial institutions, as "technical outsiders", may be most inclined to stimulate change, two groups of "technical insiders" might be particularly resistant to their initiatives. First, non-financial corporations might oppose pressures for shareholder value, as they may have a better understanding of the risks and implications associated with a disruptive change in the value orientation of a company (Fiol & O'Connor, 2002; Hannan et al., 2006). Furthermore, non-financial corporations might also anticipate contagion effects in their own context, i.e., they might expect to become the next "target" if the new logic increasingly gets a foothold. Second, family blockholders might resist change, as the long-term survival and prosperity of the family seems to be at odds with short-term shareholder value. Accordingly, scholars have illustrated that family owners often have a more

traditionalist, long-term orientation and often act as “protective stewards” of a firm (Atkinson & Galaskiewicz, 1988; Fiss & Zajac, 2004:509). In conclusion, using a sociopolitical perspective, the technical account suggests that a firm’s espousal of a shareholder value orientation is the product of the balance of power between technical outsiders and technical insiders. More formally, this suggests the following hypothesis:

Hypothesis 1: A firm is more likely to espouse a shareholder value orientation when the technical fit between a firm’s major owners and this orientation is larger.

A second stream of research has referred to the shareholder value model in cultural terms, arguing that this model is deeply embedded in national economic systems, i.e., in the ways in which actors derive their identity within a national context (Zeitzi et al., 1999) and give meaning to the public corporation and its main purposes (Ansari et al., 2010). Particularly, literature on economic nationalism suggests that the differences between nations are quite profound and persistent (e.g., Jordana et al., 2006; Levi-Faur, 1997) and that domestic actors are likely to respond to foreign contested practices by “strong assertions of national differences and identity” (Yoshikawa & Rasheed, 2009:394). Therefore, in the context of the spread of a shareholder value orientation, we expect that “cultural insiders”, i.e., major owners that have applied the stakeholder model in their own domestic context, will strongly oppose the new logic. Being confronted with a new logic that threatens their vested interests, identities and taken-for-granted norms and values, these owners are most likely to act as “protective stewards” of the traditional stakeholder logic. Conversely, we expect that “cultural outsiders”, i.e., owners from abroad that have the shareholder value logic as taken for granted in their domestic context, might, in particular, contribute to this development. They may educate managers by sharing their experiences with the alternate logic or force managers to reflect on the appropriateness of the current logic (Sanders & Tuschke, 2007; Yoshikawa et al., 2007). As the shareholder model has its historical origins in the United States (cf. Lazonick & O’Sullivan, 2000) we expect that Anglo-American oriented major owners will be prime propagators of the shift towards a shareholder value orientation. In conclusion, using a sociopolitical perspective, the cultural account suggests that a company’s espousal of a shareholder value orientation

is the product of the balance of power between cultural outsiders and cultural insiders. More formally, this suggests the following hypothesis:

Hypothesis 2: A firm is more likely to espouse a shareholder value orientation when the cultural fit between a firm's major owners and this orientation is larger.

6.3.2 Political Fit - Micro Level

The push for a shareholder value orientation by cultural and technical outsiders might not only be threatening to other major owners, but also to other organizational actors. Scholars have noted that the contexts in which practices diffuse are far from neutral (Ansari et al., 2010) and often highly political (Cyert & March, 1963; Davis & Thompson, 1994). As a result, major owners for change might encounter internal political resistance. With regard to the shareholder value model, the new logic may, in particular, endanger the position of top managers. For decades they have operated according to taken for granted logics of the stakeholder model, and the new logic basically implies that they are expected to relinquish a part of their discretion and power to the market.

Scholars, however, have noted that managers' sensitivity to external pressures depends on the extent to which they have managed to obtain an entrenched position (Jiraporn & Chintrakarn, 2009; Mahoney & Mahoney, 1993; Sundaramurthy, 2000), i.e., the extent to which they possess "the control rights of the firm" (Van Ees et al., 2003:92). Due to the separation of ownership and control in public companies, managers have a certain amount of discretion to determine a company's direction and, as a result, leeway to act opportunistically (Eisenhardt, 1989; Fama & Jensen, 1983; Jensen & Meckling, 1976; Shleifer & Vishny, 1997). Scholars have noted that managers may further strengthen their position by adopting takeover defenses (Kabir et al., 1997; Jiraporn & Chintrakarn, 2009; Mahoney & Mahoney, 1993), smoothing a firm's income streams and colluding with non-shareholder stakeholders (Surroca & Tribo, 2008). While the performance implications of managerial entrenchment are topic of debate, a growing body of literature shows that it often comes at the expense of the shareholders (Florackis & Ozkan, 2009; Hu & Kumar, 2004; Hughes et al., 2003; Sundaramurthy, 2000; Surroca & Tribo, 2008).

In the Dutch context, two entrenchment mechanisms might be of particular importance regarding the spread of the shareholder value model. First, scholars have noted that major ownership stakes by managers shield them from the market for corporate control (Gugler et al., 2008; Morck et al., 1988; Surroca & Tribo, 2008), i.e., it enables them to act more opportunistically as the chances of repercussion are much smaller (De Miguel et al., 2004). Moreover, ownership of managers may create a stronger bond with a firm and its stakeholders, which is often illustrated by a more traditionalist and long-term orientation (Atkinson & Galaskiewicz, 1988; Fiss & Zajac, 2004). Therefore, we expect that managers with major ownership stakes will be less inclined to sense and respond to pressures for shareholder value. This suggests the following hypothesis:

Hypothesis 3a (3c): The positive relationship between technical fit (cultural fit) and a firm's espousal of a shareholder value orientation is negatively moderated by major ownership stakes of its directors.

Second, in addition to holding major ownership stakes, managers in stakeholder oriented contexts can often alleviate capital market pressures via anti-investor protection measures (De Jong et al., 2005; Surroca & Tribo, 2008; Van Ees & Postma, 2005). As explained before, two widely applied devices in the Netherlands are preference shares and tradable depository receipts. While scholars have illustrated that anti-investor protection measures generally have a negative effect on a corporation's performance in the Dutch setting (Chirinko et al., 2004; De Jong et al., 2005; Kabir et al., 1997), Groot (1998) also showed that managers experience less short-term pressures when shielded by tradable depository receipts. Taken this into consideration, we expect that anti-investor protection devices will lessen a firm's inclination to respond to claims, made by technical and cultural outsiders, in favor of a shareholder value orientation. This suggests the following hypothesis:

Hypothesis 3b (3d): The positive relationship between technical fit (cultural fit) and a firm's espousal of a shareholder value orientation is negatively moderated by the presence of anti-investor protection measures.

6.3.3 Political Fit - Macro Level

Given that human action takes place in a broader, ongoing system of social relationships (Granovetter, 1985; Uzzi, 1997; 1999), a firm's (non)response to international pressures for shareholder value is also determined by a company's embeddedness in the domestic context, i.e., the extent to which a firm is infused with national values, norms and beliefs. Scholars have noted that the extent to which firms derive their identity from their national context differs (Oliver, 1991; Pfeffer & Salancik, 1978) and that, as a result, the risks and costs related with nonconformance to taken for granted national values, norms and beliefs vary. Moreover, the more that a firm's identity originates from a national context, the less likely will it be that a firm observes alternative models and logics, and will have a motive to pursue change (Greenwood & Suddaby, 2006).

With regard to the espousal of contested beliefs, two mechanisms might be particularly powerful in reinforcing national identities. First, Gamson et al. (1992:374) argue that "media messages can act as teachers of values, ideologies, and beliefs and that they can provide images for interpreting the world". As such they have a significant imprint on the ways in which both companies and stakeholders construct social reality and act upon it (Deephouse, 2000; Hooghiemstra, 2000; Hoynes & Croteau, 2005). As a result, firms that are highly visible in the domestic media might be more hesitant to refer to contested beliefs in response to pressure from technical and cultural outsiders, as they are more closely monitored by a variety of stakeholders and might be afraid of reputation losses. Accordingly, Fiss and Zajac (2006) illustrate that more visible corporations often weaken their espousal of a shareholder value orientation by also highlighting the interests of other stakeholders. Taken this into consideration, we expect that a firm's media exposure will lessen the influence of outsiders on the value orientation of a corporation. More formally, this suggests the following hypothesis:

Hypothesis 4a (4c): The positive relationship between technical fit (cultural fit) and a firm's espousal of a shareholder value orientation is negatively moderated by attention for the firm in the national media.

Second, while a large body of research has shown that board networks contribute to the diffusion of practices (Davis, 1991; Davis and Greve, 1997; Haunschild, 1993; Palmer et al., 1993; Sanders & Tuschke, 2007), others have highlighted that these networks create and shape social identities (Ibarra et al., 2005). Through interaction with other directors, norms, values and beliefs are conferred that influence the images directors have of themselves, and their corporation and its environment. In this regard, Westphal and Khanna (2003) have illustrated that US directors conveyed norms and values regarding appropriate board behavior through board ties, and reinforced them through punishing non-conforming directors. Particularly, the more central organizations and actors may be involved in this process, as they are more aware of the prevailing logics and have a larger interest in maintaining the status quo (Greenwood & Suddaby, 2006). Taken this into consideration, we expect that more central companies, in a board network in which norms and values associated with the stakeholder model predominate, will have stronger incentives to oppose technical and cultural pressures for change. This suggests the following hypothesis:

Hypothesis 4b (4d): The positive relationship between technical fit (cultural fit) and a firm's espousal of a shareholder value orientation is negatively moderated by a firm's centrality in the domestic board network.

6.3.4 Performance Implications

While the introduction of the Anglo-American shareholder model in stakeholder oriented contexts has been criticized extensively (cf. Freeman et al., 2004; Froud et al., 2000; Ghoshal, 2005; Mintzberg, 2000; Raynor, 2008), the empirical evidence regarding the performance implications is rather mixed. On the one hand, scholars have highlighted that identity changes are hazardous (Hannan et al., 2006) and that the espousal of a shareholder value orientation is associated with disturbed labor and industrial relationships (Lane, 2003), underinvestment and a short-term optimization of a firm's performance (Ghoshal, 2005; Mintzberg et al., 2002; Stadler et al., 2006). On the other hand, scholars have reported that stakeholder and shareholder oriented corporations perform evenly well (Omran, et al., 2002) and that the espousal of a balanced version of a shareholder value orientation results in positive abnormal returns (Fiss & Zajac, 2006).

In this study, we posit that the espousal of a shareholder value orientation will have a positive impact on a firm's financial performance, because "associations around value creation are powerful, because they suggest focused, effective management, delivering improved performance in the interests of shareholders" (Froud et al., 2000:85). By referring to shareholder value, listed companies may signal their commitment to the interests of shareholders and, as such, enhance their legitimacy in international capital markets and become a more attractive investment target. Moreover, espousing companies may be more focused on the bottom line as they might be more sensitive to the preferences and wishes of shareholders, being the actors that have the strongest incentives to maximize total firm value as residual claimants (Mintzberg et al., 2002; Sundaram & Inkpen, 2004). Given the signaling function of the espousal of a shareholder value orientation and criticism that this orientation might hurt other elements of a firm's performance, we expect that the positive performance implications will be the strongest for a firm's market returns. More formally, this differential effect on performance suggests the following hypothesis:

Hypothesis 5a: The positive performance effect of the espousal of a shareholder value orientation will be larger for market returns than for accounting returns.

While a growing body of literature points out that the symbolic adoption of practices (i.e., referring to practices without implementing them) might already generate abnormal returns (Westphal & Zajac, 1994; 1998; Zajac & Westphal, 2004), the actual implementation of practices might further improve a company's performance. The shareholder value model has often been associated with practices such as stock option compensation schemes, buy-back programs, value-based management tools, and internationally accepted accounting standards (cf. Fiss & Zajac, 2004; Froud et al., 2000; Jürgens et al., 2000; Lazonick & O'Sullivan, 2000; Zajac & Westphal, 2004). Although the performance implications of these practices are topic of debate in stakeholder oriented contexts (Fiss & Zajac, 2006; Tuschke & Sanders, 2003), their implementation may signal to the global capital markets that a company's directors are dedicated to put their money where their mouth is, thereby publicly displaying their inclination to serve shareholders' interests and confirming their efforts to align their

own goals with those of shareholders. Accordingly, we expect that corporations that both espouse and implement a shareholder value orientation will obtain higher performance returns than companies only referring to it. More formally, this suggests the following hypothesis:

Hypothesis 5b: The positive relationship between a firm's espousal of a shareholder value orientation and financial performance (market and accounting returns) is positively moderated by the implementation of practices associated with this orientation.

Furthermore, the positive performance implications of the espousal of a shareholder value orientation may be affected by the extent to which it aligns the goals of shareholders and managers. Notwithstanding the likelihood that major cultural and technical outsiders might stimulate the espousal of a shareholder value orientation (see hypotheses 1 and 2), there is a question of how well the orientation of managers resonates with the preferences of these major owners (Fiss & Zajac, 2004). In other words, when companies engage in contested institutional change while major owners, either technically or culturally, are unprepared to support such a change, we expect that it will be more difficult to produce the intended performance improvements. By providing the *wrong* signal to current major shareholders, managers might jeopardize their support and disturb their relationship with them. Furthermore, companies might get stuck in the middle, as scholars have noted that the presence of multiple goals and expectations leads to confusion, friction and indecisive decision-making (Jensen, 2001; Sundaram & Inkpen, 2004). In conclusion, this suggests the following hypothesis:

Hypothesis 5c (5d): The positive relationship between a firm's espousal of a shareholder value orientation and financial performance (market and accounting returns) is negatively moderated by a lack of technical fit (cultural fit).

6.4 Methods

The empirical research focuses on the top-100 listed corporations at the Euronext Stock Exchange in Amsterdam during the period 1992-2006. The top-100 listed companies were selected based on their average market capitalization and sales. Given new entrants, mergers and acquisitions, bankruptcies and delistings, 201 companies

made it to either one of the lists during the observation window. Of these, 17 firms were excluded as their annual reports were unavailable. Overall, this resulted in an unbalanced panel of 184 listed firms for which a total of 1414 complete firm-year observations were available during the period 1992-2006. Together, these firms represent seven industries (construction, manufacturing, transport and communication, wholesale, retail, financial services, and other services) and constituted the backbone of the Dutch economy during this time. While several companies already espoused a shareholder value orientation in 1992, the availability of annual reports and data on their ownership structure restricted us from further going back in time and capturing the dynamics during the initial phase.

6.4.1 Dependent Variables

In this study, we use two dependent variables: the espousal of a shareholder value orientation and a firm's financial performance. Following prior research (Fiss & Zajac, 2004; 2006), data on the espousal of a shareholder value orientation were collected through a content analysis of companies' annual reports (Coffey & Atkinson, 1996; Krippendorff, 2004), still one of the major corporate tools in use to communicate with shareholders in the Dutch context. As such, the language used inside these reports regarding shareholder value will be an important reflection of managerial predispositions towards this "normative governance paradigm" (Fiss & Zajac, 2004:512; Pye, 2002) and of the way in which a company publicly presents itself to the capital markets. Two independent raters, both native speakers, coded the available 1414 annual reports by searching for the terms "*shareholder value*" and its Dutch equivalent ("*aandeelhouderswaarde*"). There appeared to be a high overlap in the ratings of the coders: the percent agreement (96.2%) and Cohen's Kappa (0.924) were both above the acceptance threshold (Cohen, 1960; Dewey, 1983). Table 6.1 provides illustrative examples of statements indicating espousal in the Dutch context.

Table 6.1: Examples of Espousal of a Shareholder Value Orientation

Wessanen (1999:1): “Our key objective is to increase shareholder value (...). Wessanen’s goal in the coming five years is to realize at least 10% profit growth annually, resulting in a related structural increase in shareholder value (...). The key theme throughout our activities is creating shareholder value. This has been embedded in the organization through our value based management system (...). We will continue to improve the strategic positions of our business groups and of Wessanen as a whole. Our aim to increase shareholder value, both in the short and the long term will be the cornerstone of our strategy”.

KLM (2001:5): “Its goal is to be the first-choice passenger and cargo airline and provider of maintenance services while consistently enhancing shareholder value, providing a stimulating and dynamic working environment and participating in mutually beneficial relationships with its partners”.

AEGON (2006:47): “Going forward, we will continue to identify opportunities in emerging markets that offer growth potential consistent with AEGON’s requirements of long-term profitability and the creation of shareholder value”.

To investigate the performance implications of the espousal of a shareholder value orientation, we use two widely used performance indicators: return on assets (ROA) and total shareholder return (TSR). ROA is one of the most often used accounting-based measures of performance that provides insight in the shorter term, historical profitability of a company (Anderson et al., 2004; Thomsen & Pedersen, 2000). TSR is one of the most often used market-based measures of performance that also incorporates the long-term profitability expectations (Anderson et al., 2004; Fiss & Zajac, 2006). The financial data were collected via the databases Thomson One Banker Worldscope and Reach. As ROA and TSR might be influenced by the industry in which a firm operates (Tuschke & Sanders, 2003), we also calculated the industry-adjusted ROAs and TSRs. As we obtained similar results, we only report the unadjusted measures.

6.4.2 Independent Variables

Data on ownership by cultural and technical outsiders and insiders were collected via the “Handboek Nederlandse Beursfondsen”, an annual publication that provides an overview of the major owners of Dutch listed companies. According to the “Law on

the Disclosure of Shareholdings”, these firms are legally obliged to disclose ownership stakes above 5.0% to the regulator of the Dutch financial markets (AFM). Ownership by cultural outsiders was calculated by summing up the blockholdings by major owners from contexts in which the shareholder value model is generally accepted, i.e., the United States and the United Kingdom (e.g., Cernat, 2004; Groot, 1998; Lazonick & O’Sullivan, 2000). Ownership by cultural insiders was calculated by summing up the blockholdings by major owners from Continental European countries, i.e., shareholders that have the strongest association with the Dutch stakeholder oriented model. Subsequently, ownership by technical outsiders was calculated by summing up the major blockholdings by financial institutions (e.g., hedge funds, private equity firms and investment funds), owners are used to apply the economic logic associated with the shareholder value model (e.g., Fiss & Zajac, 2004; Lazonick & O’Sullivan, 2000). Banks were omitted from this category as these firms may be hesitant to support initiatives that put more emphasis on short-term profits, as this might jeopardize their other financial interests (Fiss & Zajac, 2004; Van Ees & Postma, 2004). Ownership by technological insiders was determined by summing up the major blockholdings by non-financial corporations and family ownership, i.e., owners that can identify themselves, for a variety of reasons, with a corporation’s business. As the concept of power is core to our arguments and the rights of major owners increase when certain ownership thresholds are reached, we use the same ordinal measure as Fiss & Zajac (2004; 2006): 0 if that category owned less than 5.0%, 1 if that category owned more than 5.0% but less than 25.0%, 2 if that category owned more than 25.0% but less than 50.0%, 3 if that category owned more than 50.0% but less than 75.0%, and 4 if that category owned more than 75.0%. Finally, we subtracted the scores of cultural and technical insiders from those of cultural and technical outsiders respectively, to obtain our scores for cultural and technical fit.

In this study, managerial entrenchment by a firm’s directors was measured by two indicators. First, scholars have noted that ownership by directors shields them from the market for corporate control (e.g., Gugler et al., 2008; Morck et al., 1988; Surroca & Tribo, 2008). Data on managerial ownership were obtained from the “Handboek Nederlandse Beursfondsen”, and checked and complemented by data from annual reports. As managerial power is central to our arguments, we applied the same

ordinal transformation as previously described. Second, scholars have noted that anti-investor protection devices alleviate pressures from the market for corporate control (De Jong et al., 2005; Surroca & Tribo, 2008). We created a dummy variable for the presence of either preference shares and/or tradable depository receipts, two widely applied devices in the Dutch context.

A firm's embeddedness in the national context was measured by two indicators. First, following Fiss & Zajac (2006), media attention was measured by a count variable of the number of Dutch newspaper articles containing the name of a particular company. Data were collected from the four largest daily newspapers in the Netherlands: "De Volkskrant", "Het Algemeen Dagblad", "Het NRC Handelsblad" en "De Telegraaf". Together these newspapers embody the whole sociopolitical variety of the Dutch context, ranging from relatively left-winged ("De Volkskrant") to relatively right-winged ("De Telegraaf") sociopolitical stances. All data were obtained via de database LexisNexis and databases of public libraries, and our search yielded more than 350,000 hits during our observation window. We conducted a principal component analysis and all four newspapers positively loaded on a single factor which explained 88% of the variance (Cronbachs' $\alpha = .86$). As the resulting count variable for media attention turned out to be heavily skewed, we used its natural logarithm in our analyses. Second, national board network centrality was calculated by counting the number of direct board ties with other Dutch listed firms, a measure that is often used as an indicator of power (Mariolis & Jones, 1982; Wasserman & Faust, 1994). The data were obtained from the "Handboek Nederlandse Beursfondsen" and the "Spencer Stuart Netherlands Board Indexes" that contain information on directors who occupied positions on boards and TMTs in the Netherlands during the period 1992-2006. As this distribution was skewed, we used its logarithm in our analyses.

Finally, the implementation of a shareholder value orientation was measured by a formative scale of four practices that have often been associated with such a logic: share buy-back programs, stock option compensation schemes, value-based management tools and internationally accepted accounting standards (Aglietta, 2000; Fiss & Zajac, 2004; 2006; Froud et al., 2000; Jürgens et al., 2000; Lane, 2003; Lazonick & O'Sullivan, 2000; Sanders & Tuschke, 2007; Thomsen, 2003; Zajac & Westphal, 2004). All practices either align the interests of managers and shareholders

or provide benefits to shareholders such as more transparency or a stronger focus on economic value. All data were collected through a content analysis of the annual reports. Two other independent raters, both native speakers, coded the available 1409 annual reports by searching for terms related to these four practices. There appeared to be enough overlap in the ratings of the two coders: the percent agreement varied between 85.6% and 96.3%, and the Cohen's Kappa's ranged from 0.712 to 0.925 for the varying practices.

6.4.3 Control Variables

By including various additional variables, we controlled for possible confounding effects. As scholars have suggested that the diffusion of the shareholder value model is driven by capital- and product-market pressures (Aglietta, 2000; Khanna & Palepu, 2004; Lazonick & O'Sullivan, 2000), we included a firm's debt-to-equity ratio, using the amount of equity raised externally (cf. Fiss & Zajac, 2004). Furthermore, we included the ratio of foreign-sales to total sales to control for international product-market pressures, i.e., by operating abroad firms may become more sensitive to alternate corporate governance models and/or more acquainted with the merits of these models (Sanders & Tuschke, 2007). Finally, as the espousal of a shareholder value orientation might also depend on the dynamics of the market for corporate control, we included the percentage of dispersed shares to control for the disciplining role this market might fulfill (cf. Fiss & Zajac, 2004).

Scholars have also noted that prior experience with contested practices increases the likelihood that a company will adopt another contested practice (Sanders & Tuschke, 2007; Zajac & Westphal, 2004). Related, the referral to the shareholder value model may, in fact, be part of an emergent strategy, i.e., a company's post-hoc rationalization of the implementation of practices that are associated with a shareholder value orientation (i.e., stock option schemes, share buy-back programs, value-based management tools and internationally accepted accounting standards). To control for this possible effect, we included a count variable capturing a firm's prior experience with these practices.

Finally, we added several firm level controls. First, as larger companies might be less dependent on the financial markets and, as a result, perceive less short-term pressures (Groot, 1998), we included the natural logarithm of the total sales during a

year. Second, poorly performing firms might be more inclined to espouse a shareholder value orientation to restore their public reputation. Therefore, we added a lagged measure of TSR and ROA to our models. Third, prior studies have shown that older corporations may have higher cumulative experience enhancing change; however, they might also encounter problems in keeping abreast with new developments (Sorensen and Stuart 2000). We included firm age which was operationalized as the number of years passed after founding to control for these age effects. Fourth, while Dutch listed companies usually operate a two-tier board, several of them have adopted the one-tier board, i.e., a structure that is more common around the globe. As these firms may be more responsive to international developments, we included a dummy variable capturing the (non)presence of a two-tier board. Fifth, to account for industry-specific and time-specific effects, we included dummy variables for the company's two-digit BIK code (i.e., the Dutch equivalent of the SIC codes) and for the years of our observation window, in all our models. Given the large number of variables, the industry-specific and time-specific effects are not reported in the tables.

6.4.4 Analysis

To examine the antecedents of company's espousal of a shareholder value orientation, we employed random-effects logistic regression models, as our dependent variable is a dummy capturing (non)espousal (Maddala, 2005). A Hausman test indicated that the random-effects model is the appropriate choice to analyze our data ($\chi^2 = 17.99$; $df = 18$; $p > .05$). Furthermore, to examine the performance implications of the espousal of a shareholder value orientation, we ran several random-effects pooled time series regression models for ROA. A Hausman test showed that the random-effects model is the appropriate way to examine our data ($\chi^2 = 31.17$; $df = 27$; $p > .05$). To investigate the impact on a firm's TSR, we conducted several fixed-effects pooled time series regression models. A Hausman test indicated that this model was most appropriate ($\chi^2 = 78.09$; $df = 27$; $p < .05$). Finally, all the independent and control variables were one year lagged in our analyses.

6.5 Results

Using explicit statements referring to a shareholder value orientation in annual reports of the top-100 listed corporations in the Netherlands, Figure 6.2 illustrates the extent

to which these firms have espoused this orientation during the period 1992-2006. As depicted, a gradual and significant increase is visible, revealing the advance of this alternative orientation in a traditionally stakeholder oriented context: while 13% of the top-100 listed firms referred to the shareholder value model in 1992, 74% of them did in 2006.

Figure 6.2: Espousal of a Shareholder Value Orientation among Dutch Firms

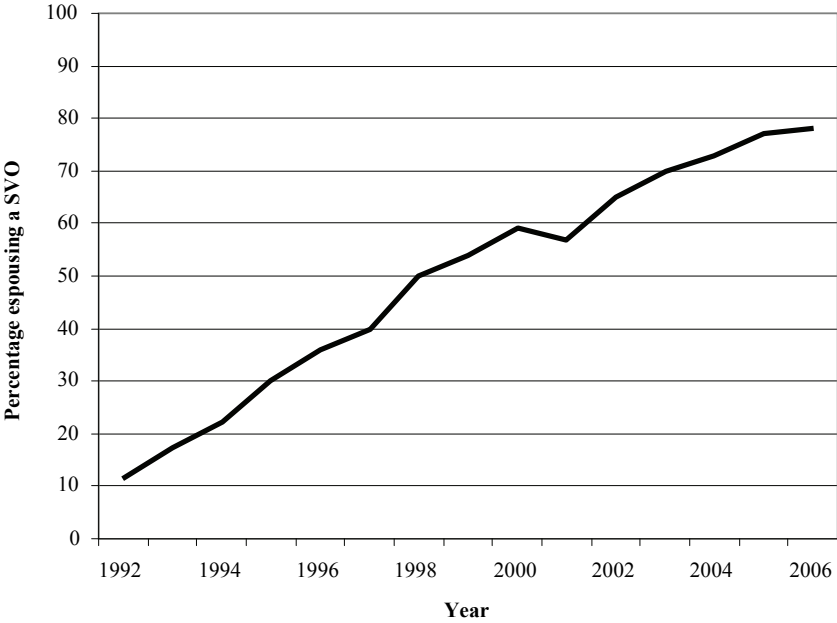


Table 6.3 provides an overview of the descriptive statistics of our panel of 184 listed firms in the Netherlands during the period 1992-2006. Table 6.4 reports the random effects logistic models predicting the espousal of a shareholder value orientation among listed firms in the Netherlands. The results generally support our view that a firm’s espousal of a shareholder value orientation is the result of the balance of power between *outsiders for change* and *insiders for the status quo*. In accordance with hypothesis 1, our empirical results indicate that the predominance of owners that can technically associate themselves with a shareholder value orientation (i.e., financial

institutions), increases the likelihood that a corporation will refer to this orientation. Moreover, in accordance with hypothesis 2, our findings also highlight that the predominance of owners that can culturally associate themselves with the shareholder value model (i.e., Anglo-American investors), positively influences a firm's inclination to espouse such an orientation. Taken together, these findings suggest that the spread of the shareholder value model is both a cultural and a technical phenomenon in the Dutch corporate governance context.

Furthermore, we find considerable support for the notion that the macro and micro political contexts in which contested beliefs diffuse have a constraining impact on the role of cultural and technical outsiders. Regarding the technical dimension, our results indicate that the positive relationship between technical fit and espousal is negatively moderated by a firm's exposure to the national media (hypothesis 4a). Simultaneously, we find that managerial ownership (hypothesis 3a), board protection devices (hypothesis 3b) and a firm's centrality in the national board network (hypothesis 4b) did not affect this relationship. Regarding the cultural dimension, our results highlight that the positive relationship between cultural fit and espousal is negatively moderated by a company's exposure to the national media (hypothesis 4c) and managerial ownership (hypothesis 3c). Furthermore, we did not find any significant influence of board protection devices (hypothesis 3d) and a company's centrality in the national board network (hypothesis 4d) on this relationship. In sum, these results highlight two important macro and micro level sources of resistance that actors may encounter while pursuing contested change.

Regarding the control variables, prior experience with practices associated with a shareholder value orientation positively influences the likelihood that a firm refers to this logic. This suggests that listed firms in the Netherlands, in contrast to a body of research on symbolic management (cf. Fiss & Zajac, 2004; Westphal & Zajac, 1994; 1998; Zajac & Westphal, 2004), seem to put their money where their mouth is. Moreover, it suggests that espousal may actually be part of an emergent strategy of listed corporations, i.e., that companies for strategic purposes decide to explicitly integrate already implemented practices in their rhetoric while communicating with global financial markets.

Table 6.3: Correlations and Descriptive Statistics

| | Mean | St. dev | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) |
|-------------------------------|--------|---------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| (1) Espousal of a SVO | .50 | .01 | | | | | | | | | | | | | | | |
| (2) Technical Fit | .23 | .04 | .14 | | | | | | | | | | | | | | |
| (3) Cultural Fit | -1.47 | .03 | .22 | .27 | | | | | | | | | | | | | |
| (4) National Media Attention | 3.58 | .04 | .25 | -.03 | .21 | | | | | | | | | | | | |
| (5) Nat. Network Centrality | 1.65 | .02 | .18 | .09 | .12 | .52 | | | | | | | | | | | |
| (6) TMT/Board Ownership | .31 | .02 | -.08 | -.26 | -.33 | -.12 | -.19 | | | | | | | | | | |
| (7) Board Protection Devices | .49 | .01 | .09 | .26 | .06 | -.05 | .06 | -.09 | | | | | | | | | |
| (8) Debt/Ext. market capt. | 275.30 | 57.40 | -.01 | -.08 | .02 | .05 | -.03 | .01 | -.03 | | | | | | | | |
| (9) Foreign sales/total sales | 50.14 | .81 | .16 | .08 | .16 | .18 | .20 | -.10 | .04 | .02 | | | | | | | |
| (10) Dispersed shares (%) | 61.83 | .69 | .14 | .24 | .68 | .28 | .25 | -.36 | -.02 | -.13 | .20 | | | | | | |
| (11) Prior implementation | 1.60 | .03 | .44 | .13 | .31 | .41 | .24 | -.12 | .03 | .01 | .22 | .24 | | | | | |
| (12) Log sales | 6.93 | .05 | .26 | -.03 | .16 | .70 | .61 | -.22 | .03 | .03 | .19 | .27 | .44 | | | | |
| (13) Leadership structure | .95 | .00 | -.08 | .07 | -.04 | -.20 | .00 | -.05 | .16 | .01 | -.05 | -.13 | -.20 | -.26 | | | |
| (14) Return on assets | 6.80 | .41 | -.04 | -.05 | -.07 | -.02 | .04 | .05 | -.01 | -.10 | -.04 | -.03 | -.04 | .09 | -.01 | | |
| (15) Total return | 18.15 | 1.18 | .02 | .02 | .01 | -.02 | -.05 | .00 | -.04 | -.11 | -.04 | -.01 | .00 | -.05 | .01 | .09 | |
| (16) Firm age | 72.48 | 2.54 | .08 | .03 | .06 | .05 | .13 | -.09 | -.01 | -.02 | -.00 | .09 | .07 | .09 | -.12 | -.04 | -.02 |

n = 1414. All correlations above |.05| are significant at p < .05 (two-tailed).

Table 6.4: Random Effects Logit Models Predicting Espousal of a Shareholder Value Orientation (n=1414)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Main Effects: Major Owners for Change | | | | | |
| Technical fit | | .10 (.10) | .49* (.25) | | .51* (.26) |
| Cultural fit | | .25* (.11) | | .22* (.12) | .24* (.12) |
| Moderators: Political Fit (macro-level) | | | | | |
| Technical fit * National media attention | | | -.10 (.07) | | -.12* (.07) |
| Technical fit * National network centrality | | | .05 (.10) | | .03 (.10) |
| Cultural fit * National media attention | | | | -.12* (.07) | -.12* (.07) |
| Cultural fit * National network centrality | | | | -.04 (.10) | -.02 (.10) |
| Moderators: Political Fit (micro level) | | | | | |
| Technical fit * TMT/Board Ownership | | | -.20* (.12) | | -.16 (.12) |
| Technical fit * Board Protection Devices | | | -.18 (.18) | | -.16 (.19) |
| Cultural fit * TMT/Board Ownership | | | | -.34* (.15) | -.31* (.16) |
| Cultural fit * Board Protection Devices | | | | .01 (.18) | .07 (.19) |
| Controls | | | | | |
| Debt/external market capitalization | -.00 (.00) | -.00 (.00) | -.00 (.00) | -.00 (.00) | -.00 (.00) |
| Foreign sales/total sales | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) |
| Percentage of shares dispersed | .01* (.01) | .00 (.01) | .01 (.00) | .00 (.01) | -.00 (.01) |
| TMT/Board ownership | -.03 (.19) | .02 (.19) | -.22 (.23) | -.36 (.25) | -.49 (.28) |
| National network centrality (log) | .31 (.18) | .30 (.18) | .32 (.18) | .29 (.18) | .30 (.18) |
| National media attention (log) | .03 (.13) | .03 (.12) | .04 (.13) | .07 (.13) | .08 (.13) |
| Prior implementation of a SV orientation | .60*** (.12) | .58*** (.12) | .59*** (.12) | .57*** (.12) | .57*** (.12) |
| Board Protection Devices | .10 (.26) | .07 (.26) | .06 (.27) | .13 (.26) | .09 (.27) |
| Leadership structure | -.09 (.87) | -.16 (.87) | -.04 (.87) | -.22 (.87) | -.19 (.87) |
| Log of sales | .21 (.12) | .24* (.12) | .21 (.12) | .22 (.12) | .22 (.12) |
| Return on assets | .00 (.01) | -.00 (.01) | -.00 (.01) | .00 (.01) | .00 (.01) |
| Total return | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) |
| Age | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) |
| Constant | -1.94 (2.04) | -1.21 (2.07) | -1.86 (2.04) | -1.01 (2.07) | -.91 (2.08) |
| Wald Chi-square | 214.4*** | 215.3*** | 214.3*** | 218.0*** | 217.4*** |
| D.f. | 33 | 35 | 38 | 38 | 43 |

* p<.05; ** p<.01; *** p<.001. Significance tests are one-tailed for directional hypothesis and two-tailed for control variables. All models control for industry and year effects. Standard errors are in parentheses. A LR-test revealed that the difference between the Wald Chi-squares of the control model and the full model is statistically significant (p=.04).

Table 6.5: Random Effects GLS Regression Models Predicting Accounting Performance (ROA)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|-------------------------------------|----------|----------|----------|----------|----------|
| Main Effect: | | | | | |
| Espousal of a SVO | | -.89* | | -1.00* | -.92* |
| Moderators (substance): | | | | | |
| Implementation of a SVO | | | | | |
| Espousal * implementation of a SVO | | | -.84** | | -.76* |
| | | | (.38) | | (.38) |
| | | | .85* | | .96* |
| | | | (.38) | | (.39) |
| Moderators (fit): | | | | | |
| Cultural fit | | | | .21 | .30 |
| | | | | (.31) | (.31) |
| Cultural fit * espousal of SVO | | | | -.39 | -.57 |
| | | | | (.42) | (.44) |
| Technical fit | | | | .27 | .33 |
| | | | | (.27) | (.27) |
| Technical fit * espousal of a SVO | | | | .80* | .76* |
| | | | | (.40) | (.40) |
| Controls: | | | | | |
| Debt/external market capitalization | .00 | .00 | .00 | -.00 | -.00 |
| | (.00) | (.00) | (.00) | (.00) | (.00) |
| Foreign sales/total sales | -.06 | -.01 | -.01 | -.01 | -.01 |
| | (.04) | (.02) | (.02) | (.02) | (.02) |
| Percentage of shares dispersed | .03 | -.03 | -.03 | -.04 | -.04 |
| | (.06) | (.02) | (.02) | (.02) | (.02) |
| National network centrality | -.92 | -.09 | -.18 | -.02 | -.11 |
| | (.87) | (.42) | (.42) | (.42) | (.42) |
| Log of sales | -.11 | -.11 | -.02 | -.09 | -.01 |
| | (1.03) | (.68) | (.70) | (.68) | (.69) |
| Leadership Structure | -1.20 | -1.64 | -1.34 | -2.06 | -1.84 |
| | (2.27) | (1.92) | (1.95) | (1.93) | (1.95) |
| Total return | .03*** | .03*** | .03*** | .03*** | .03*** |
| | (.01) | (.01) | (.01) | (.01) | (.01) |
| Age | .01 | .01 | .01 | .01 | .01 |
| | (.01) | (.01) | (.01) | (.01) | (.01) |
| Constant | 15.02 | 16.79* | 16.68 | 18.31* | 18.75* |
| | (10.49) | (8.56) | (8.64) | (8.42) | (8.52) |
| Wald Chi-square | 162.5*** | 175.7*** | 175.8*** | 186.4*** | 187.4*** |
| D.f. | 27 | 28 | 30 | 32 | 34 |
| Number of Cases | 1202 | 1202 | 1202 | 1202 | 1202 |

* p<.05; ** p<.01; *** p<.001. Significance tests are one-tailed for directional hypotheses and two-tailed for control variables. All models also control for industry and year effects (dummy variables). Robust standard errors are in parentheses.

6.6: Fixed Effects GLS Regression Models Predicting Market Performance (TSR)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Main Effect: | | | | | |
| Espousal of a SVO | | -1.36 (3.17) | -1.78 (3.16) | -1.98 (3.26) | -2.30 (3.25) |
| Moderators (substance): | | | | | |
| Implementation of a SVO | | 1.01 (2.20) | 1.01 (2.38) | | 1.01 (2.24) |
| Espousal * implementation of a SVO | | 1.77 (2.38) | | | 1.54 (2.47) |
| Moderators (fit): | | | | | |
| Cultural fit | | | | 2.17 (2.21) | 2.19 (2.21) |
| Cultural fit * espousal of SVO | | | | 1.51 (2.34) | 1.33 (2.42) |
| Technical fit | | | | 1.22 (2.11) | 1.40 (2.14) |
| Technical fit * espousal of a SVO | | | | .51 (2.40) | .30 (2.41) |
| Controls: | | | | | |
| Debt/external market capitalization | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) | .00 (.00) |
| Foreign sales/total sales | -.15 (.12) | -.16 (.12) | -.17 (.12) | -.16 (.12) | -.16 (.12) |
| Percentage of shares dispersed | -.33** (.11) | -.31** (.11) | -.31** (.11) | -.38*** (.12) | -.39*** (.12) |
| National network centrality | -3.05 (2.71) | -3.54 (2.73) | -3.51 (2.76) | -3.61 (2.76) | -3.60 (2.78) |
| Log of sales | -10.78** (3.59) | -11.19** (3.69) | -11.33** (3.69) | -10.67** (3.69) | -10.82** (3.68) |
| Leadership structure | -10.46 (14.94) | -11.97 (15.16) | -11.81 (15.34) | -11.86 (15.27) | -11.87* (15.42) |
| Return on assets | -.15 (.22) | -.15 (.22) | -.17 (.27) | -.17 (.22) | -.20 (.28) |
| Age | 1.98* (.91) | 2.19* (.89) | 2.10* (.94) | 2.10** (.90) | 2.01** (.95) |
| Constant | 2.07 (72.60) | -8.08 (71.13) | -3.76 (77.35) | 2.20 (72.55) | 7.37 (78.65) |
| Wald Chi-square | 22.65*** | 22.09*** | 20.16*** | 19.23*** | 17.78*** |
| D.f. | 21 | 22 | 24 | 26 | 28 |
| Number of Cases | 1205 | 1205 | 1205 | 1205 | 1205 |

* p<.05; ** p<.01; *** p<.001. Significance tests are one-tailed for directional hypothesis and two-tailed for control variables. All models also control for industry and year effects (dummy variables). Robust standard errors are in parentheses.

Table 6.5 provides our results for the random effects regressions predicting the accounting performance implications of the espousal of a shareholder value orientation. In contrast to hypothesis 5a, our results indicate that a firm's espousal has a negative impact on ROA, suggesting that the referral to contested beliefs is not beneficial to a corporation in a stakeholder oriented context. Furthermore, in accordance with hypothesis 5b, the main relationship between a company's espousal and ROA is positively moderated by the implementation of practices associated with the new logic. It is also noteworthy that implementation itself has a negative impact on ROA. In accordance with hypothesis 5c, we also find that technical fit positively moderates the relationship between the espousal of a shareholder value orientation and ROA. In contrast, we do not find any evidence that cultural fit similarly affects this relationship (hypothesis 5d). In sum, our findings illustrate that a firm's espousal has a negative impact on ROA, although this performance effect becomes less strong if coupled with visible commitments to the new orientation and if aligned with the technical preferences of major owners.

Table 6.6 reports our findings for the fixed effects regressions predicting the market performance implications of the espousal of a shareholder value orientation. Surprisingly, none of the relationships between a company's espousal and TSR is supported, suggesting that the market has been rather skeptical and unresponsive to the espousal and implementation of a shareholder value orientation in the Dutch context during the period 1992-2006.

6.6 Discussion and Conclusion

6.6.1 Results and Theoretical Implications

In this study we have examined the antecedents and consequences of the diffusion of a shareholder value orientation among listed companies in the Netherlands. First of all, our results highlight that beliefs regarding shareholder value have strongly affected the practices of listed firms in the Netherlands, i.e., while 13% of the top-100 listed firms referred to shareholder value in 1992, 74% espoused a shareholder value orientation in 2006. While scholars have argued that the movement towards the shareholder value model should not be overstated (Deakin, 2005; Morris et al., 2008) and that symbolism

plays an important role as corporations may decouple espousal from implementation (Fiss & Zajac, 2004), our empirical results highlight that companies practice what they preach, i.e., espousal is positively correlated with the prior implementation of practices associated with the shareholder value model. As such, this *deep compliance* suggests that espousal may actually be part of an emergent strategy of listed firms, i.e., that they for strategic purposes decide to explicitly integrate already implemented practices in their rhetoric while communicating with global financial markets.

Regarding the antecedents of contested institutional change, scholars have debated whether change is driven by the economic and technical benefits offered by new practices or by social factors, i.e., “the way things are” and “the way things are to be done” (Scott, 1987:496; Suchman, 1995). Our study highlights the influence of both the technical context, and the cultural and political contexts in which firms reside. Using a sociopolitical perspective, we found support for the notion that the balance of power between technical and cultural “outsiders for change” and “insiders for the status quo” explains the diffusion of contested beliefs in the Netherlands. Moreover, our empirical results indicate that the macro and micro political contexts in which beliefs diffuse has a significant imprint on the available maneuvering space of outsiders to stimulate contested change. Particularly, managerial ownership and a firm’s exposure to the national media limited the opportunities to stimulate a shareholder value orientation. As such, our study highlights that the technical, cultural and political dimensions of a firm’s context are intertwined and jointly shape a company’s response to pressures to adopt contested beliefs, such as the Anglo-American shareholder value model (cf. Ansari et al., 2010). Thereby, we bridge prior studies that have examined the diffusion of the shareholder value model either as a phenomenon driven by capital- and product-market pressures (cf. Aglietta, 2000; Khanna & Palepu, 2004; Lazonick & O’Sullivan, 2000) or by social and institutional processes (cf. Fiss & Zajac, 2004; 2006; Sanders & Tuschke, 2007).

Regarding the consequences of a company’s referral to a shareholder value orientation, our results support criticism that the adoption of this model hampers firm performance (Mintzberg, 2000; Raynor, 2008), i.e., espousing companies displayed a significantly weaker accounting performance than non-espousing firms. Interestingly, this negative relationship was positively moderated by the implementation of substan-

tive practices associated with the shareholder value model and the presence of technical fit between the composition of a firm's shareholder base and the shareholder value model. Nonetheless, these empirical findings suggest that almost all listed firms in the Netherlands have been unable to materialize on the referral to the contested shareholder value model. The observed negative relationship of prior implementation of practices associated with a shareholder value orientation adds to this. While this might support prior studies that have noted that beliefs and practices can still diffuse when they are technically inefficient (cf. Abrahamson & Rosenkopf, 1993; Yoshikawa & Rasheed, 2009), it might also indicate that only a very limited number of listed corporations may actually benefit from contested change. Future research could assess this notion by examining to which extent the timing of adoption (Tuschke & Sanders, 2003; Zajac & Westphal, 2004) and the tailoring of practices to the national context (Ansari et al., 2010; Fiss & Zajac, 2006; Yoshikawa & Rasheed, 2009) affect a firm's subsequent financial performance.

Finally, regarding the institutional context in which beliefs diffuse, our results tentatively indicate that profound national differences exist in company's responses to contested practices. While our study highlights that the diffusion of the shareholder value model has been stimulated from without in the Dutch context, Fiss and Zajac (2004) illustrate that major domestic owners for change initiated change in the German context. As both countries are exemplars of the Rhineland stakeholder model and use two-tier boards, the witnessed differences are quite striking. In particular, because the responses in the German context, in contrast to our Dutch findings, turned out to be more symbolic than substantive. Future multi-country studies could examine these differences more structurally, and compare and contrast the processes through which beliefs diffuse in various technical, political and cultural contexts (Aguilera et al., 2008; Ansari et al., 2010; Hambrick et al., 2008; Yoshikawa & Rasheed, 2009).

6.6.2 Managerial Implications

Our main empirical findings have two important implications for practitioners. First, the study highlights that the technical, political and cultural contexts in which listed firms reside, have a significant imprint on which corporate governance model "secures local hegemony" (Ansari et al., 2010; Rosenberg, 2005:177). Using a sociopolitical perspective, we have shown that both the heterogeneous preferences of major owners

and macro and micro political factors affect a corporation's (non)openness to contested corporate governance beliefs. While corporations might only have a limited amount of influence on these factors, listed firms can partially determine their own direction by attracting certain types of major owners, rewarding directors by means of stock options and stimulating domestic media exposure. Moreover, we have highlighted that the technical, cultural and political dimensions of a firm's context are intertwined and jointly affect the leeway that directors have in influencing a firm's direction. This suggests that optimizing a firm's positioning and choices along all three dimensions is essential in the wake of the spread of new contested corporate governance beliefs.

Second, while scholars have argued that the role of contextual factors is rather ill-understood in corporate governance research (cf. Aguilera et al., 2008; Filatotchev & Boyd, 2009; Hambrick et al., 2008), our study highlights the importance of these factors regarding the diffusion of contested beliefs. They do not only seem to affect a company's (non)espousal of a shareholder value orientation, but also the performance consequences. Our results suggest that a corporation's referral to a shareholder value orientation in a context with a competing logic, negatively influences its performance. Basically, this implies that directors should be very careful in transferring and applying new corporate governance beliefs in other contexts without critically analyzing their institutional fitness. Furthermore, foreigners should be aware of these context specificities while operating in an alternative institutional setting.

6.6.3 Limitations and Avenues for Future Research

The study has several limitations, but provides avenues for future research also. First, in this study we applied a *dichotomous approach*, i.e., we investigated why companies did or did not espouse a shareholder value orientation. Scholars, however, have noted that processes associated with the adoption of (contested) corporate governance beliefs often are more subtle (cf. Ansari et al, 2010). Studies have suggested that firms may actually adopt "hybrid models" in which new beliefs are adapted and tailored to the specifics of a company's context (Ponssard et al, 2005; Vitols, 2004; Yoshikawa et al., 2007; Yoshikawa & Rasheed, 2009). Applied to our study, this implies that we did not capitalize on the nuances in the rhetoric that listed companies use while espousing a shareholder value orientation in a stakeholder context (cf. Fiss & Zajac, 2006). Future research could investigate these more subtle diffusion processes and examine how these

processes vary over time (Ansari et al., 2010). In terms of methodology, it would also be interesting to apply more fine-grained tools to analyze a company's discourse, and observe boardroom discussions when a company's response to (contested) institutional change is being socially constructed.

Second, while our decision to investigate the diffusion of a shareholder value orientation in the Netherlands contributes to our understanding of communalities and differences between *institutional contexts*, it also constrains the generalizability of our findings. The Dutch context has several particularities (i.e., the two-tier board model, a focus on collective bargaining and an international orientation), that may have affected the observed diffusion pattern. In fact, the espousal of a shareholder value orientation might simply be a corporate strategy to satisfy Anglo-American investors and financial institutions as two important groups of stakeholders. Future studies could examine to which extent firms balance (i) their rhetoric by referring to other groups of stakeholders (cf. Fiss & Zajac, 2006) and (ii) their activities by implementing stakeholder oriented practices (e.g., social responsibility reports and non-financial performance targets tied to executive remuneration) (cf. Harrison et al., 2010).

Third, the *observation window* in this study covers the period 1992-2006 as the availability of annual reports and data on firms' ownership structures restricted us from further going back in time. As a result, we were not able to capture the dynamics during the initiation phase, i.e., why the first 11% of firms adopted a shareholder value orientation. Moreover, over the last years the Anglo-American shareholder value model has progressively been criticized in the wake of the global financial crisis, i.e., a journalist in the United States even referred to it as "The revenge of Karl Marx" (The Atlantic, 2009). While the burst of the internet bubble and corporate governance scandals around the beginning of this century only resulted in a temporal decline in the diffusion of a shareholder value orientation in the Netherlands (see Figure 6.2), the backlash resulting from the current global financial crisis may be more significant. Future research could examine how listed firms relate to contested beliefs in periods of financial crisis.

6.6.4 Concluding Remarks

In this study we have examined in-depth how the corporate governance landscape in the Netherlands has substantively changed as a result of pressures for a shareholder value

orientation. Particularly, we have highlighted that the technical, cultural and political contexts in which listed corporations reside, have a significant imprint on the diffusion of contested beliefs, such as a shareholder value orientation in a stakeholder oriented context. Contextual factors do not only influence a company's inclination to (non)adopt a shareholder value orientation, they also have an impact on the performance implications of a company's (non)espousal. This suggests that directors should be careful in transferring and applying new corporate governance beliefs in other contexts without critically analyzing their institutional fitness (cf. Ansari et al., 2010).

To conclude, it may be interesting to examine whether the observed development in the Netherlands is part of a two-way convergence of governance models, i.e., to investigate whether Anglo-American oriented firms have also started to incorporate elements of the stakeholder value model in response to the internationalization of their shareholder base and the global financial crisis. Preliminary evidence suggests that Anglo-American oriented countries are indeed slowly moving in the direction of the stakeholder model (cf. Thomsen, 2003; Yoshikawa & Rasheed, 2009). For instance, the latest version of the UK company law emphasizes that the public corporation should operate in the best interest of all stakeholders. As the diffusion of corporate governance models is an ongoing process, the future will show to which extent national differences will persist and to which extent governance models will converge. We believe that our theoretical perspective on diffusion, with its emphasis on the joint impact of technical, cultural and political factors, is supportive in understanding where and when contested corporate governance change is more likely to happen.

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Chapter 7: Discussion and Conclusions

7.1 Introduction

We started this thesis by noting that differences in corporate governance practices are quite profound across nations (Aguilera & Cuervo-Cazurra, 2004; Aguilera et al., 2008; Witt & Redding, 2009; Zattoni & Cuomo, 2008). Yet, globalization and liberalization of financial markets are contributing to an increasing exchange of corporate governance beliefs and associated practices across the globe. Over the last decades, particularly, pressures for board independence and shareholder value have proliferated in most Western economies. To date, however, scholars debate the antecedents of the diffusion of these corporate governance beliefs, the performance consequences of a company's adherence to these beliefs, and the influence of contextual factors on the diffusion process (see Table 7.1 for an overview).

Table 7.1 Major debates regarding the diffusion of corporate governance beliefs

| Debates | Main research issues | Key contributions |
|---|---|--|
| Debate 1: Antecedents of Diffusion | <ul style="list-style-type: none"> • Do technical, cultural and/or political antecedents explain the diffusion of new beliefs? • Is the diffusion of new beliefs insider-driven or outsider-driven? | Abrahamson & Rosenkopf, 1993; Ansari et al., 2010; Davis, 1991; Meyer & Rowan, 1977; Westphal & Zajac, 1994; Yoshikawa & Rasheed, 2009. Ansari et al., 2010; Fiol & O'Connor, 2002; Fiss & Zajac, 2004; Maguire & Hardy, 2009; Sanders & Tuschke, 2007; Yoshikawa & Rasheed, 2009. |
| Debate 2: Performance Consequences | <ul style="list-style-type: none"> • How does the adoption of new beliefs affect a company's performance? • Do firms respond symbolically or substantively to new beliefs? | Dalton et al., 1998; Fiss & Zajac, 2006; Sundaramurthy & Lewis, 2003; Tuschke & Sanders, 2003; Westphal, 2002. Fiss & Zajac, 2004; Westphal & Zajac, 1994; 1998; Zajac & Westphal, 2004. |
| Debate 3: Impact of Contextual Factors | <ul style="list-style-type: none"> • Is the diffusion of new beliefs a global or a nation-specific development? • Do firms simply adopt new beliefs or do they adapt them? | Aguilera & Cuervo-Cazurra, 2004; Aguilera et al., 2008; Filatotchev & Boyd, 2009; Hambrick et al., 2008; Pugliese et al., 2009. Ansari et al., 2010; Aguilera et al., 2008; Fiss & Zajac, 2006; Yoshikawa et al., 2007; Yoshikawa & Rasheed, 2009. |

This thesis has contributed to these three debates by examining the diffusion of two corporate beliefs (i.e., board independence and a shareholder value orientation), among listed firms in the Netherlands. To this end, we conducted five studies (see Table 7.2) using multiple theoretical lenses (social network, resource dependency, resource based view, institutional and sociopolitical perspectives), multiple levels of analysis (paper, firm, board of directors and individual board members) and multiple methods (archival data, content analysis and interviews). The next paragraphs discuss our main empirical results and theoretical implications, followed by the managerial implications. We conclude with discussing some of the limitations of this study and avenues for future research.

7.1.1 Results and Theoretical Implications of Studies Relating to Boards

The first four studies investigated the (changing) role and tasks of supervisory board of directors. The first study, a literature review of 150 management articles on the board-strategy relationship during the period 1972-2007, highlighted two theoretical needs. First, our results reveal the need to understand the role of context at multiple levels as (i) most of the contemporary wisdom originates from US-samples of large public firms and (ii) comparative corporate governance studies are sparse. As a result, the impact of the national setting (e.g., the legal system, culture and economic conditions) and firm characteristics (e.g., the ownership structure, board structure, firm performance and lifecycle) on the relationship between boards and strategy is not fully understood (Aguilera & Cuervo-Cazurra, 2004; Hambrick et al., 2008; Ravasi & Zattoni, 2006). Second, our results highlight the need to go beyond structuralism and to examine board processes, board behavior and directors' cognition. This movement encourages scholars to investigate what boards and their members actually do, think and perceive (Forbes & Milliken, 1999; Huse, 2005; Lawrence, 1997; Pettigrew, 1992).

The next three empirical studies build upon these observations by examining the role and tasks which supervisory board members have been performing over time in the Dutch context, using archival and interview data. Table 7.3 provides an overview of our empirical results regarding the board of directors, grouped by four categories: (i) *impact* of beliefs regarding board independence on the practices of boards of directors, (ii) *antecedents* and (iii) *performance consequences* of a company's adherence to these beliefs, and (iv) influence of *contextual factors*. Overall, our empirical results

Table 7.2: Theoretical and methodological underpinnings of the five research studies

| Study | Topic | Theoretical Lenses | Method | Unit of Analysis | Sample | Time-frame | Data Source |
|-------|--|---|--|------------------------------|--|------------|---|
| 1 | Review of the literature on boards and strategy | | Content analysis | Academic journals and papers | Longitudinal: 150 articles published in 23 management journals | 1972-2007 | ISI-WEB, Business Source Premier, ABI Inform, Ebsco-Host, JSTOR and Swetsnet |
| 2 | The changing service tasks of non-executives in the Netherlands | Social network theory, resource dependency theory and the resource based view of the firm | Archival data | Board level | Longitudinal: top-100 listed firms in the Netherlands | 1997-2005 | Spencer Stuart Board Indices, Worldscope, Reach and annual reports |
| 3 | The changing role of the non-executive chairman in the Netherlands | Social network theory, resource dependency theory and the resource based view of the firm | Archival data & 30 interviews | Board and individual level | Cross-sectional: 30 CEOs and chairmen. Longitudinal: top-100 listed firms in the Netherlands | 1997-2007 | Spencer Stuart Board Indices, Worldscope, Reach, annual reports and interview notes of 30 conversations |
| 4 | Institutional antecedents of the disintegrating Dutch network of board interlocks. | Institutional theory | Archival data | Firm level | Cross-sectional: top-100 listed firms in the Netherlands | 2001-2005 | Spencer Stuart Board Indices, BoardEx, Worldscope and Reach |
| 5 | Antecedents and consequences of the espousal of a shareholder value orientation among firms in the Netherlands | Sociopolitical perspective | Archival data, content analysis & interviews | Firm level | Longitudinal: top-100 listed firms in the Netherlands | 1992-2006 | Spencer Stuart Board Indices, Worldscope, Thompson, BoardEx, and annual reports |

have four important contributions. First, as shown in table 7.3, these studies illustrate that corporate governance beliefs regarding board independence and control have had a significant impact on the role and tasks that boards of directors and supervisory board chairmen perform in the Dutch context. More specifically, our results illustrate that boards and their chairmen seem to have simultaneously become more involved in their control task and internal service task, i.e., in providing advice and counseling to TMTs (Carpenter & Westphal, 2001; McNulty & Pettigrew, 1999). Interestingly, this finding supports the notion that the control and service tasks are not necessarily conflicting opposites requiring a trade-off decision. Instead, it highlights the paradoxical nature of the control-service relationship, i.e., both conflicting demands may actually be complementary, non-substitutable and interrelated (cf. Lewis, 2000; Sundaramurthy & Lewis, 2003). On the contrary, our empirical results also highlight that boards of directors and supervisory board chairmen have become less involved in their external service task, i.e., creating value by providing access to resources on which firms are dependent (Boyd, 1990; Pfeffer, 1972; 1973) and tapping into the knowledge base of interlock partners (Mizruchi, 1996; Westphal et al., 2001). The disintegrating Dutch board network suggest that not all tensions in the control-service relationship are paradoxical, but that real trade-offs exist as well. Future research could investigate in which areas boards of directors and board chairmen are able to unleash the power associated with paradox and which boards and chairmen are most able to reconcile the seemingly contradictory demands associated with the control task and parts of the service task.

Second, our three studies illustrate that several macro level developments seem to have contributed to the diffusion of beliefs regarding board independence and control in the Netherlands. In particular, the three studies highlighted the influence of (self)regulatory initiatives as reflections of societal norms and values, and expectations of key stakeholders in the wake of international and national corporate governance scandals. Yet, our results also indicated that listed companies vary in the extent to which they are affected by these macro-developments, i.e., due to their positioning in terms of societal visibility, international market exposure and involvement in (self)-regulatory initiatives, several listed firms turned out to have more leeway to counteract pressures to reform the board's external service task (see study 4). In sum, a company's response appears to be the product of external pressures and managerial initiatives.

Table 7.3 Theoretical Implications of Studies Relating to Boards of Directors

Impact: Control task and service task as a trade-off and a paradox.

- Beliefs regarding board independence and control have affected the tasks that board of directors perform, i.e., these beliefs seem to hamper the external service task, while reinvigorating the internal service task (study 2).
- Beliefs regarding board independence and control have affected the role of the chairman of the board of directors (study 3), i.e., these beliefs seem to have increased the involvement and visibility of chairmen as well as their working style (study 3).
- Beliefs regarding board independence and control have affected board network, i.e., these beliefs seem to have contributed to the disintegration of board networks (studies 2 and 4).

Antecedents: Deterministic and voluntaristic pressures for change.

- Four developments at the macro level seem to have contributed to the diffusion of corporate governance beliefs regarding board independence and control: (i) regulatory initiatives (ii) shareholder activism, (iii) scandals and (iv) societal attention for corporate governance (studies 2 and 3).
- Corporations vary in the extent to which they are affected by new governance beliefs, as their corporate positioning varies in terms of societal visibility, international exposure and involvement in (self)regulatory initiatives (study 4).

Consequences: Institutional change as a phenomenon with unintended outcomes.

- The emphasis on board independence and control seems to have resulted in several unintended consequences regarding the value creating potential of boards of directors, i.e., listed firms, and in particular, smaller ones, have become less connected (studies 2 and 4).
- The emphasis on board independence and control seems to put pressure on board members as (i) boards' responsibilities, risks and requirements broaden and (ii) boards progressively struggle with the tension between involvement and independence (studies 2 and 3).

Context: Global developments and nation-specific developments.

- Our results highlight that national differences are profound, i.e., the legal separation of decision control and decision management in two-tier boards adds an extra layer of complexity to changes in the role and tasks of boards of directors (studies 2 and 3).
- Yet, our results also highlight that these changes are affected by the interaction with different institutional contexts, i.e., the increasing exchange of beliefs across the globe creates tensions within nations (study 3).
- The joint effect of both developments seems to lead to more convergence of board roles in different board models (studies 2, 3 and 4).

A third implication of our three studies is that the emphasis on board independence and control has been associated with unintended consequences regarding the

value creation potential of boards (cf. Huse, 2007). For example, corporations, and in particular SMEs, have become disconnected from the Dutch board network. Furthermore, as the boards' responsibilities, risks and requirements broaden, the pressures on non-executives might increase and result in a more limited pool of willing and well-qualified non-executives. Moreover, the focus on the prevention of failures and formality, might result in more risk-averse behavior and less focus on innovation, R&D and strategic renewal (Hendry & Kiel, 2004; Sundaramurthy & Lewis, 2003). In conclusion, while governance recommendations and best practices regarding board independence may have improved the control task of boards, this might have come at the expense of other tasks related to the value creating potential of boards.

Finally, our studies illustrate that the Dutch two-tier board model is progressively exposed to institutional contexts with alternative demands and role expectations, i.e., the majority of countries use one-tier boards. While our results tentatively suggest that, as a result of these forces, the Dutch two-tier board model is converging with the one-tier board model, international differences appear to be persistent. In particular, the fact that company law still prescribes a formal separation of decision-management and decision-control creates tensions as boards of directors and their chairmen often (are expected to) operate beyond their traditional roles and legal requirements. Future comparative corporate governance studies could investigate the process through which nations adopt and adapt internationally accepted governance practices (Ansari et al., 2010; Yoshikawa & Rasheed, 2009) and whether the witnessed development is part of a two-way convergence or not. Furthermore, it would be interesting to examine the performance implications of (mis)fit between board practices and the national institutional context as well as international institutional contexts in which firms operate.

7.1.2 Results and Theoretical Implications of Study Relating to Shareholder Value

The fifth study examined the diffusion of a shareholder value orientation among firms in the Netherlands, using archival data and a content analysis of annual reports. Table 7.4 provides an overview of our empirical results, grouped by the aforementioned categories, i.e., (i) *impact*, (ii) *antecedents*, (iii) *consequences* and (iv) *context*. Overall, these empirical results highlight four important contributions. First, as summarized in Table 7.4, corporate governance beliefs regarding shareholder value have strongly affected the practices of listed firms in the Netherlands, i.e., while 13% of the top-100

listed firms referred to shareholder value in 1992, 74% espoused a shareholder value orientation in 2006. While scholars have argued that the movement towards the shareholder value model should not be overstated (Deakin, 2005; Morris et al., 2008) and that symbolism plays an important role as corporations might decouple espousal from implementation (Fiss & Zajac, 2004), our empirical results highlight that companies practice what they preach, i.e., espousal is positively correlated with the substantive implementation of practices associated with the shareholder value model.

Table 7.4 Theoretical Implications of Study Relating to Shareholder Value Model

| |
|---|
| Impact: Substantive instead of symbolic contested change. |
| <ul style="list-style-type: none"> • Beliefs regarding a shareholder value orientation have strongly affected the practices of corporations in a stakeholder oriented context, i.e., the majority of the Dutch listed firms have started to espouse and implement this contested orientation during the last two decades. |
| Antecedents: Contested change from without instead of from within. |
| <ul style="list-style-type: none"> • The fit between the cultural and technical preferences and dispositions of a firm’s major owners and the shareholder value orientation has a positive influence on a firm’s inclination to refer to this orientation. • The macro and micro political context in which a company operates, moderates these positive relationships, i.e., TMT/board ownership, national media attention and board protection devices negatively moderate these relationships. |
| Consequences: Contested change as a negative instead of a positive phenomenon. |
| <ul style="list-style-type: none"> • The espousal of a shareholder value orientation in a context with an alternate logic has a negative impact on a firm’s accounting performance. • The negative relationship between a firm’s espousal of a shareholder value orientation and accounting performance is positively moderated by (i) the presence of technical fit and (ii) the actual implementation of practices associated with this orientation. |
| Context: Global development and nation-specific development. |
| <ul style="list-style-type: none"> • Our results tentatively highlight that national differences exist in firm responses to contested beliefs, i.e., while our fifth study illustrates that contested change is most likely to be stimulated from without, Fiss & Zajac (2004) show that German firms adopted the shareholder value model from within (by major domestic owners). |

Furthermore, regarding the antecedents of the diffusion of a shareholder value model, our study highlights the impact of the technical, cultural and political contexts in which companies reside. Using a sociopolitical perspective, we found support for the notion that the balance of power between technical and cultural “outsiders for change”

and “insiders for the status quo” explains the diffusion of contested beliefs in the Dutch setting. Moreover, our empirical results indicate that the macro and micro political contexts in which beliefs diffuse has a significant imprint on the available maneuvering space of outsiders to stimulate contested change. As such, our study highlights that the technical, cultural and political dimensions of a firm’s context are intertwined and jointly shape a company’s response to pressures to adopt contested beliefs, such as the Anglo-American shareholder value model (cf. Ansari et al., 2010). Thereby, we bridge prior studies that have examined the diffusion of the shareholder value model either as a phenomenon driven by capital- and product-market pressures (cf. Aglietta, 2000; Khanna & Palepu, 2004; Lazonick & O’Sullivan, 2000) or by social and institutional processes (cf. Fiss & Zajac, 2004; 2006; Sanders & Tuschke, 2007).

Moreover, regarding the performance consequences of the diffusion of the shareholder value model, our results support criticism that the adoption of this model hampers firm performance (Mintzberg, 2000; Raynor, 2008), i.e., espousing companies displayed a significantly weaker accounting performance than non-espousing companies. Interestingly, this negative relationship was positively moderated by (i) the implementation of substantive practices associated with the shareholder value model and (ii) the presence of technical fit between the composition of a firm’s shareholder base and the shareholder value model. Nonetheless, these findings suggest that almost all listed firms in the Netherlands have been unable to materialize on the referral to the contested shareholder value model. While this might support prior studies that have noted that beliefs and practices can still diffuse when they are technically inefficient (Abrahamson & Rosenkopf, 1993; Yoshikawa & Rasheed, 2009), it might also indicate that only a very limited number of companies may actually benefit from contested change. Future research could examine to which extent the timing of adoption (Tuschke & Sanders, 2003; Zajac & Westphal, 2004) and the tailoring of practices to the national context (Ansari et al., 2010; Fiss & Zajac, 2006; Yoshikawa & Rasheed, 2009) affect a firm’s subsequent financial performance.

Finally, regarding the national context in which beliefs diffuse, our results tentatively indicate that profound national differences exist in firms’ responses to contested practices. While our study highlights that the diffusion of the shareholder value model has been stimulated from without in the Dutch context, Fiss and Zajac

(2004) illustrate that major domestic owners for change initiated change in the German context. As both countries are exemplars of the Rhineland stakeholder model and use two-tier boards, the witnessed differences are quite striking. In particular, because the responses in the German context, in contrast to our Dutch findings, turned out to be more symbolic than substantive. Future multi-country studies could examine these differences more structurally, and compare and contrast the processes through which beliefs diffuse in various technical, political and cultural contexts (Aguilera et al., 2008; Ansari et al., 2010; Hambrick et al., 2008; Yoshikawa & Rasheed, 2009).

7.2 Managerial Implications

Besides theoretical implications, the findings of this dissertation also have implications for directors and regulators (see Table 7.5). First, our studies have shown that the corporate governance context in which listed companies and their boards of directors and their chairmen operate, has significantly changed over the last two decades. More specifically, corporate governance beliefs regarding board independence and control, and shareholder value have strongly affected the practices of companies and boards. Profoundly understanding and adequately managing these developments seems to be important for (i) firms wishing to comply and anticipate to national corporate governance trends, (ii) regulatory bodies reflecting on the impact of their initiatives and (iii) prospective board members searching for a position on a Dutch two-tier board.

Furthermore, while our findings indicate that almost all firms and boards have been affected by regulation, shareholder activism, scandals and increased societal attention for corporate governance, differences exist between listed companies. These differences seem to stem from two main sources. First, our third study highlighted that corporations can partially nullify institutional pressures by engaging in activities such as (self)regulatory initiatives. As such, our third study shows that anticipating to new developments and approaching them as opportunities seems to pay-off. Furthermore, our fifth study indicated that a firm's positioning in its technical, cultural and political contexts influences the likelihood that a firm will be affected by contested institutional change. Particularly, a firm's embeddedness in the old prevailing institutional logic appears to be an inhibitor to change. In conclusion, firms and boards of directors seem to have a certain amount of maneuvering space and organizational buffers to shape their own direction in the context of (contested) institutional change.

Table 7.5 Managerial Implications

| |
|--|
| Impact: Substantive changes have altered the Dutch corporate governance landscape. |
| <ul style="list-style-type: none">• Corporate governance beliefs regarding board independence and shareholder value have substantially altered the role and tasks of boards and their chairman as well as the practices of companies, resulting in new challenges for firms and their boards (studies 2, 3, 4 and 5). |
| Antecedents: Deterministic change and opportunities for entrepreneurship. |
| <ul style="list-style-type: none">• While corporate governance beliefs regarding board independence have altered the Dutch corporate governance landscape, companies have several means to partially nullify these pressures or use them to their own advantage (study 3).• While corporate governance beliefs regarding shareholder value have altered the Dutch corporate governance landscape, the specifics of a company's technical, political and cultural contexts have an imprint on its openness for these macro developments (study 5). |
| Consequences: Institutional change as a positive and a negative phenomenon. |
| <ul style="list-style-type: none">• Practitioners should be careful and selective in applying and promoting beliefs regarding board independence and shareholder value in alternative contexts, as our study highlights several unintended consequences (studies 2, 3 and 5) and negative performance implications (studies 4 and 5).• Simultaneously, these developments may offer opportunities for other corporations, such as consultancy companies and executive search firms (studies 2 and 3). |
| Context: Global developments and nation-specific developments |
| <ul style="list-style-type: none">• Practitioners should be aware that most of our contemporary wisdom originates from a limited number of national contexts (study 1).• Practitioners should be aware of the impact of context specificities, as our study tentatively highlights that they may have a significant imprint on diffusion processes within a nation. |

Third, as shown in Table 7.5, the performance implications of the diffusion of new beliefs seem to be rather negative in the Dutch context. Both the referral to a shareholder value orientation (study 5) and the disintegrating board network (studies 2, 3 and 4) seemed to result in a hampered performance and unintended consequences. Thus, managers and regulators should be aware that the introduction of new corporate governance beliefs in a national context with an alternative logic does not automatically results in enhanced firm performance. Accordingly, practitioners should be careful and selective in applying and promoting new corporate governance beliefs in their own national context. However, at the same time, these developments may offer new market opportunities for other types of firms. For instance, executive search firms and consultancy companies might benefit from increasing pressures on board members

by developing and providing services in the area of board succession, board reviews, and training and education of (potential) board members.

Finally, our literature review (study 1) highlighted that the impact of context is rather ill-understood (cf. Aguilera et al., 2008; Filatotchev & Boyd, 2009; Hambrick et al., 2008) as most of our contemporary knowledge originates from prior studies in the US context relating to logics associated with the agency theory (Pugliese et al., 2009). Using multiple theoretical lenses, this dissertation explored the diffusion of new beliefs in a small and open economy, and illustrated that the specifics of the national context may have a significant impact on the diffusion process. Examples include the extra layer of complexity that is added due to the use of the two tier board model (study 3) and the role of the national media (study 5). Basically, this implies that managers and regulators should be careful in transferring and applying beliefs in other contexts without critically analyzing their institutional fitness. Furthermore, foreigners should be aware of these context specificities while operating in an alternative institutional setting.

7.3 Limitations and Avenues for Future Research

We recognize that this dissertation has several limitations, but also provides avenues for future research. Here, we will focus on overarching limitations and research themes, as we already discussed the specifics of each study in the preceding chapters. First, our study mainly focused on general trends, such as the disintegration of the Dutch board network and the diffusion of the shareholder value model in the Netherlands. In doing so, we applied a rather *dichotomous approach*, i.e., we investigated why companies did or did not break board network ties and why firms did or did not adopt a shareholder value orientation. Scholars, however, have noted that processes associated with the adoption of (contested) corporate governance beliefs often are more subtle (cf. Ansari et al, 2010). Studies in the symbolic management tradition have suggested that companies might to a certain context decouple what they “preach” from what they “practice” (cf. Fiss & Zajac, 2004; Westphal & Zajac, 1998; Zajac & Westphal, 2004). Moreover, several studies have suggested that firms may actually adopt hybrid models in which new beliefs are adapted and tailored to the specifics of a company’s context (Ponsard et al, 2005; Vitols, 2004; Yoshikawa et al., 2007; Yoshikawa & Rasheed,

2009). Applied to our study, this implies that we may have actually captured the symbolic dismantlement of redundant ties in the board network, and did not capitalize on the nuances that firms use while espousing a shareholder value orientation in a stakeholder context (Fiss & Zajac, 2006). Future research could investigate these more subtle diffusion processes and examine how these processes vary when time proceeds (cf. Ansari et al., 2010). In terms of methodology, it would also be interesting to apply more fine-grained tools to analyze a company's discourse, and observe boardroom discussions when a firm's response to (contested) institutional change is being socially constructed.

Second, relating to the previous issue, we mainly focused on *formal corporate governance structures and practices*, i.e., communication mechanisms (study 2), board network ties (study 4) and the espousal and the implementation of a shareholder value orientation (study 5). As such, exempt of our third study, we refrained from directly examining board processes, board behavior and directors' cognitive maps as well as related changes in boardroom culture and directors' beliefs, values and norms. As these *informal* corporate governance structures and practices might be more influential and insular than their *formal* counterparts, we may have reported more change than is taken place at a more fundamental level in the Dutch corporate governance landscape. Following prior studies highlighting the need to open up the "black box" of research at the apex of the organization (cf. Forbes & Milliken, 1999; Lawrence, 1997; Pettigrew, 1992), future research could investigate these (changing) informal structures and practices. To reach this purpose, longitudinal research designs aimed at exploring processes over an extensive time period through collecting primary data via interviews, surveys and participant observations, seem most appropriate (cf. Pettigrew et al., 2002; Huse, 2005; Pugliese et al., 2009).

Third, while discussing the performance implications of the adoption of corporate governance beliefs in the Dutch context, this dissertation solely focused on the (*short-term*) *financial consequences*. The adoption and implementation of these beliefs, however, may have important consequences beyond financial ones alone. For instance, while the growing involvement of boards of directors in their control role may have a positive impact, the emphasis on board independence may also result in more risk-averse behavior, a stronger focus on short term efficiency and less focus on inno-

vation, R&D and strategic renewal (Hendry & Kiel, 2004; Sundaramurthy & Lewis, 2003). Similarly, the decreasing network connectivity of boards may limit the number of learning opportunities to tap into the knowledge base of interlocking partners and co-opt resources from the environment on which corporations are dependent. Furthermore, corporations adopting a shareholder value orientation might become more short-term oriented and more risk-averse in their strategic decision making. Future research could examine the *long-term strategic implications* of these trends in more detail.

Fourth, while our decision to investigate the diffusion of new beliefs in the Dutch context cautiously contributes to our understanding of communalities and differences between different *institutional contexts*, it also constrains the generalizability of our findings. The Dutch context has several particularities, i.e., it is a small, open economy with a two-tier board model, board protection devices and patient major owners, that might have strongly affected the described diffusion patterns. Future comparative studies could, for instance, investigate to which extent similar board developments are observable in other countries with two-tier board systems (e.g., Germany and Austria), in countries with one-tier board systems (e.g., Great Britain and the United States) and in countries with mixed board systems (e.g., France). Furthermore, future multi-country studies could compare and contrast the processes through which corporate governance beliefs regarding shareholder value diffuse in various technical, political and cultural contexts (cf. Ansari et al., 2010; Yoshikawa & Rasheed, 2009).

Fifth, while our pluralistic approach in terms of theoretical lenses highlights the notion that “disciplines do not constitute different parts of reality; they are different aspects of reality, different points of view” (Ackoff, 1999: 426). At the same time, this notion hints at the possibility that other theories may provide alternative explanations. While this does not alter the existence of such phenomena as the diffusion of a shareholder value orientation and the increasing emphasis on board independence in the Netherlands, the explanations provided in this dissertation are bound by our choice of theories (i.e., social network, resource dependency, resource based view, institutional and sociopolitical perspectives). To advance our insights regarding diffusion processes, we recommend the use of other theories in future studies in this area. In particular, applying the behavioral theory of the firm, stewardship theory and stakeholder theory to our issues might prove valuable to further explain director’s motives and responses.

Finally, while our study highlighted that macro, mesa and micro levels of analysis interact in the context of the diffusion of corporate governance beliefs, we did not apply multilevel techniques to model and control for the nestedness of our data (Klein & Kozlowski, 2000). Future research could, for example, examine more thoroughly how the technical, political and cultural contexts in which corporations reside, affect the value creating potential of boards of directors and the contributions of individual board members. Moreover, multilevel techniques might be useful in investigating the contextual factors that trigger firms to adapt new normative beliefs and tailor them to their specific institutional context. At least, the various multiple level interactions we have highlighted in this dissertation, reveal the available potential in this area.

7.4 Conclusion

The main aim of this study was “to enhance our understanding of the antecedents and consequences of the diffusion of corporate governance beliefs (board independence and a shareholder value orientation) in the context of a small and open economy”. Through a series of five different studies, utilizing multiple theoretical lenses, levels of analysis and methods, we thoroughly investigated the diffusion of corporate governance beliefs regarding board independence and shareholder value in the Netherlands. In doing so, we enriched our understanding of key changes in the Dutch corporate governance context. We showed (i) that substantive change is taken place, (ii) that the technical, political and cultural contexts in which companies reside explains their (non)response to beliefs, (iii) that change is often associated with unintended consequences and negative performance implications, and (iv) that national specificities have a significant imprint on the aforementioned processes.

Our findings highlight important avenues for further research and provide managers, board members and shareholders new insights in key corporate governance developments in the Netherlands. Given the current turmoil in global financial markets and the societal debate on the “checks and balances” in corporate governance systems, this study is topical. Hopefully it inspires scholars and practitioners to reflect on the next wave of corporate governance beliefs that may already have been triggered by the global financial crisis and societal debates.

APPENDIX A: LIST OF PARTICIPANTS (STUDY 3)

Overview Interviewed Supervisory Board Members*

| | |
|-------------------|---|
| Willy Angenent | Chairman of the supervisory boards of Vedior NV and FMO. |
| Adri Baan | Chairman of the supervisory boards of AFM, Hagemeyer NV, Wolters Kluwer NV and Volker Wessels BV. |
| Jan-Diederik Bax | Chairman of the supervisory boards of Vopak NV and Smit Internationale NV. |
| Rob van den Bergh | Former CEO of VNU NV and multiple supervisory board positions. |
| Henk Bodt | Former CEO of ASML NV and multiple supervisory board positions. |
| Rene Dahan | Chairman of the supervisory board of Ahold NV. |
| J. Fokko van Duyn | Chairman of the supervisory boards of Gamma NV, OPG NV and De Nederlandsche Bank. |
| Cor Herkströter | Chairman of the supervisory board of DSM NV. |
| Paul van den Hoek | Chairman of the supervisory boards of ASMI NV, Buhmann NV, Robeco NV and Wavin NV. |
| Jan Hommen | Chairman of the (supervisory) boards of ING NV, TNT NV and Reed Elsevier NV. |
| Jan Kalff | Chairman of the supervisory boards of Stork NV and Schiphol Group NV. |
| Wim de Kleuver | Chairman of the supervisory board of Philips NV. |
| Gert-Jan Kramer | Former CEO of Fugro NV and multiple supervisory board positions. |
| Cees van Lede | Chairman of the supervisory board of Heineken NV and Sare Lee/De International BV. |
| Aarnout Loudon | Former chairman of the supervisory boards of ABN Amro NV and Akzo Nobel NV. |
| Floris Maljers | Former chairman of the supervisory boards of Philips NV and VendexKBB NV. |
| Rinus Minderhoud | Chairman of the supervisory board of Getronics NV. |
| Ton Risseeuw | Chairman of the supervisory boards of KPN NV and Intergamma BV. |
| Willem Stevens | Multiple supervisory board positions. |
| Jaap Vink | Chairman of the supervisory board of Samas NV. |
| Rob Zwartendijk | Chairman of the supervisory boards of Numico NV, Nutreco NV and Blokker BV. |

* One non-executive director is not identified by name. Not all current and former board positions of participants are listed.

Overview Interviewed CEOs*

| | |
|------------------|--|
| Rudy de Becker | CEO of Hagemeyer NV. |
| Rijkman Groenink | Former CEO of ABN Amro NV. |
| Guus Hoefsloot | CEO of Heymans NV. |
| Rokus van Iperen | CEO of OCE NV. |
| Frans Koffrie | CEO of Corporate Express NV. |
| Zach Miles | CEO of Vedior NV. |
| Ad Scheepbouwer | CEO of KPN NV and supervisory board chairman of Havenbedrijf Rotterdam NV. |
| Joop van Oosten | CEO of BAM Groep NV. |

* Not all current and former board positions of participants are listed.

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Nederlandse Samenvatting (Dutch Summary)

Introductie

Gedurende de afgelopen twee decennia is de maatschappelijke aandacht voor *corporate governance* sterk toegenomen. Mede door toedoen van verscheidene bedrijfsschandalen (zoals Enron, WorldCom, Parmalat en Ahold), zijn onderwerpen als (i) de rechten en plichten van aandeelhouders, (ii) financiële transparantie en risicomanagement, (iii) de vertrouwensrol van de accountant, (iv) de hoogte van topsalarissen en (v) de stabiliteit van het bancaire stelsel steeds belangrijker geworden. Met name de toenemende mondialisering en liberalisering van de financiële markten en de groeiende internationale concurrentie lijken *corporate governance*-vraagstukken gecompliceerder gemaakt te hebben. Beursgenoteerde ondernemingen worden immers in toenemende mate geconfronteerd met internationale *corporate governance*-wet- en regelgeving, en variërende verwachtingspatronen van buitenlandse belanghebbenden. Een diepgaand inzicht in de (inter)nationale dynamiek van *corporate governance*-vraagstukken lijkt derhalve van groot belang voor zowel de wetenschap als de praktijk.

In dit proefschrift staan twee belangrijke internationale *corporate governance*-ontwikkelingen centraal. Allereerst zijn gedurende de afgelopen tien jaar in de meeste westerse landen verscheidene *corporate governance*-hervormingen geïnitieerd zoals de introductie van Sarbanes-Oxley, Europese richtlijnen en diverse nationale *corporate governance*-codes. Deze hervormingen zijn voornamelijk gebaseerd op de logica van de *Agency-theorie* en richten zich onder meer op het versterken van de onafhankelijkheid en toezichthoudende rol van commissarissen om zo nieuwe bedrijfsschandalen te voorkomen (Daily et al., 2003; Enrione et al., 2006). Ten tweede heeft er in de meeste Europese landen een verschuiving richting het Anglo-Amerikaanse aandeelhouderswaardemodel plaatsgevonden. In gecoördineerde markteconomieën als Duitsland (Fiss & Zajac, 2004; Tuschke & Sanders, 2003), Zweden (Lazonick & O'Sullivan, 2000) en Frankrijk (Morin, 2000) worstelt men dan ook in toenemende mate met invloeden vanuit dit Anglo-Amerikaanse model. De maatschappelijke debatten in Europa rondom de rol van hedgefondsen en participatiemaatschappijen, de rechten van aandeelhouders en prestatieafhankelijke beloningsstructuren zijn hiervan goede illustraties.

Onderzoeksdoelstelling en Onderzoeksvragen

Dit proefschrift beoogt een bijdrage te leveren aan de wetenschappelijke literatuur, de praktijk en het maatschappelijke debat door de impact van de toenemende focus op de toezichthoudende rol en onafhankelijkheid van commissarissen alsmede op aandeelhouderswaarde te analyseren binnen de Nederlandse context. De navolgende onderzoeksvragen staan daarbij centraal (zie Tabel 1 voor een gedetailleerd overzicht):

- (1) Welke (f)actoren stimuleren en/of belemmeren de verspreiding van *corporate governance*-opvattingen?
- (2) Welke consequenties heeft het verwijzen en/of implementeren van *corporate governance*-opvattingen voor de prestaties van een onderneming?
- (3) Welke rol spelen omgevingskarakteristieken van bedrijven bij de verspreiding van *corporate governance*-opvattingen?

Tabel 1: Debatten m.b.t. de verspreiding van *corporate governance*-opvattingen

| Debatten | Belangrijke onderzoeksvragen | Belangrijke eerdere bijdragen |
|---|--|--|
| Debat 1: Determinanten van de verspreiding van opvattingen | <ul style="list-style-type: none"> • Verklaren technische en/of sociale factoren de verspreiding van <i>corporate governance</i>-opvattingen? • Wordt de verspreiding van <i>corporate governance</i>-opvattingen met name van binnenuit of van buitenaf geïnitieerd en/of gestimuleerd? | <p>Abrahamson & Rosenkopf, 1993; Ansari et al., 2010; Davis, 1991; Meyer & Rowan, 1977; Westphal & Zajac, 1994; Yoshikawa & Rasheed, 2009.</p> <p>Ansari et al., 2010; Fiol & O'Connor, 2002; Fiss & Zajac, 2004; Maguire & Hardy, 2009; Sanders & Tuschke, 2007; Yoshikawa & Rasheed, 2009.</p> |
| Debat 2: Impact op de prestaties van ondernemingen | <ul style="list-style-type: none"> • Op welke wijze beïnvloedt de keuze voor zich verspreidende <i>corporate governance</i>-opvattingen de prestaties van ondernemingen? • Implementeren bedrijven de opvattingen waarnaar ze refereren? | <p>Dalton et al., 1998; Fiss & Zajac, 2006; Sundaramurthy & Lewis, 2003; Tuschke & Sanders, 2003; Westphal, 2002.</p> <p>Fiss & Zajac, 2004; Westphal & Zajac, 1994; 1998; Zajac & Westphal, 2004.</p> |
| Debat 3: Rol van omgevingsfactoren | <ul style="list-style-type: none"> • Is de verspreiding van <i>corporate governance</i>-opvattingen een generiek of contextafhankelijk proces? • Nemen bedrijven nieuwe opvattingen over of passen zij deze aan? | <p>Aguilera & Cuervo-Cazurra, 2004; Aguilera et al., 2008; Filatotchev & Boyd, 2009; Hambrick et al., 2008; Pugliese et al., 2009.</p> <p>Ansari et al., 2010; Aguilera et al., 2008; Fiss & Zajac, 2006; Yoshikawa et al., 2007; Yoshikawa & Rasheed, 2009.</p> |

Ter beantwoording van deze onderzoeksvragen is een vijftal deelstudies uitgevoerd (zie Tabel 2 voor een gedetailleerd overzicht). De vijf deelstudies benaderen de verspreiding van *corporate governance*-opvattingen vanuit verschillende theoretische invalshoeken en analyseniveaus en met behulp van diverse methoden om zodoende een breed inzicht te verschaffen in ons onderzoeksfenomeen. In de komende vijf paragrafen worden de onderzoeksopzet en bevindingen van de verschillende deelstudies verder uiteengezet.

Tabel 2: Beoogde bijdragen van de vijf onderzoekstudies in dit proefschrift

| Studie | Onderwerp | Beoogde bijdragen van de onderzoekstudies. |
|--------|--|--|
| 1 | Overzicht en analyse van artikelen over de strategische bijdrage van commissarissen. | <ul style="list-style-type: none"> • Ontwikkeling laten zien in de wetenschappelijk literatuur m.b.t. de verhouding tussen commissarissen en strategisch management. • Eerdere overzichtsartikelen aanvullen alsmede reflecteren op de voortgang die men sindsdien heeft geboekt. • Bestuurders informeren over de stand van zaken in het strategie-commissarissen debat, alsmede de hoofdthema's daarin belichten. |
| 2 | De veranderende rol van de commissaris in Nederland. | <ul style="list-style-type: none"> • Analyseren op welke wijze de focus op de toezichthoudende rol van commissarissen hun adviserende rol heeft beïnvloedt. • Het functioneren van raden van commissarissen in het Nederlandse duale systeem belichten. |
| 3 | De veranderende rol van de voorzitter van de raad van commissarissen in Nederland. | <ul style="list-style-type: none"> • Analyseren op welke wijze macro-economische veranderingen een impact hebben gehad op de rol van de voorzitter. • Analyseren op welke wijze dit heeft geresulteerd in een aangepast demografisch profiel en een aangepaste positie van de voorzitter. • Het functioneren van de voorzitter van de raad van commissarissen in het Nederlandse duale systeem belichten. |
| 4 | Institutionele factoren die bijdragen aan de desintegratie van het commissarissennetwerk in Nederland. | <ul style="list-style-type: none"> • Onderzoeken welke bedrijven meer zijn geraakt door de focus op de toezichthoudende rol van commissarissen. • Onderzoeken welke mechanismen bedrijven hanteren om het effect van nieuwe wet- en regelgeving (gedeeltelijk) te neutraliseren. • Het belichten van de wijze waarop het commissarissennetwerk in Nederland is veranderd, mede als gevolg van <i>corporate governance</i>- hervormingen zoals de Code Tabaksblat. |
| 5 | Determinanten en consequenties van de toenemende focus op aandeelhouderswaarde in Nederland. | <ul style="list-style-type: none"> • Onderzoeken op welke wijze de variërende preferenties van grote aandeelhouders de keuze voor een aandeelhouderswaardeoriëntatie heeft beïnvloedt in de Nederlandse context. • Onderzoeken op welke wijze de politieke context waarin <i>corporate governance</i>-opvattingen zich verspreiden, dit proces beïnvloedt. • Belichten op welke wijze de focus op aandeelhouderswaarde de prestatie van Nederlandse ondernemingen heeft beïnvloedt. |

Studie 1: De bijdrage van commissarissen aan strategievorming

In de eerste studie van dit proefschrift verschaffen we een overzicht van eerder onderzoek naar de verhouding tussen raden van commissarissen en strategisch management. De rol van commissarissen hierin is zowel internationaal als nationaal onderwerp van debat. Zowel de aard als de wenselijkheid van de strategische bijdrage van commissarissen staan ter discussie. Met het oog op het theoretisch pluralisme en het onbeslechte empirische bewijs in dit onderzoeksterrein analyseren we in de eerste studie 150 wetenschappelijke artikelen over dit onderwerp die sinds 1972 in managementtijdschriften zijn verschenen. Zodoende is de ontwikkeling van het onderzoeksterrein in kaart gebracht en werden onontgonnen onderzoeksterreinen belicht

De resultaten van onze analyse belichten een aantal belangrijke aspecten. Ten eerste laat onze studie zien dat een bepaalde groep onderwerpen, theorieën, contexten en methoden, onderzoek naar de verhouding tussen commissarissen en strategie heeft gedomineerd gedurende specifieke perioden. Wat hierbij met name opvalt, is dat de meeste kennis over dit onderwerp afkomstig is van onderzoek dat (i) een *Agency-perspectief* hanteert, (ii) Amerikaanse data gebruikt en (iii) zich richt op determinanten en implicaties van strategische betrokkenheid van commissarissen. Ten tweede laat onze studie zien dat de wetenschappelijke aandacht in de loop van de jaren langzaam is verschoven van de invloed van commissarissen op de inhoud van strategieën naar de manier waarop commissarissen proces- en gedragsmatig bijdragen aan strategische vraagstukken. Ten derde belicht onze studie de noodzaak voor onderzoeken die (i) de rol van de context op meerdere analyseniveaus uitsplitst, (ii) zich richt op strategie als een proces en (iii) op de gedragsmatige aspecten van de raad van commissarissen als een team, en (iv) longitudinale en nieuwe methodieken gebruikt om de *black box* van de (eventuele) strategische bijdrage van commissarissen verder te openen.

Studie 2: De veranderende rol van de commissaris

In de tweede studie van dit proefschrift analyseren we de veranderende rol van de raad van commissarissen gedurende de periode 1997-2005. Recente *corporate governance*-initiatieven, zoals Sarbanes-Oxley (2002) en *corporate governance*-codes (zoals de Nederlandse Code Tabaksblat in 2003), hebben voornamelijk de onafhankelijkheid en de toezichthoudende rol van commissarissen benadrukt. Deze focus zou echter een

negatieve invloed kunnen hebben op de adviserende rol van commissarissen, namelijk op hun vermogen om: (i) externe afhankelijkheidsrelaties te managen (Boyd, 1990; Pfeffer, 1972; Pfeffer & Salancik, 1978), (ii) kennis op te doen via het commissarissen-netwerk (Mizruchi, 1996; Westphal et al., 2001) en (iii) leden van de raad van bestuur van advies te voorzien (Carpenter & Westphal, 2001; McNulty & Pettigrew, 1999). Data van de top-100 beursgenoteerde bedrijven in Nederland gedurende de periode 1997-2005 tonen aan dat mede door de twee Nederlandse *corporate governance*-codes (de Code Peters en de Code Tabaksblat) de adviserende rol van commissarissen inderdaad is veranderd. De afnemende verwevenheid van ondernemingen door overlappende commissariaten en de afnemende rol van financiële instellingen in het commissarissen-netwerk duiden erop dat het belang van de *externe adviesrol* van commissarissen (i en ii) lijkt te zijn afgenomen. Gegeven de toenemende betrokkenheid van commissarissen door middel van gezamenlijke vergaderingen met bestuursleden en het gebruik van adviserende en toezichthoudende commissies, lijkt het belang van de *interne adviesrol* daarentegen te zijn toegenomen (iii).

De accentverschuiving van de externe adviesrol naar de interne adviesrol als gevolg van beide *corporate governance*-codes heeft drie belangrijke consequenties voor commissarissen en beursgenoteerde bedrijven. Allereerst worden door deze verschuiving de verantwoordelijkheden van commissarissen verbreed en hun werklust verzaamd. Samen met de toegenomen wettelijke aansprakelijkheid van commissarissen zorgt deze ontwikkeling mogelijk voor druk op de markt voor beschikbare en goedgekwalificeerde commissarissen. Ten tweede heeft de toegenomen nadruk op de interne adviesrol mogelijk consequenties voor de selectie van nieuwe commissarissen. In plaats van benoeming op basis van hun netwerk, lijken de kennis en competenties van individuele commissarissen en de mate waarin zij passen binnen de gehele raad belangrijker te worden. Ten derde heeft deze accentverschuiving wellicht negatieve gevolgen voor de financiële prestaties van bedrijven en hun capaciteit tot strategische vernieuwing. De potentie voor kennisverspreiding en het managen van afhankelijkheden via overlappende commissariaten lijkt namelijk te zijn afgenomen door de introductie van de onafhankelijkheidsbepalingen in beide *corporate governance*-codes. Dit plaatst beursgenoteerde ondernemingen voor de uitdaging om alternatieve netwerkmechanismen te zoeken.

Studie 3: De veranderende rol van de voorzitter van de raad van commissarissen

De derde studie in dit proefschrift borduurt voort op de tweede studie door de veranderende rol van de voorzitter van de raad van commissarissen te analyseren. Hoewel de voorzitter maatschappelijk het meest zichtbaar is en hoofdverantwoordelijk is voor het functioneren van de raad (Hill, 1995; Kakabadse & Kakabadse, 2007a; 2007b; McNulty & Pettigrew, 1999; Roberts, 2002), is er weinig bekend over de veranderingen waaraan het voorzitterschap onderhevig is. Door middel van een combinatie van 30 semigestructureerde interviews met voorzitters en CEO's, en gegevens over de structurele positie van voorzitters van de top-100 beursgenoteerde bedrijven in Amsterdam, analyseren we in deze studie welke veranderingen zijn opgetreden in de rol en positie van de voorzitter alsmede welke omgevingsfactoren hierbij bepalend waren.

Uit de interviews kwam naar voren dat nieuwe regelgeving, meer activistische aandeelhouders en *corporate governance*-schandalen er met name voor gezorgd hebben dat voorzitters van raden van commissarissen actiever betrokken zijn geraakt bij de uitvoering van hun toezichthoudende en adviserende taken. Deze ontwikkeling in de rol van voorzitters is samengegaan met een toegenomen werkbelasting (zoals meer commissiewerk en bijeenkomsten), bezoldiging en verloop, alsmede een afname in het aantal additionele commissariaten. Tegelijkertijd is het demografische profiel (leeftijd, geslacht, nationaliteit en gemiddelde zittingsduur) van de voorzitter gelijk gebleven tijdens deze periode. Een interessante observatie in dit kader is dat voorzitters en CEO's erg verschillen in hun mening met betrekking tot de wenselijkheid van deze verandering van het voorzitterschap van de raad van commissarissen.

Deze bevindingen hebben een drietal belangrijke implicaties. Ten eerste laten onze resultaten zien dat er van de voorzitter van de raad van commissarissen in toenemende mate verwacht wordt dat hij meer op de voorgrond opereert. Daarmee lijkt de spanning tussen de schijnbaar tegenstrijdige eisen aan de toezichthoudende rol (onafhankelijkheid en afstand) en de adviserende rol (betrokkenheid en nabijheid) een grotere rol te gaan spelen. Te meer omdat het wettelijk kader in Nederland hierin geen duidelijk uitsluitsel geeft. Ten tweede zorgt de uitbreiding van de verantwoordelijkheid van voorzitters van raden van commissarissen mogelijk voor druk op de markt voor beschikbare en gekwalificeerde voorzitters. Hoewel het demografische profiel van de voorzitters onveranderd is gebleven, biedt deze ontwikkeling mogelijk op termijn goede

kansen voor headhunters en trainingsinstituten. Ten derde laat onze studie zien dat de rol van de voorzitter daadwerkelijk veranderd is als gevolg van een aantal economische en maatschappelijke ontwikkelingen. De impact hiervan op de prestaties van bedrijven is echter nog steeds onderwerp van discussie, aangezien met name de sterkere nadruk op toezicht en onafhankelijkheid zou kunnen resulteren in een kortetermijnvisie en in risicomijdend gedrag (Hendry & Kiel, 2004; Sundaramurthy & Lewis, 2003). Zowel voorzitters als regelgevers zouden zich bewust moeten zijn van zowel de positieve als negatieve consequenties tijdens hun omgang met deze ontwikkeling.

Studie 4: Het veranderende commissarissennetwerk in Nederland

In de vierde deelstudie van dit proefschrift staat het desintegreerend commissarissen-netwerk centraal. Hoewel eerdere onderzoeken de mogelijke voordelen van netwerkverbanden regelmatig hebben belicht (zie Mizruchi, 1996), is de publieke opinie de afgelopen jaren steeds kritischer geworden. Belangrijke kritiekpunten waren dat (i) het centraliseren van macht een gesloten systeem creëert waarin de leden elkaar kunnen beschermen en (ii) dat de aanwezigheid van afhankelijkheden in verhoudingen tussen commissarissen en bedrijven (zoals een voormalige CEO die fungeert als commissaris) het onafhankelijke toezicht in gevaar zou kunnen brengen. In de meeste Europese *corporate governance*-codes zijn dan ook bepalingen opgenomen om deze relaties enigszins te beperken (Daily et al., 2003; Enrione et al., 2006; Sheridan et al., 2006). Er is echter weinig bekend over de wijze waarop bedrijven zijn omgegaan met deze bepalingen. In dat kader onderzoeken we in deze vierde studie hoe beursgenoteerde ondernemingen in Nederland omgegaan zijn met de bepalingen in de Code Tabaksblat (2003) gedurende de periode 2001-2005.

Allereerst laten onze resultaten zien dat de netwerkbepalingen in de Code Tabaksblat succesvol zijn: ondernemingen hebben in de periode 2001-2005 21% van hun netwerkverbanden verloren, alsmede 38% van hun netwerkverbanden met grote banken. In tegenstelling tot onze verwachting blijkt uit onze resultaten dat, relatief gezien, met name kleinere beursfondsen hun netwerkverbanden zijn verloren. Bovendien lijken de bepalingen te hebben bijgedragen aan een sterkere structurele scheiding tussen beursfondsen van verschillende omvang. Een interessante observatie is dat (i) ondernemingen waarvan commissarissen betrokken waren bij één van de Nederlandse

corporate governance-codes en (ii) ondernemingen met een buitenlandse beursnotering minder last hebben gehad van druk om hun commissarissennetwerk te hervormen. Dit lijkt erop te duiden dat ondernemingen enige speelruimte hebben in hun omgang met de netwerkbepalingen in de Code Tabaksblat.

Deze empirische bevindingen hebben twee belangrijke implicaties voor wetenschappers, ondernemingen en beleidsmakers. Ten eerste lijken de netwerkbepalingen in de twee Nederlandse *corporate governance*-codes de gewenste veranderingen in het commissarissennetwerk te bewerkstelligen. Een kritische kanttekening hierbij is dat kleinere beursfondsen hiervan meer hinder lijken te ondervinden gezien hun verlies aan netwerkverbanden met de grotere bedrijven. Ten tweede laten onze data zien dat ondernemingen minder vatbaar zijn voor bepalingen in nationale codes als ze betrokken zijn bij de totstandkoming van deze codes en/of internationaler georiënteerd zijn. Deze bevindingen dagen ondernemingen uit om hun omgang met veranderende *corporate governance*-verwachtingen als een strategisch vraagstuk te benaderen. Aangezien onze post-hoc analyse lijkt te indiceren dat het verlies aan netwerkverbanden een negatief effect heeft op de bedrijfsprestaties, lijkt zo'n aanpak goed te rechtvaardigen.

Studie 5: De verspreiding van een aandeelhouderswaardeoriëntatie in Nederland

De vijfde studie in dit proefschrift onderzoekt de verspreiding van Anglo-Amerikaanse managementopvattingen in de Nederlandse economie. Net als in andere Europese landen die van oudsher gewend zijn om hun economische activiteit te organiseren volgens het Rijnlandmodel (Heemskerck, 2007), is er in Nederland een toenemende druk waarneembaar om zicht te richten op het creëren van aandeelhouderswaarde. Dit is bijvoorbeeld goed terug te zien in het maatschappelijke debat rond de rol van participatiemaatschappijen en hedgefondsen). Er is echter weinig bekend over de mate waarin dit gedachtegoed zich binnen het Nederlandse poldermodel heeft verspreid. Bovendien is niet bekend welke motieven bedrijven hebben om naar aandeelhouderswaarde te verwijzen en of ze er daadwerkelijk financieel profijt van hebben. Door middel van een inhoudsanalyse van de jaarverslagen van de top-100 beursgenoteerde bedrijven in Nederland gedurende de periode 1992-2006 proberen we in deze laatste studie antwoord te geven op deze vragen.

Allereerste laten onze empirische resultaten een verspreiding van het Anglo-Amerikaanse model zien in Nederland: daar waar 13% van de ondernemingen in 1992

aandeelhouderswaarde of een equivalent noemt in het jaarverslag, is dit percentage in 2006 gestegen naar 74%. Hoewel eerder onderzoek heeft laten zien dat het gunstig kan zijn voor een onderneming om niet te implementeren wat men beweert (Fiss & Zajac, 2004; Westphal & Zajac, 2001), is er in de Nederlandse context een positieve samenhang tussen zeggen en doen waar te nemen: ondernemingen die verwijzen naar een focus op aandeelhouderswaarde maken meer gebruik van managementsystemen met een nadruk op economische waardeconcepten, internationale accountancystandaarden, optieregelingen en inkoopprogramma's voor eigen aandelen.

Onze data laten verder zien dat de technische, culturele en politieke omgeving waarin een bedrijf functioneert bepalend is voor het al dan niet aannemen van Anglo-Amerikaanse managementopvattingen. Met name als een bedrijf grote aandeelhouders heeft met een financiële achtergrond (bijvoorbeeld banken, participatiemaatschappijen en hedgefondsen) of met een Anglo-Amerikaanse culturele achtergrond, bestaat er een grotere kans dat een onderneming een focus op aandeelhouderswaarde heeft. Overigens wordt de invloed van beide groepen aandeelhouders kleiner als (i) de onderneming veel zichtbaarheid heeft in de nationale media en (ii) managers meer aandelen bezitten. Tot slot ondersteunen onze resultaten de maatschappelijke kritiek dat een focus op aandeelhouderswaarde juist waarde vernietigt. Dit negatieve effect wordt echter minder sterk naarmate bedrijven deze nieuwe focus meer implementeren en aandeelhouders hebben die deze alternatieve oriëntatie ondersteunen.

Deze bevindingen belichten twee belangrijke implicaties. Ten eerste tonen ze aan dat de technische, culturele en politieke dimensies waarin bedrijven opereren gezamenlijk invloed hebben op de openheid van een beursgenoteerde onderneming voor nieuwe *corporate governance*-opvattingen. Hoewel een bedrijf in de praktijk maar beperkt invloed kan uitoefenen op deze dimensies, heeft haar positionering wel degelijk invloed op de mate van vernieuwingsdruk door externe partijen. Ten tweede laten onze empirische bevindingen zien dat het hanteren van een aandeelhouderswaardeoriëntatie in de Nederlandse poldercontext een negatieve invloed heeft op de financiële prestaties van een bedrijf. Dit lijkt erop te duiden dat ondernemingen erg voorzichtig moeten zijn met het aannemen en verspreiden van *corporate governance*-opvattingen die niet stroken met de gangbare logica in hun nationale context.

Conclusie

De hoofddoelstelling van dit proefschrift was om inzicht te verschaffen in de determinanten en consequenties van de verspreiding van *corporate governance*-opvattingen, te weten denkbeelden met betrekking tot de toezichthoudende rol van commissarissen en aandeelhouderswaarde, in een relatief kleine en open economie. Hieraan is vormgegeven door een vijftal studies met verschillende theoretische perspectieven, methoden en analyseniveaus uit te voeren in de Nederlandse context. Onze bevindingen laten zien dat:

- (i) de rol van de raad van commissarissen alsmede de economische oriëntatie van bedrijven in Nederland substantieel zijn veranderend gedurende de laatste twee decennia,
- (ii) de technische, politieke en culturele contexten waarin ondernemingen opereren, een grote invloed hebben op de openheid van bedrijven voor veranderingen alsook hun mogelijkheden om externe invloeden te neutraliseren,
- (iii) *corporate governance*-veranderingen onbedoelde gevolgen hebben gehad en de prestaties van beursgenoteerde ondernemingen niet per definitie positief beïnvloeden en
- (iv) nationale omgevingskarakteristieken een aanzienlijke invloed hebben op de manier waarop beursgenoteerde ondernemingen omgaan met internationale *corporate governance*-ontwikkelingen.

Deze empirische bevindingen belichten een aantal belangrijke mogelijkheden voor toekomstig onderzoek en geven bestuurders, regelgevers en andere actoren inzicht in een tweetal belangrijke *corporate governance*-ontwikkelingen in Nederland. Gezien de huidige turbulentie in de mondiale financiële markten en in het maatschappelijke debat in Nederland over de *checks and balances* in ons nationale systeem, zijn onze resultaten zeer actueel. Hopelijk stimuleren deze bevindingen bestuurders, regelgevers en wetenschappers om te reflecteren op de huidige ontwikkelingen en de volgende verspreidingsgolf van *corporate governance*-opvattingen die ongetwijfeld door de huidige crisis geïnitieerd wordt.

Curriculum Vitae

Pieter-Jan Bezemer (Roosendaal, October 2, 1982) received his M.Sc degree in Business Administration cum laude from the RSM Erasmus University in Rotterdam. His research interests include the roles of board of directors, diffusion of corporate governance beliefs and organizational paradoxes. His work has been published or is forthcoming in *Corporate Governance: An International Review*, *Journal of Management and Governance* and *Maandblad voor Accountancy en Bedrijfseconomie*. He has presented his research at major international conferences such as the Annual Meeting of the Academy of Management, Strategic Management Society Annual International Conference, European Academy of Management Conference, and Annual Colloquium of the European Group of Organization Studies. Pieter-Jan Bezemer also serves as an ad-hoc reviewer for *Corporate Governance: An International Review* and *Strategic Management Journal*. He has taught several courses on strategy and corporate governance, including the courses *International Corporate Governance: Strategy and Performance* and *Strategic Business Plan*.

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DIFFUSION OF CORPORATE GOVERNANCE BELIEFS: BOARD INDEPENDENCE AND THE EMERGENCE OF A SHAREHOLDER VALUE ORIENTATION IN THE NETHERLANDS

The globalization and liberalization of national economies have contributed to an increasing diffusion of Anglo-American corporate governance practices worldwide. In this dissertation, we examine the spread of two types of corporate governance beliefs: the emerging focus on board independence and a shareholder value orientation. Through a series of five studies, utilizing multiple theoretical lenses, levels of analysis and methods, we analyze developments in the formal independence of supervisory boards and a greater focus on shareholder value in the Netherlands, and examine the antecedents and consequences of these phenomena.

In doing so, we contribute to the enrichment of theories on diffusion processes as well as to the understanding of key changes in the Dutch corporate governance landscape. We show that (i) substantive change has taken place in the governance of listed corporations, (ii) the technical, political and cultural contexts in which firms operate explain companies' (non)response to prevailing corporate governance beliefs, (iii) changing corporate governance beliefs may be associated with unintended consequences and negative performance implications, and (iv) macro contextual factors have a significant impact on the aforementioned processes. Thereby, our findings highlight important avenues for further research. Furthermore, we provide directors, regulators, shareholders and other stakeholders with new insights in key corporate governance developments, in particular in the Netherlands.

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