# Views on the indefinable independence

Results from a survey among supervisory directors in the Netherlands

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ABSTRACT

Independence of internal supervisors is an important part of corporate governance and is seen as a necessary condition to guarantee the quality of monitoring. After the corporate scandals at the start of this century the demand for independent members in the board and in the key committees has significantly increased. However, a clear and consistent definition of independence lacks. Definitions and interpretations of independence differ between countries, corporate governance codes and board systems. This study investigates whether these interpretations of independence differ as well between different groups of internal supervisors. It questions internal supervisors on situations that are real threats for independence and on the stakeholders an internal supervisor should take care of. The inclusion of personal relationships in the lists of independence criteria is one of the focal points of the survey. The results show that internal supervisors consider personal relationships as a threat for independence, but they regard business and family relations as larger threats. A cluster analysis shows that two groups of internal supervisors can be distinguished. One group is more inclined to monitor for stakeholders other than shareholders and has more concerns about threats for independence. This group is also significantly younger, more female and gets less paid. The second group is more inclined to monitor for shareholders and is more male and better paid.

KEYWORDS: Supervisory directors, Non-executive directors, Board independence, Survey, Cluster analysis

# INTRODUCTION

The independence of internal supervisors[1] is generally seen as a necessary condition to guarantee the quality of monitoring (Gordon 2007). It has become an important part of the governance discussion since the call by among others Jensen and Meckling (1976), Fama (1983) and Fama and Jensen (1983) for more independence in corporate boards (Weisbach 1988: 432). After the corporate scandals at the start of this century the demand for independent members in the board and in the key committees has significantly increased (Zattoni and Cuomo 2010: 63; Hopt 2006: 458-459). However, a clear and consistent definition of independence lacks, because the term "independence" is used to mean different things at different times for different reasons (Beyond "Independent" Directors: A functional approach to board independence 2006: 1555). The definitions of independence differ with respect to the parties which a director is expected to be independent from and the constituencies which they have to be loyal to (Brudney 1982: 599). These differences are observed between countries, corporate governance codes and board systems (Zattoni and Cuomo 2010). In addition, this study investigates whether the view on independence differs as well between different groups of supervisors.

In Europe the independence of internal supervisors is regulated through corporate governance codes, in which independence criteria are included with family and business ties in order to determine independence of directors. The corporate governance codes collectively fail to include social relationships – such as friends from school or university or a membership of the same golf club, fraternity or other social club. This lack of social relationships in the governance codes may result in a director who is independent in fact by compliance with independency criteria, but who might be non-independent in appearance. An internal supervisor of a company will be qualified as non-independent, if his brother works in the restaurant of that company, because there is a family tie. Whereas he will be qualified as independent, if he is internal supervisor at a company, where his best friends serves as CEO. In this case there is a social tie involved, which is not included in the corporate governance codes. This example of monitoring your best friend tends to have the air of not being independent, or not being independent in appearance. It might therefore better to regard the independence criteria as some sort of 'threshold', which comprises minimum requirements

[1] This article will use the term 'internal supervisor' to refer to members of the supervisory board in a two-tier system (supervisory directors) and non-executive directors in a one-tier system.

for the independence of directors. In addition to these threshold requirements, they should also behave in a way without having the semblance of dependence caused by social relationships.

This study focuses on the views of internal supervisors about true threats for independent supervision and the constituents the supervisor feels accountable to. We discuss a survey among 417 internal supervisors in the Netherlands with a focus on relations and other factors that are real threats for independence in their view. We investigate whether this view differs between different groups of supervisors. Therefore the respondents were asked which stakeholders' interests they have in mind when monitoring management. Research generally focuses on internal supervisors of listed companies. This survey includes also internal supervisors of non-listed and family-owned company, as well as internal supervisors at healthcare institutions and housing associations. We analyse whether these aforementioned groups indeed differ significantly with respect to the issue of independence.

This article will continue as follows. Section 2 describes the regulatory framework with respect to independence in Europe as well as the Netherlands. Section 3 gives a literature overview of the definitions of independence as well as research on the impact of independence on company performance. Section 4 describes the research design, the results are presented in section 5 and section 6 concludes.

## REGULATORY FRAMEWORK

As a result of the corporate scandals, codes and rules relating to internal supervisors were reinforced in the United States (i.e. Sarbanes-Oxley Act) as well as Europe (Zattoni and Cuomo 2010: 63). The chapters of the European corporate governance codes about independence of internal supervisors are influenced by a Recommendation of the European Commission on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.[2] The European situation will be described firstly in the next subsection, thereafter the Dutch situation will be dealt with.

### Europe

In September 2001 the European Commission asked the High Level Group of Company Law Experts (hereafter: High Level Group) to make recommendations for a

[2] Commission Recommendation 2005/162/EC of 15 February 2005.

regulatory framework for company law in the European Union; seven months later the mandate was extended with corporate governance issues in a reaction on the accounting scandals. With respect to independence, the final report of the High Level Group did not advice on the composition – i.e. the number of independent members – of the board of directors, but explicitly mentioned the necessity of a majority of independent directors when issues such as nomination, remuneration and audit is decided upon (Winter *et al.* 2002: 61). Despite the lack of advice, the European Commission established a Recommendation[3] that requires a sufficient number of the non-executives and supervisory directors to be independent in order to "ensure that any material conflict of interest involving directors will be properly dealt with" (European Commission 2005: 55). Hereby an director is considered to be independent when "he is free of any business, family or other relationship, with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment" (European Commission 2005: 56). In order to assess the independence of directors, the Commission offered a list with circumstances that are generally recognised as situations that generate conflicts of interest. Appendix A shows a list of situations, used as examples by the European Commission, of what should be included (European Commission 2005: 63). Sixteen of twenty-one countries included independence criteria in their corporate governance code in February 2007 (Commission of the European Communities 2007: 13).[4]

The given situations can be used as guidance by the individual member states to formulate their own independence criteria, which can be tailored to the specific context in a country. Since the described situations offer general accepted circumstances which may lead to conflicts of interests, they should be taken in serious consideration by the individual member states.

Since the recommendation left room for a country to adapt the rules with respect to independence at their own discretion, the result is a variety of independence regulation. The United Kingdom, France and the Netherlands have integrally copied their independence criteria from the Recommendation and require that internal supervisors should be

[3] Communication from the Commission to the Council and the European Parliament, 'Modernising Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward', May 21st, 2003, (COM (2003) 284 Final).

[4] Bulgaria, Cyprus, Czech Republic, Portugal, Romania and Spain were not included in the survey.

independent from the controlling shareholder(s). At the other hand, Germany did not include a list with independence criteria at all and, for example, allows internal supervisors to be dependent from a controlling shareholder (Commission of the European Communities 2007). Although the independence criteria might be the same, other requirements can make a difference for levels of independence within the board. The Netherlands for example allow one internal supervisor – in a two-tier system – to be non-independent, while the United Kingdom requires that at least half of the one-tier board comprises independent internal supervisors. This can lead to the following difference in practice. A board of ten directors in the United Kingdom with two executives and eight non-executives is allowed to have three non-independent non-executives. Half of the board is independent in this case, which meets the requirement of the UK Corporate Governance Code. A supervisory board in the Netherlands with eight supervisory directors is allowed to include only one non-independent supervisory director. Although the independence criteria are roughly the same in the United Kingdom and the Netherlands (Lückerath-Rovers and Smits 2010: 155-156), this example shows that other requirements can make a difference in terms of board independence. As the survey focuses on the Netherlands, the Dutch situation will be discussed in the next subsection.

### Netherlands

Traditionally, the Dutch situation is characterised by a two-tier board system that consists of a management board ('Raad van Bestuur') and a supervisory board ('Raad van Commissarissen'). The management board is responsible for daily business and its members are employed by the company; the supervisory board monitors and advices the management board. A supervisory board is obligatory when the structural regime applies to the limited liability company.[5] Although companies without the structural regime had the possibility to establish a one-tier board[6], the predominant board model is two-tier.[7] A new bill[8] provides all

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[5] The structural regime applies when the company has at least EUR 16 million in equity, an obligatory workers council and at least 100 employees in the Netherlands (see article 2:153 of the Dutch Civil Code). The company is exempted from the structural regime when the majority of the employees work outside the Netherlands (see article 2:155 of the Dutch Civil Code).

[6] Unilever and Shell are examples of Dutch companies with a one-tier board of directors.

companies with legislation to establish a one-tier board of directors, which can be considered as a paradigm shift. The legislator motivates its decision to allow for one-tier boards with the arguments that it improves the information and the commitment of the supervisory directors; furthermore it leads to sharper interventions. The legislator considers the smaller independence – due to the fact that supervision is not carried out anymore by a separate organ – as a large disadvantage.[9]

Concerns about deteriorating independence have been raised after the publication of the before mentioned bill (De Bos *et al.* 2008). Being active in the same board may result in the origination of interpersonal relationships, which hampers independence and a critical view at the end of the day. Jungmann entitles this as the colleague-monitor-dilemma: having the duty to monitor people that are also colleagues (2006: 461).

Regulations with respect to independence are included in the Dutch Corporate Governance Code 2003 (hereafter: the 'Code').[10] Dutch company law obliges companies to include a corporate governance chapter in their annual report[11], in which they have to state whether they comply with the best practices and principles in the Code or explain why they do not ('comply-or-explain' principle). The Code offers analogue to the European Recommendation a list with circumstances that disqualify a director from being independent.[12] If none of these circumstances apply to an internal supervisor, this particular internal supervisor is considered to be independent; otherwise he is considered to be non-independent. In the two-tier system, at most one member of the supervisory board is allowed

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[7] Only 9 of the 100 largest listed companies in the Netherlands have a one-tier board of directors (*The netherlands board index* 2006).

[8] See 'Wijziging van boek 2 van het Burgerlijk Wetboek in verband met de aanpassing van regels over bestuur en toezicht in naamloze en besloten vennootschappen', number 31763, 2008-2009, www.justitie.nl.

[9] See 'Wijziging van boek 2 van het Burgerlijk Wetboek in verband met de aanpassing van regels over bestuur en toezicht in naamloze en besloten vennootschappen – Memorie van Toelichting', number 31763, 2008-2009, www.justitie.nl.

[10] The Dutch Corporate Governance Code was revised in 2008, but the chapter about independence of internal supervisors remained unaltered.

[11] Article 2:391 Dutch Civil Code.

[12] See best practice provision III.2.2 of the Code

to be non-independent.[13] For companies with a one-tier board system, the majority of the members must comply with the independence criteria.[14]

Governance codes are also established for other types of organisations. For example, healthcare institutions and housing associations have their own governance codes which are quite similar to the Corporate Governance Code.[15] With respect to independence, the healthcare code is quite brief in comparison to the governance code for listed companies, but comprises the same underlying idea. This means that an internal supervisor is only considered to be independent when he is not or has not been an employee or director for three years and he is not a director at a healthcare institution with the same sort of tasks.[16] The housing association code has exactly the same list with independence criteria as the code for listed companies, but has an extension that also regards connections with municipalities and other government related institutions as a reason for non-independence. Although the governance codes are similar with respect to independence, the different objectives of these companies might influence the views of internal supervisors on subjects like threats for independence and the stakeholders they have to be loyal to. The next section will describe the literature regarding independence.

## LITERATURE REVIEW

The emphasis on independence differs for the two leading corporate governance theories – agency and stewardship theory. In an agency theory framework with dispersed ownership both principals (i.e. shareholders) and agents (i.e. management) pursue the maximisation of self interest, whereby the decision to maximise the agent's interest is often not the same decision as the one that maximises the principal's interest. Monitoring by independent internal supervisors is prescribed by agency theorists to align the interests of principals and agents and to reduce agency costs (Jensen and Meckling 1976; Fama and Jensen 1983). On the contrary, the stewardship theory assumes a manager to be a good

[13] Best practice provision III.2.1 of the Code.

[14] Best practice provision III.8.4 of the Code.

[15] Zorgbrede Governancecode, Utrecht: Brancheorganisaties Zorg 2005; and Governancecodes Woningcorporaties, Hilversum: AEDES Vereniging van Woningcorporaties 2006.

[16] Provision 3.4 of Zorgbrede Governancecode.

‘steward’ for the company’s resources and assets, and a trustworthy individual who aims to do a good job (Donaldson and Davis 1991: 51). This assumption about the behaviour of the manager implies that the board should facilitate and empower the incumbent management and the CEO to lead the company rather than monitor and control them (Donaldson and Davis 1991: 52; Davis *et al.* 1997: 26).

According to agency proponents, more independent directors lead to higher monitoring, which is associated with lower agency costs and consequently higher corporate performance (Nicholson and Kiel 2007: 587-588; Muth and Donaldson 1998: 5, 9). In a stewardship theory framework, low independence is synonymous to management control, which is associated with better informed decision making and consequently higher corporate performance (Muth and Donaldson 1998: 9).

Hence, the advices of agency and stewardship theorists with respect to optimal board composition diverge. This same equivocality can be observed in the empirical research on the consequences of board independence for performance. Bhagat and Bolton (2008) find a negative correlation between independence and contemporaneous and subsequent operating performance. This is consistent with earlier work of Bhagat and Black, who state that scholars in this field “find little correlation, but a number of recent studies report evidence of a negative correlation between the proportion of independent directors and company performance—the exact opposite of conventional wisdom” (1999: 942). With respect to other relationships, board independence is found to be positively related to the probability of CEO dismissal after poor performance, to yield a higher bid price during a takeover, to deliver a slightly higher return for shareholders in bidding for acquisitions and to be negatively related to financial fraud (Gordon 2007: 1502-1505). No consistent view is given by literature on the relationship between independence and compensation; although there is “little evidence that independent directors do a better job than inside directors in establishing CEO pay” (Bhagat and Black 1999: 931).

Besides their job of independent judgement of managers and their duty to deter managers from expropriating the corporate assets, independence have additional value in other parts of the company. Independent internal supervisors have the ability to see things differently (Roberts *et al.* 2005: S15-S16). His or her experience allows to give a different perspective in some cases. The interplay of a variety of skills and perspectives within the supervisory board increases the likelihood of good decision making and the strategic process (Zattoni and Cuomo 2010: 65).

Above mentioned views on independence are mainly focused on companies with dispersed ownership. Family-owned companies are different due to existence of altruism, because a family relationship is involved in the company. Altruism entails that the utility of one person depends positively on the utility of somebody else (Bergstrom 1989: 1139). Due to altruism the family members, which are (partly) owner of the company, act in a way that they have a claim on the company (Schulze *et al.* 2003: 477). Less monitoring is therefore needed in family-owned companies, because they are supposed to behave like owners. Chen and Nowland (2010: 4) confirm this by finding evidence in a sample of Asian family-owned companies that less monitoring is needed when family members are more involved in running the company. Therefore we expect that internal supervisors at the family-owned companies pay less attention to independence than internal supervisors at other organisations.

Another group of respondents in this survey holds a supervisory board position at a non-profit organisation. Fama and Jensen (1983) consider the non-profit organisations as different due to the lack of a residual claimholder, such as the shareholder in a profit organisation. Although there is no residual claimholder to expropriate, there are other constituents whose interests needs to be protected against management. They note that boards in non-profit organisations are not disciplined by market power or the threat of takeovers. As a consequence more independent monitoring is necessary in these organisations. Independence is therefore expected to be regarded of a larger concern in non-profit organisations than in profit organisations.

While the above research focuses on independence, the definitions of independence differ with respect to the parties which a director is expected to be independent from and the constituencies which they have to be loyal to. Narrow definitions require directors, as representatives of shareholders, to be independent from management in order to look after shareholders' interests; broader definitions require them to take as well an independent position from management and to protect interests of shareholders, but also to have loyalties to other specific constituencies, such as employees, consumers, women, minorities, society, and the environment (Brudney 1982: 599). The question what independence really constitutes, seems hard to be answered.

KPMG conducted a survey among chairmen in France, United Kingdom, Germany, Switzerland, Netherlands and Belgium and concluded that views on criteria that determine independence differ from country to country (2002). Positions in management, as employee, connections with shareholders, income from other activities for the company, conflicts of interests with the management and financial or personal ties with company or management were included on the list. The most striking difference in KPMG's research is the score on this criterion: must not benefit from any share option plan nor receive remuneration based on company performance. In Switzerland only 17% of the respondents regarded this as a condition that disqualifies a director from being independent, while the score was 93% in the United Kingdom. Almost all mentioned criteria are nowadays included in the corporate governance codes.[17] However, the personal ties are still not part of the corporate governance codes.

Another part of board independence is the adoption of subcommittees, such as an audit, remuneration or selection committee. As the committees are functionally tasked in areas where conflicts of interest may appear, the independence of a board is enhanced by these committees (Gordon 2007). Brennan and McDermott note that the presence of a nomination committee signals a focus on independence to the market (2004). However, they also state that the evidence for a relationship between the presence of these committees and corporate performance is inconclusive. Klein (1998), for example, finds no evidence for a positive relationship between audit committee independence or remuneration committee and company performance.

The literature review shows that definitions of independence are still subject for discussion. As the definitions of independence differ with respect to the parties which a director is expected to be independent from and the constituencies which they have to be loyal to (Brudney 1982: 599), this survey will focus on the opinion on those two issues of internal supervisors in the Netherlands. However, prior research also shows that the evidence for the relationship between independence and performance is not convincing.

## RESEARCH DESIGN

In March 2008 a number of 2,838 postal surveys were distributed to internal supervisors in the Netherlands. Therefore, the address database of the Dutch Center for Supervisory Directors (Nederlands KennisCentrum voor Commissarissen) – an organisation and interest group for internal supervisors in the Netherlands – was used. In addition, a link was posted on the website of this organisation. There was no reminder sent to the receivers of the questionnaire. A group of 494 respondents returned the questionnaire, of which 420 returned the paper questionnaire and 74 filled in the questionnaire on the internet. 417 of the

[17] See previous section.

494 respondents serve as supervisor, the remaining 77 people are either retired or are solely active as executive director. This group of 77 respondents will be left out of consideration in this study.

### Descriptives

The majority of the respondents is male (332, 79.6 %) and the average age is 58.8. With respect to experience, men have a significant lead with 10.2 years in a position as internal supervisor versus 8.1 years for women. The number of supervisory board positions (2.5 versus 2.0) and the number of chairman positions (0.9 versus 0.4) are also significantly higher for the male respondents. The details of age, experience and the number of supervisory and chairman positions are exhibited in Table 1.

[INSERT TABLE 1 AROUND HERE]

Besides their position in a supervisory board, a group of 108 internal supervisors (25.9%) holds a position as executive director at another company. While 258 (61.9%) of the respondents are appointed to more than one supervisory board, all respondents occupy in total 963 supervisory board positions at different types of organisations. A distribution of all supervisory board positions over the different types of organisations is given in Panel A of Table 2. A group of 57 (5.9%) seats in this category of 963 seats are occupied in the supervisory board of a listed company, 353 (36.7%) in non-listed companies and 163 (16.9%) positions in the supervisory board of family-owned companies. A number of 141 (14.6%) and 104 (10.8%) positions are held by respondents in the supervisory boards of healthcare institutions and housing associations, respectively. The remaining 138 (15%) supervisory board positions are occupied at not further defined organisations, such as libraries, charity foundations and educational institutions.

Table 2 also shows the breakdown into board positions occupied by male or female respondents. Without going into detail, it is remarkable that only two (1.2%) of 163 supervisory board positions at family-owned companies are occupied by women. This number is rather limited, because overall 157 (16.3%) of all 963 supervisory board positions are occupied by women. Table 2 exhibits in Panel B the distribution of the evaluated positions; respondents were asked to take their most relevant supervisory board position in mind when answering the questions in the survey.[18]

[INSERT TABLE 2 AROUND HERE]

## Methodology

The respondents were asked two questions. The first question asks which relationships are considered to really threat independence. In order to detect the circumstances and relationships an internal supervisor is hampered by, a list with seven options is given in the survey. These include (1) each stockholding or (2) stockholdings in excess of a certain percentage, (3) a long tenure, (4) a prior position as executive at the company, and finally (5) business-, (6) family- and (7) personal relationships. The first six options are already included in the European and Dutch independence criteria, but the seventh option (personal relationship) is not part of these lists with independence criteria.

The second question asks to whom the internal supervisor should feel accountable. The eight options given as answer for this question are (1) shareholders, (2) employees, (3) suppliers, (4) customers, (5) state, (6) society, (7) debt providers or (8) others.

The answers for these two questions are analyzed by means of Ward's Cluster Analysis with squared Euclidian distances in SPSS. The analysis is performed to see whether respondents in different clusters differ from each other with respect to characteristics, such as age, gender, experience, the age of the first supervisory board position, education, background, number of supervisory board positions, time spent on these positions, background, type of organisation and characteristics of their supervisory board. The differences are tested with an F-test. The results are described in the next section.

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[18] While respondents may differ in the reason why they choose this board position as the most relevant one, they were asked to indicate why they chose this particular position. They were allowed to give more than one reason. 157 (37.6%) answered that this was their only board seat, 125 (30.0%) answered that they spent most of their time on this position, 87 (20.9%) answered that this was the largest organisation, 116 (27.8%) answered that this position was most challenging and 21 (5.0%) had another reason.

# RESULTS

This section presents the results of the survey. First, the view of the directors about the relationships that threat independence is described, thereafter the stakeholders for whom they supervise are dealt with. Finally, the results from these two questions are used to perform a cluster analysis.

[INSERT TABLE 3 AROUND HERE]

Table 3 shows the results for all respondents. Overall, 59.3% of all internal supervisors considers respectively any, or a certain, percentage of stock ownership as a threat for independence. This percentage is much higher for listed companies (80.6%), while the difference with non-listed and family-owned companies is relatively small (65.1% and 62.1%, respectively). A look at the scores for long tenure and a position as former executive shows 53.6% and 50.9% of the respondents considers this as a threat for independence. The fact that relatively more respondents from healthcare institutions (respectively 63.9% and 56.9%) and housing associations (respectively 61.8% and 68.4%) consider this to be a hindrance for independence, as opposed to the respondents of the listed (respectively 58.1% and 41.9%), non-listed (respectively 43.9% and 44.7%) and family-owned companies (respectively 44.8% and 31.0%), is noteworthy. Internal supervisors at healthcare institutions and housing associations are more concerned about threats for independence, than internal supervisors at listed, non-listed and family-owned companies. The fact that there are no shareholders or threats from takeover that discipline management in these non-profit organisations might explain this relatively large concern about threats for independence.

The relationships in the business, family and personal sphere are the last three options. Business relationships are already a part of the Code and the answers of the respondents show a certain kind of agreement: 69.4% of the internal supervisors admit that business relationships may threat independence. While business relationships seem to be more important in profit-organisation than in healthcare and housing, the respondents from the three profit-organisations (67.7%, 63.6% and 58.6%) show less appetite to call a business relationship a threat for independence than the other three groups (75.0%, 77.6% and 80.6%).

For family relationships a similar pattern can be distinguished. The results for healthcare institutions, housing associations and other groups range from 76.3% to 80.6%. The results for internal supervisors of listed companies are within this bandwidth (77.4%), but non-listed companies (56.1%) and family-owned companies (53.4%) show different outcomes. This is no surprise for the family-owned companies group, because family members are usually represented in all groups of the organisation, such as employees, shareholders, management and supervisory board. The score of 56.1% for non-listed companies is more notable. An exact explanation cannot be given, but the fact that much non-listed companies originate from family-owned companies and still exhibit characteristics of a family-owned company might be a reason for this result.

The last relationship addressed here, is the personal relationship. Not included in any corporate governance code or other list with terms of disinterest, but considered to be an obstacle for independence. For example, an internal supervisor is still qualified as independent in the situation that the he supervises the CEO, who is his best friend since the age of ten. The same holds for an internal supervisor who plays golf with a CEO on a weekly basis, because they are friends from university. To 55.6% of the respondents, such a relationship may indeed be a threat for independent supervision. However, the personal relationship is considered to be less bothersome than family and business relationships. Furthermore, it can be derived from the results that internal supervisors at healthcare institutions (69.4%), housing associations (61.8%) and other organisations (58.3%) attach more importance to the inclusion of personal relationship in a list with terms of disinterest. For non-listed companies (49.2%) and family-owned companies (43.1%) a minority of the respondents sees an issue when monitoring a friend. The score for listed companies is slightly higher (54.8%), but still much smaller than for the three non-profit groups. The reason why non-profit organisations are more concerned about independence is suggested above: due to absence of shareholder pressure and the threat of takeovers, independent monitoring is more important for these organisations. Furthermore, healthcare institutions and housing association are more vulnerable to public opinion than the three profit organisations, because they rely for a substantial part on government support.

In addition it can be observed that, on average, family owned companies are less concerned about threats for independence than listed and non-listed companies. This supports the hypothesis of altruism, that independence in family-owned companies is of a smaller concern because the interests of shareholders and management are better aligned. This better alignment in caused by the fact that the family holds a significant stake in the company.

[INSERT TABLE 4 AROUND HERE]

The second issue addressed in these results is the question to which stakeholders the internal supervisor should be loyal to and whose interests he should look after. The results of this question are exhibited in Table 4. Shareholders, employees, suppliers, customers, the state, society and providers of debt were suggested as possible stakeholders in the survey. The interests of shareholders should be looked after according to 96.8%, 85.6% and 91.4% of the internal supervisors at listed, non-listed and family-owned companies, respectively. This is in accordance with agency theory. The support for shareholders' interest is much smaller at non-profit organisations, such as 13.9% at healthcare institutions and 15.8% at housing associations. This is trivial, because non-profit organisations do not have shareholders. The overall score for the group shareholders is 56.3%, lower than the score of 71.9% of employees. However, here a more consistent view can be seen, as the scores for employees range from 63.2% (housing association) to 87.1% (listed companies). Although the interests of employees are considered to be of less importance for internal supervisors at listed companies, the 87.1% is the highest score for all groups of respondents. Together with non-listed (73.5%) and family-owned companies (74.1%) the listed companies attach higher value to employee rights than the non-profit organisation (healthcare institutions 70.8%, housing associations 63.2%, other 69.4%). The reason for the difference between profit and non-profit organisations is probably the fact that employees have a much smaller role in the non-profit organisations.

The stakeholder with the least backing by internal supervisors is suppliers. On average 14.3% of the participants responded that an internal supervisor should consider their interests. Customers should also be in the minds of internal supervisors when monitoring management. Although some dispersion can be observed, a group of 60.2% of the respondents attaches importance to the interests of customers. Although profit organisations rely on customers in order to make a profit, non-profit organisations consider customers' interests more (79.2%, 69.7% and 72.2%) than profit organisations (67.7%, 47.7% and 41.4%).

State and society are two less concrete stakeholders, which lack a contractual relationship such as the four previous treated stakeholder groups. Although there is no such contractual relationship, the respondents attach value to their interests. Society receives support from 64.7% of the respondents, whereby the scores of listed companies, healthcare institutions, housing associations and other organisations exceed the 70% level. The results for the stakeholder state are lower: on average 32.6%. The results for healthcare institutions, housing associations and other are higher. A possible explanation is the influence of the state on these types of organisations from a legal ground.

Providers of debt are the last stakeholders in the table. On average 36.5% of the respondents has the opinion that the board should monitor for this particular group. In listed (58.1%), non-listed (40.2%) and family-owned companies (39.7%) this is considered to be more important than in non-profit organisations (33.3%, 28.9% and 22.2%). Profit organisations rely on these debt providers for their profit, because favourable terms of lending have a positive impact on performance. Therefore these profit organisations considers this stakeholder group to be important. However, it is not one of the most important stakeholders for the profit organisations, because debt providers protect themselves by contractual agreements.

[INSERT TABLE 5 AROUND HERE]

The results are used to perform a cluster analysis. This analysis is performed to investigate whether people with comparable answers to the questions have common characteristics. The results from the Ward's hierarchical cluster analysis show two clusters, with respectively 288 and 129 respondents. The answers to the questions of both clusters are provided in Table 5. Shareholders are more important for the respondents of cluster one than for the respondents of cluster two. The respondents in cluster one regard monitoring on behalf of shareholders as a the task of 66.7% of the supervisory board on average, while cluster two thinks that only 30.2% of the supervisory board should look after the interest of shareholders. The difference between these two scores is significant on all levels. This is not the case for employees, suppliers, customers, state, society and debt providers. Relatively more respondents of cluster two, than the respondents of cluster one look after the interests of these particular stakeholders. The differences are significant at all levels of significance, with the exception of debt providers ($p = 0.057$).

A closer look to the threats for independence shows that cluster one is more concerned about share ownership than the respondents in cluster two (significant at a 5% level). 50.7% of cluster one and 38.0% of cluster two regards the possession of any share as a threat for independent supervision. The difference is significant at a level of 5%. Share ownership that does not exceed a certain level is a larger concern for cluster two (16.3%) than for cluster one (9.4%). A long tenure, a business relationship, a position as former executive, and family or personal relationship are for 40% or more of the respondents of both groups a threat. Cluster two is more concerned about these relationships than cluster one. The differences are significant at all levels.

Although personal relationships are conjectured in this study to be a very important threat for independence, it is not the most important threat according to the respondents. In both clusters, business and family relationships are regarded to be a larger obstacle for independent supervision.

[INSERT TABLE 6 AROUND HERE]

As the two clusters differ in the answers to the above mentioned questions, here the differences in characteristics are described. The results are given in Table 6. The table shows that the respondents in cluster one are slightly older (59.3 years) in comparison to the respondents of cluster two (57.9 years).  This difference is significant at a 10% level. Cluster one has also significant more male respondents (82.9 % versus 72.9%) than cluster two. The respondents in cluster one accepted their first supervisory board position 2.5 years later than the respondents in cluster two. This result is significant at a 1% level. Another significant difference is the percentage of respondents that receives less than 5,000 euro per year for their position. In cluster two this percentage is almost two times as high as in cluster one (27.9% versus 14.2%). Another difference is that the respondents of cluster one are more active at non-listed and family-owned company, while the respondents of cluster two are more active in healthcare institutions and housing associations. Thus cluster two is more active as an internal supervisor in non-profit organisation, while respondents in cluster one are significant more active in profit organisations. This fact can also be linked to lower remuneration, because supervisors at non-profit organisations are on average less paid than at profit organisations.

From the table it can also be derived that the respondents in cluster two operate in a board that is significantly more independent, than the boards of the respondents in cluster one (90.0% versus 78.5%). A closer look to the presence of subcommittees teaches that the respondents in cluster two operate in supervisory boards with significantly more audit and remuneration committees than the respondents in cluster one, which might indicate for higher independence.[19] The higher independence and the presence of more subcommittees might indicate that the respondents in cluster two are more aware of good governance.

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[19] See section Literature review.

Although both clusters differ at certain characteristics, they also have some similarities. Directors in both clusters differ not significantly with respect to experience, measured in numbers of years of experience. The same holds for their educational background, number of positions and time spent, which differ not significantly. Earlier in this subsection it was mentioned that remunerations of less than 5,000 euro are more often observed in cluster two than cluster one. The remuneration between 10,000 and 25,000 euro is more observed in cluster one. This difference is significant as well. The other remuneration categories are not more often observed in one cluster in comparison to the other cluster. Although the occurrence of non-listed and family-owned companies is higher in cluster one, and the occurrence of healthcare institutions and housing associations is higher in cluster two, the occurrence of listed companies does not differ between the two clusters. The relative number of listed companies in each cluster is the same. Finally, the size – in terms of number of employees – does not differ significantly as well.

So in short is cluster one more inclined to monitor for shareholders and is cluster two more inclined to monitor for the other stakeholders. Respondents of cluster two are also more concerned about independence (i.e. they regard more relationships as a threat for independence) and operate in a board that has a higher percentage of independent members and has more subcommittees. With respect to the characteristics it can be concluded that cluster two is significantly younger, more female and consists of relatively more internal supervisors that earn less than 5,000 euro. This can also be explained by the fact that these three variables – percentage male, age and remuneration below 5,000 euro – are significantly correlated with each other, as becomes clear from Table 8 in Appendix B. However, the occurrence of listed companies in both clusters is relatively equal and the organisations in both clusters are not significantly different with respect to size.

[INSERT TABLE 7 AROUND HERE]

In the literature review it was conjectured that the attitude towards independence would be different between respondents from non-profit and profit organisations. To research whether there is a difference between those two sectors, we have analysed the differences in answers between these two groups. The results are given in Table 7. A similar pattern can be observed. The non-profit sector, which is larger in our sample than the profit sector (221 versus 196 respondents) is more inclined to monitor for suppliers, customers, state and society. While the respondents in the profit sector regard monitoring for shareholders, employees and debt providers of higher importance. Employees were expected to be of higher importance for the non-profit internal supervisors, but the survey gives a different result. These results are all significant.

With respect to the threats of independence, the difference between the groups in their answer for the question whether shareholding is a threat for independence is not significant. However, this question is not relevant for the comparison, since non-profit organisations do not have shareholders. A long tenure, a business, family or former relationship and a position as former executive is for the respondents from the non-profit sector a larger threat than it is for the respondents from the profit sector. This larger concern about independence for internal supervisors at non-profit organisations might be caused by the fact that other mechanisms to keep management in check are smaller by these types of organisations. The absence of shareholders and the threat of takeovers make independent supervision more important as it functions as a substitute.

## CONCLUSION

Independence of internal supervisors is an important part of corporate governance, because independence is seen as a necessary condition to guarantee the quality of monitoring. However, the definitions of independence differ with respect to the parties an internal supervisor is expected to be independent from and the stakeholders he has to be loyal to. For example, the United Kingdom, France and the Netherlands require internal supervisors to be independent from the controlling shareholder(s), while Germany does not. Although, the corporate governance codes of these countries are all based on the same recommendation of the European Commission, they differ on this matter. In order to assess whether an internal supervisor is independent or not, a list with situations, which are frequently recognised as sources of conflicts of interest, is given by the European Commission. This list contains business and family relationships between the internal supervisors on one side and the company and its management on the other side, but does not include personal relationships.

So the views on independence vary over countries and jurisdictions. This study investigates whether the view on independence varies over different groups of supervisors as well. In order to gain insight in the view of internal supervisors on independence, a survey among internal supervisors in the Netherlands was held, who occupy positions in supervisory boards of different types of organisations. A majority of 417 respondents considered a personal relationship to be a hindrance for independent supervision, as was already expected.

The personal relationship between an internal supervisor and a manager might result in the fact that his judgement is affected in the same way as it would be by for example a business or family relationship.  However, the respondents considered the business and family relationships, which are already included in the Code, as a larger obstruction for independence. So, personal relationships are important to the respondents, but not as important as the other relationships. Furthermore, internal supervisors at non-profit organisations are more concerned about threats for independence than internal supervisors at profit organisations. This confirms the belief that due to absence of a residual claimholder, the board is not disciplined by market pressure and the threat of a takeover, which makes independent supervision more important. It also appears that internal supervisors at family-owned companies are less concerned about independence, than respondents from listed and non-listed companies. The fact that family ties exist and accompanying altruism in these family-owned companies ensure that the interests of principals and agents are better aligned. Due to altruism the family members, which are (partly) owner of the company, act in a way that they have a claim on the company. Less monitoring is therefore needed.

Another theme of this survey is the stakeholders to which an internal supervisor has to be loyal and whose interests he has to keep in mind while monitoring management. Although the Code and the law in the Netherlands explicitly mention that all stakeholders should be taken care of, internal supervisors at listed, non-listed and family-owned companies regard shareholders as the most important stakeholder. Internal supervisors at healthcare institutions and housing associations are more concerned about the interests of customers, the state and society at large. However, according to this survey the interests of employees are significantly better looked after by internal supervisors at profit organisations than at non-profit organisations. Non-profit organisations are more inclined to monitor for the state and society at large. This can be explained by the fact that they are more vulnerable to public opinion, because they rely for a substantial part on government support.

Furthermore, a cluster analysis showed that internal supervisors, who focus more on the interests of stakeholders other than shareholders, have more situations that they consider to be a threat for independence. They are younger, more female and less paid. These internal supervisors serve on boards that are significantly more independent and have significantly more audit and remuneration committees. However, there is no difference in the size of the organisations and the occurrence of listed companies.

# APPENDIX A

The following situations are given by the European Commission, because they are frequently recognised as relevant in assessing whether an internal supervisor is independent or not. These situations, which should be tailored to a national context, should be included on a national level (European Commission 2005: 63).

a. not to be an executive or managing director of the company or an associated company, and not having been in such a position for the previous five years;
b. not to be an employee of the company or an associated company, and not having been in such a position for the previous three years, except when the non-executive or supervisory director does not belong to senior management and has been elected to the (supervisory) board in the context of a system of workers' representation recognised by law and providing for adequate protection against abusive dismissal and other forms of unfair treatment;
c. not to receive, or have received, significant additional remuneration from the company or an associated company apart from a fee received as non-executive or supervisory director. Such additional remuneration covers in particular any participation in a share option or any other performance-related pay scheme; it does not cover the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the company (provided that such compensation is not contingent in any way on continued service);
d. not to be or to represent in any way the controlling shareholder(s) (control being determined by reference to the cases mentioned in Article 1(1) of Council Directive 83/349/EEC (1));
e. not to have, or have had within the last year, a significant business relationship with the company or an associated company, either directly or as a partner, shareholder, director or senior employee of a body having such a relationship. Business relationships include the situation of a significant supplier of goods or services (including financial, legal, advisory or consulting services), of a significant customer, and of organisations that receive significant contributions from the company or its group;
f. not to be, or have been within the last three years, partner or employee of the present or former external auditor of the company or an associated company;

g. not to be executive or managing director in another company in which an executive or managing director of the company is non-executive or supervisory director, and not to have other significant links with executive directors of the company through involvement in other companies or bodies;
h. not to have served on the (supervisory) board as a non-executive or supervisory director for more than three terms (or, alternatively, more than 12 years where national law provides for normal terms of a very small length);
i. not to be a close family member of an executive or managing director, or of persons in the situations referred to in points (a) to (h);

# APPENDIX B

[INSERT TABLE 8 AROUND HERE]

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| | | N | Mean | Median | St. Dev. | Min. | Max. |
|---|---|---|---|---|---|---|---|
| *Age* | *Male* | 329 | 59.64* | 61.00 | 7.50 | 35.00 | 75.00 |
| | *Female* | 84 | 55.64 | 56.00 | 8.01 | 37.00 | 77.00 |
| | *Total* | 413 | 58.83 | 60.00 | 7.77 | 35.00 | 77.00 |
| *Experience* | *Male* | 328 | 10.19** | 8.00 | 7.30 | 1.00 | 40.00 |
| | *Female* | 81 | 8.06 | 7.00 | 5.89 | 1.00 | 30.00 |
| | *Total* | 409 | 9.78 | 8.00 | 7.09 | 1.00 | 40.00 |
| *Number of supervisory positions* | *Male* | 330 | 2.52** | 2.00 | 1.89 | 1.00 | 14.00 |
| | *Female* | 80 | 2.00 | 1.50 | 1.58 | 0.00 | 9.00 |
| | *Total* | 410 | 2.41 | 2.00 | 1.85 | 0.00 | 14.00 |
| *Number of chairman positions* | *Male* | 319 | 0.94* | 1.00 | 1.25 | 0.00 | 12.00 |
| | *Female* | 76 | 0.36 | 0.00 | 0.81 | 0.00 | 4.00 |
| | *Total* | 395 | 0.83 | 0.00 | 1.20 | 0.00 | 12.00 |

**Table 1: The characteristics age, experience (i.e. the number of years experience as internal supervisor), number of supervisory board seats and the number of chairman positions of the 417 respondents. Number of observations, mean, median, standard deviation, minimum value and maximum value are given. A breakdown of the characteristics for male and female respondents is given as well.**

** Significant at 95% confidence level, * significant at a 99% confidence level.

| | A: Distribution of all positions | | | | | | B: Distribution of evaluated position | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Male | | Female | | Total | | Male | | Female | | Total | |
| *Listed company* | 45 | (5.6%) | 12 | (7.6%) | 57 | (5.9%) | 24 | (7.4%) | 7 | (8.6%) | 31 | (7.7%) |
| *Non-listed company* | 318 | (39.5%) | 35 | (22.3%) | 353 | (36.7%) | 119 | (36.7%) | 13 | (16.0%) | 132 | (32.6%) |
| *Family-owned company* | 161 | (20.0%) | 2 | (1.3%) | 163 | (16.9%) | 57 | (17.6%) | 1 | (1.2%) | 58 | (14.3%) |
| *Healthcare institution* | 96 | (11.9%) | 45 | (28.7%) | 141 | (14.6%) | 46 | (14.2%) | 26 | (32.1%) | 72 | (17.8%) |
| *Housing association* | 73 | (9.1%) | 31 | (19.7%) | 104 | (10.8%) | 52 | (16.0%) | 24 | (29.6%) | 76 | (18.8%) |
| *Other* | 113 | (14.0%) | 32 | (20.4%) | 145 | (15.1%) | 26 | (8.0%) | 10 | (12.3%) | 36 | (8.9%) |
| *Total* | 806 | (100.0%) | 157 | (100.0%) | 963 | (100.0%) | 324 | (100.0%) | 81 | (100.0%) | 405 | (100.0%) |

**Table 2: The distribution of the respondents' supervisory board seats over the different organisations. Panel A shows the distribution over all supervisory board seats, Panel B shows the distribution of the supervisory board seats that respondents were asked to take in mind when completing the survey. A breakdown for male and female respondents is given as well.**

| | Listed company | Non-listed company | Family-owned company | Healthcare institution | Housing association | Other | Total |
|---|---|---|---|---|---|---|---|
| *Each % of stockholdings* | 41.9% | 53.0% | 46.6% | 40.3% | 50.0% | 41.7% | 47.4% |
| *Stockholdings in excess of x %* | 38.7% | 12.1% | 15.5% | 5.6% | 3.9% | 11.1% | 11.9% |
| *Tenure too long* | 58.1% | 43.9% | 44.8% | 63.9% | 61.8% | 61.1% | 53.6% |
| *Position as former executive* | 41.9% | 44.7% | 31.0% | 56.9% | 68.4% | 63.9% | 50.9% |
| *Business relationship* | 67.7% | 63.6% | 58.6% | 75.0% | 77.6% | 80.6% | 69.4% |
| *Family relationship* | 77.4% | 56.1% | 53.4% | 80.6% | 76.3% | 77.8% | 67.4% |
| *Personal relationship* | 54.8% | 49.2% | 43.1% | 69.4% | 61.8% | 58.3% | 55.6% |
| *N* | 31 | 132 | 58 | 72 | 76 | 36 | 405 |

**Table 3: The scores of the different suggested potential threats for independence and the distributions over the different organisations. Each score indicates the percentage of respondents that regard that particular suggested potential threat as a real threat for independence.**

| | Listed company | Non-listed company | Family-owned company | Healthcare institution | Housing association | Other | Total |
|---|---|---|---|---|---|---|---|
| *Shareholders* | 96.8% | 85.6% | 91.4% | 13.9% | 15.8% | 27.8% | 56.3% |
| *Employees* | 87.1% | 73.5% | 74.1% | 70.8% | 63.2% | 69.4% | 71.9% |
| *Suppliers* | 38.7% | 15.2% | 17.2% | 9.7% | 10.5% | 2.8% | 14.3% |
| *Customers* | 67.7% | 47.7% | 41.4% | 79.2% | 69.7% | 72.2% | 60.2% |
| *State* | 25.8% | 20.5% | 10.3% | 47.2% | 55.3% | 41.7% | 32.6% |
| *Society* | 71.0% | 55.3% | 41.4% | 77.8% | 78.9% | 75.0% | 64.7% |
| *Provider of debt* | 58.1% | 40.2% | 39.7% | 33.3% | 28.9% | 22.2% | 36.5% |
| *N* | 31 | 132 | 58 | 72 | 76 | 36 | 405 |

**Table 4: The scores of the different suggested stakeholders and the distributions over the different organisations. Each score indicates the percentage of respondents that regard that particular suggested stakeholder as a stakeholder whose interests should be looked after by an internal supervisor.**

| | Cluster 1 | | Cluster 2 | | | |
|---|---|---|---|---|---|---|
| | **N** | **Mean** | **N** | **Mean** | **F-test** | **P-value** |
| *Monitoring for* | | | | | | |
| *Shareholders* | 288 | 0.667 | 129 | 0.302 | 53.811 | 0.000* |
| *Employees* | 288 | 0.622 | 129 | 0.899 | 35.894 | 0.000* |
| *Suppliers* | 288 | 0.066 | 129 | 0.310 | 48.589 | 0.000* |
| *Customers* | 288 | 0.438 | 129 | 0.953 | 128.519 | 0.000* |
| *State* | 288 | 0.135 | 129 | 0.744 | 235.128 | 0.000* |
| *Society* | 288 | 0.503 | 129 | 0.938 | 87.807 | 0.000* |
| *Debt providers* | 288 | 0.337 | 129 | 0.434 | 3.646 | 0.057*** |
| *Other* | 288 | 0.049 | 129 | 0.062 | 0.319 | 0.572 |
| *Threats for independence* | | | | | | |
| *Any share* | 288 | 0.507 | 129 | 0.380 | 5.834 | 0.016** |
| *Shareholder exceeding…* | 288 | 0.094 | 129 | 0.163 | 4.191 | 0.041** |
| *Long tenure* | 288 | 0.486 | 129 | 0.628 | 7.282 | 0.007* |
| *Business relationship* | 288 | 0.587 | 129 | 0.891 | 41.696 | 0.000* |
| *Former executive* | 288 | 0.403 | 129 | 0.721 | 39.299 | 0.000* |
| *Family relationship* | 288 | 0.597 | 129 | 0.814 | 19.555 | 0.000* |
| *Personal relationship* | 288 | 0.476 | 129 | 0.705 | 19.783 | 0.000* |
| *Other* | 288 | 0.024 | 129 | 0.039 | 0.664 | 0.416 |

**Table 5: Results from the cluster analysis. The group of respondents is divided into two clusters based on their answers to the questions whose interests should be looked after and which suggested potential threats for independence are a real threat for independence. Differences between the clusters are tested with an F-test. The P-values are given in the last column.**

*** Significant at a 90% confidence levels, ** Significant at 95% confidence level, * significant at a 99% confidence level.

| | Total | | Cluster 1 | | Cluster 2 | | | |
|---|---|---|---|---|---|---|---|---|
| | N | Mean | N | Mean | N | Mean | F-test | P-value |
| *Age* | 413 | 58.833 | 284 | 59.268 | 129 | 57.876 | 2.859 | 0.092*** |
| *Percentage male* | 417 | 0.798 | 288 | 0.829 | 129 | 0.729 | 5.636 | 0.018** |
| *First NED-position at age of* | 413 | 49.199 | 284 | 49.982 | 129 | 47.473 | 7.563 | 0.006* |
| *Experience* | 409 | 9.775 | 280 | 9.486 | 129 | 10.403 | 1.482 | 0.224 |
| *Education* | 414 | | 285 | | 129 | | | |
| *WO* | *300* | 0.725 | *203* | 0.712 | *97* | 0.752 | 0.976 | 0.324 |
| *HBO* | *98* | 0.237 | *71* | 0.249 | *27* | 0.209 | 0.685 | 0.408 |
| *MO* | *16* | 0.039 | *11* | 0.039 | *5* | 0.039 | 0.001 | 0.978 |
| *Background* | 417 | | 288 | | 129 | | | |
| *Entrepreneur* | *170* | 0.408 | *134* | 0.465 | *36* | 0.279 | 13.134 | 0.000* |
| *Subject specialist* | *140* | 0.336 | *89* | 0.309 | *51* | 0.395 | 2.984 | 0.085*** |
| *Knowledge specialist* | *61* | 0.146 | *36* | 0.125 | *25* | 0.194 | 3.388 | 0.066*** |
| *Else* | *77* | 0.185 | *51* | 0.177 | *26* | 0.202 | 0.353 | 0.553 |
| *Number of NED-positions* | 410 | 2.415 | 281 | 2.480 | 129 | 2.271 | 1.133 | 0.288 |
| *Time spent* | 404 | 22.490 | 279 | 22.971 | 125 | 21.416 | 0.271 | 0.603 |
| *Remuneration (EUR)* | 410 | | 281 | | 129 | | | |
| *< 5.000* | *76* | 0.185 | *40* | 0.142 | *36* | 0.279 | 12.030 | 0.001* |
| *5.000 - 10.000* | *101* | 0.246 | *65* | 0.231 | *36* | 0.279 | 1.381 | 0.241 |
| *10.000 - 25.000* | *119* | 0.290 | *93* | 0.331 | *26* | 0.202 | 6.505 | 0.011** |
| *25.000 - 50.000* | *59* | 0.144 | *43* | 0.153 | *16* | 0.124 | 0.467 | 0.495 |
| *50.000 - 100.000* | *35* | 0.085 | *27* | 0.096 | *8* | 0.062 | 1.165 | 0.281 |
| *> 100.000* | *20* | 0.049 | *13* | 0.046 | *7* | 0.054 | 0.162 | 0.688 |
| *Type of organisation* | 405 | | 278 | | 127 | | | |
| *Listed company* | *31* | 0.077 | *21* | 0.076 | *10* | 0.079 | 0.027 | 0.869 |
| *Non-listed company* | *132* | 0.326 | *111* | 0.399 | *21* | 0.165 | 21.358 | 0.000* |
| *Family-owned company* | *58* | 0.143 | *50* | 0.180 | *8* | 0.063 | 9.431 | 0.002* |
| *Healthcare institution* | *72* | 0.178 | *35* | 0.126 | *37* | 0.291 | 17.681 | 0.000* |
| *Housing association* | *76* | 0.188 | *41* | 0.147 | *35* | 0.276 | 10.135 | 0.002* |
| *Else* | *36* | 0.089 | *20* | 0.072 | *16* | 0.126 | 3.377 | 0.067*** |
| *Number of employees* | 408 | | 281 | | 127 | | | |
| *< 10* | *17* | 0.042 | *16* | 0.057 | *1* | 0.008 | 5.247 | 0.022** |
| *10 - 50* | *59* | 0.145 | *45* | 0.160 | *14* | 0.110 | 1.669 | 0.197 |
| *50 - 250* | *131* | 0.321 | *85* | 0.302 | *46* | 0.362 | 1.560 | 0.212 |
| *250 - 500* | *62* | 0.152 | *40* | 0.142 | *22* | 0.173 | 0.703 | 0.402 |
| *500 - 1.000* | *43* | 0.105 | *28* | 0.100 | *15* | 0.118 | 0.348 | 0.555 |
| *1.000 - 10.000* | *79* | 0.194 | *57* | 0.203 | *22* | 0.173 | 0.433 | 0.511 |
| *> 10.000* | *17* | 0.042 | *10* | 0.036 | *7* | 0.055 | 0.868 | 0.352 |
| *Independence in board* | 397 | 0.822 | 269 | 0.785 | 128 | 0.900 | 11.447 | 0.001* |
| *Number of meetings* | 396 | 6.384 | 268 | 6.257 | 128 | 6.648 | 2.088 | 0.149 |
| *Committees* | 417 | | 288 | | 129 | | | |
| *Audit* | *193* | 0.463 | *122* | 0.424 | *71* | 0.550 | 5.812 | 0.016** |
| *Remuneration* | *121* | 0.290 | *75* | 0.260 | *46* | 0.357 | 4.020 | 0.046** |
| *Selection* | *95* | 0.228 | *64* | 0.222 | *31* | 0.240 | 0.165 | 0.685 |
| *Remuneration & Selection* | *66* | 0.158 | *42* | 0.146 | *24* | 0.186 | 1.079 | 0.300 |
| *Other* | *119* | 0.285 | *87* | 0.302 | *32* | 0.248 | 1.273 | 0.260 |

**Table 6: Results from the discriminant analysis. The table gives the characteristics of the two clusters from Table 5. Age, gender, experience, the age of the first supervisory board position, education, background, number of supervisory board positions, time spent on these positions, remuneration, type of**

**organisation, number of employees and characteristics of their supervisory board, such as independence, number of meetings and the subcommittees. Differences between the clusters are tested with an F-test. The P-values are given in the last column.**

*** Significant at a 90% confidence levels, ** Significant at 95% confidence level, * significant at a 99% confidence level.

| | Profit | | Non-profit | | | |
|---|---|---|---|---|---|---|
| | N | Mean | N | Mean | F-test | P-value |
| *Monitoring for* | | | | | | |
| *Shareholders* | 196 | 0.887 | 221 | 0.179 | 424.715 | 0.000* |
| *Employees* | 196 | 0.756 | 221 | 0.653 | 5.325 | 0.022** |
| *Suppliers* | 196 | 0.190 | 221 | 0.087 | 9.287 | 0.002* |
| *Customers* | 196 | 0.489 | 221 | 0.719 | 24.205 | 0.000* |
| *State* | 196 | 0.186 | 221 | 0.480 | 45.290 | 0.000* |
| *Society* | 196 | 0.538 | 221 | 0.750 | 21.042 | 0.000* |
| *Debt providers* | 196 | 0.425 | 221 | 0.301 | 6.994 | 0.008* |
| *Other* | 196 | 0.045 | 221 | 0.061 | 0.529 | 0.468 |
| *Threats for independence* | | | | | | |
| *Any share* | 196 | 0.498 | 221 | 0.434 | 1.711 | 0.192 |
| *Shareholder exceeding…* | 196 | 0.167 | 221 | 0.056 | 12.965 | 0.000* |
| *Long tenure* | 196 | 0.462 | 221 | 0.607 | 8.989 | 0.003* |
| *Business relationship* | 196 | 0.629 | 221 | 0.740 | 5.930 | 0.015** |
| *Former executive* | 196 | 0.407 | 221 | 0.607 | 17.210 | 0.000* |
| *Family relationship* | 196 | 0.584 | 221 | 0.755 | 14.079 | 0.000* |
| *Personal relationship* | 196 | 0.484 | 221 | 0.617 | 7.534 | 0.006* |
| *Other* | 196 | 0.023 | 221 | 0.036 | 0.635 | 0.426 |

**Table 7: The answers for profit and non-profit organisations for the questions whose interests should be looked after and which suggested potential threats for independence are a real threat for independence. The group of respondents is divided into two groups of internal supervisors: internal supervisors at profit and non-profit organisations. Differences between the two groups are tested with an F-test. The P-values are given in the last column.**

*** Significant at a 90% confidence levels, ** Significant at 95% confidence level, * significant at a 99% confidence level.

| | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Age | 0.21* | 0.63* | 0.34* | 0.17* | 0.17* | -0.21* | -0.11** | 0.14* | 0.08 | 0.06 | 0.08 | 0.05 | 0.00 | 0.04 | -0.08 | 0.04 | -0.04 | 0.05 |
| 2 Percentage Male | 1.00 | 0.08 | 0.12** | 0.11** | 0.07 | -0.12** | -0.08 | 0.09*** | 0.03 | 0.07 | 0.09*** | -0.02 | 0.18* | 0.19* | -0.18* | -0.13* | -0.06 | -0.10** |
| 3 First NED-position at age of | | 1.00 | -0.52* | -0.16* | -0.09*** | -0.05 | 0.03 | 0.11** | -0.05 | -0.08*** | -0.10** | -0.02 | -0.04 | -0.05 | -0.05 | 0.13* | -0.02 | 0.01 |
| 4 Experience | | | 1.00 | 0.38* | 0.31* | -0.19* | -0.17* | 0.01 | 0.14* | 0.17* | 0.23* | 0.07 | 0.04 | 0.1** | -0.03 | -0.13* | -0.04 | 0.04 |
| 5 Number of NED-positions | | | | 1.00 | 0.64* | -0.27* | -0.29* | -0.03 | 0.15* | 0.36* | 0.42* | 0.12** | 0.13* | 0.01 | -0.02 | -0.15* | -0.1** | 0.02 |
| 6 Time spent | | | | | 1.00 | -0.25* | -0.21* | -0.07 | 0.06 | 0.30* | 0.50* | 0.21* | 0.08 | -0.02 | -0.11** | -0.06 | -0.07 | 0.02 |
| 7 Remuneration < 5,000 | | | | | | 1.00 | -0.27* | -0.30* | -0.19* | -0.14* | -0.11** | -0.13* | -0.09*** | -0.12** | 0.20* | -0.05 | 0.25* | -0.04 |
| 8 5,000 - 10,000 | | | | | | | 1.00 | -0.36* | -0.23* | -0.17* | -0.13* | -0.16* | -0.04 | -0.05 | 0.01 | 0.24* | -0.07 | 0.02 |
| 9 10,000 - 25,000 | | | | | | | | 1.00 | -0.26* | -0.19* | -0.14* | -0.06 | 0.00 | 0.02 | 0.01 | 0.05 | -0.01 | 0.05 |
| 10 25,000 - 50,000 | | | | | | | | | 1.00 | -0.12** | -0.09*** | 0.09*** | 0.00 | 0.21* | -0.09*** | -0.10** | -0.05 | -0.02 |
| 11 50,000 - 100,000 | | | | | | | | | | 1.00 | -0.07 | 0.21* | 0.17* | -0.02 | -0.09*** | -0.14* | -0.09*** | -0.02 |
| 12 > 100,000 | | | | | | | | | | | 1.00 | 0.28* | 0.06 | -0.03 | -0.1** | -0.11** | -0.07 | -0.03 |
| 13 Listed company | | | | | | | | | | | | 1.00 | -0.19* | -0.11** | -0.13* | -0.13* | -0.09*** | 0.03 |
| 14 Non-listed company | | | | | | | | | | | | | 1.00 | -0.27* | -0.31* | -0.32* | -0.21* | -0.16* |
| 15 Family-owned company | | | | | | | | | | | | | | 1.00 | -0.18* | -0.19* | -0.12** | -0.20* |
| 16 Healthcare institution | | | | | | | | | | | | | | | 1.00 | -0.22* | -0.14* | 0.17* |
| 17 Housing association | | | | | | | | | | | | | | | | 1.00 | -0.15* | 0.19* |
| 18 Else | | | | | | | | | | | | | | | | | 1.00 | -0.02 |
| 19 Independence in board | | | | | | | | | | | | | | | | | | 1.00 |

**Table 8: Results of a Pearson two-tailed correlation test.** *** Significant at a 90% confidence levels, ** Significant at 95% confidence level, * significant at a 99% confidence level.