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### On board(s)

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**On Board(s):  
Studying Boards of Directors as Human Decision Making Groups**

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Studying Boards of Directors as Human Decision Making Groups

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# CHAPTER 1

## INTRODUCTION

*“The directors of such [joint stock] companies, ... being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. ... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.” (Smith, 1776, p. 941)*

Although the term ‘corporate governance’ did not exist until fifty years ago<sup>1</sup>, its origin is believed to be found in Adam Smith’s magnum opus *An Inquiry into the Nature and Causes of the Wealth of Nations*. As lamented by Smith in 1776, managers may act with profusion and negligence when they do not bear the wealth effects of their decisions. In accordance with this view, the most prominent lens in the field of governance research has been agency theory (Dalton, Hitt, Certo, & Dalton, 2007; Jensen & Meckling, 1976). Specifically, principal-agent theory holds that managers are self-interested agents and agency problems arise when there is a separation of ownership and control (Berle & Means, 1932; Fama & Jensen, 1983). Consequently, in order to curb managerial opportunism various governance arrangements, both internal and external to the organization, can be employed to help align the conflicting interests of managers and

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<sup>1</sup> “The first documented use of the word "corporate governance" is by Richard Eells (1960, pg. 108) to denote "the structure and functioning of the corporate polity".”, <http://en.wikipedia.org/wiki/Governance>, accessed 12-2-2012.

stakeholders of the organization (Walsh & Seward, 1990). As such, the topic of how to effectively govern organizations is of substantial interest to investors, labor unions, politicians, regulatory bodies, as well as to academic scholars from many different fields.

The board of directors may be considered as an important governance mechanism. Residing at the top of the organizational structure the board is charged with the fiduciary responsibility to ensure that senior management best serves the interests of the organization (Daily, Dalton, & Cannella Jr., 2003; Shleifer & Vishny, 1997). By emphasizing the board of directors' role in monitoring and disciplining senior management, governance scholars have placed boards at the center of corporate governance (Finkelstein & Hambrick, 1996). Yet, while issues of control over executives and independence of oversight have dominated research on boards of directors, decades of dialogue and data on board structure has failed to materialize in unequivocal findings (Daily et al., 2003), thereby prompting calls for a richer and more behaviorally oriented understanding of boards of directors (Forbes & Milliken, 1999; Hambrick, Werder, & Zajac, 2008; Hillman, Nicholson, & Shropshire, 2008).

An understudied fact in the field of governance is that boards are first and foremost workgroups of individual directors. In this dissertation I propose that to better understand the determinants of board governance effectiveness, scholars and practitioners may greatly benefit from an increased understanding of the behavioral dynamics operating between directors. Accordingly, the goal of this dissertation is to provide a richer and more in-depth examination of board functioning. To do so, I draw topics from the governance literature deemed most relevant for the functioning of boards and I study these topics by employing theoretical and methodological insights from the field of

organizational behavior and social psychology. Rather than interpreting boards of directors as monolithic entities I study boards as human decision making groups at different levels of analysis.

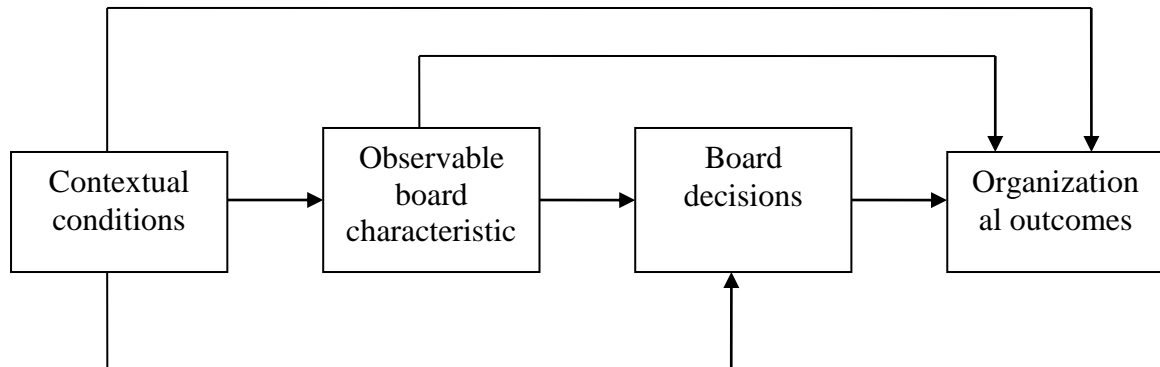
### **Research on Boards of Directors**

One of the most salient characteristics of boards of directors is that they are an elite group. Although board members meet in private, the outcomes of their decisions are subject to public scrutiny. This elite nature of boards makes access to these boards difficult (McNulty & Pettigrew, 1999; Pettigrew, 1992), thereby limiting scholars' opportunity to study decision making processes operating within boards. Indeed, in a recent review study, Adams, Hermalin and Weisbach (2010) reiterate that governance scholars would like to capture differences in directors behaviors, but because it is difficult to observe and quantify these behaviors from the outside, empirical work on boards focuses on structural board characteristics instead. Such board characteristics are then presumed to correlate with differences in behavior. Several scholars have argued, however, that by not studying the intermediate mechanisms that link observable board characteristics to observable outcomes, essentially interpreting boards as a 'black box' may lead to empirical fallacies in the analysis of board processes (Lawrence, 1997).

Figure 1.1 is drawn from Finkelstein, Hambrick & Cannella Jr (2009) and presents a simplified schematic overview of how boards of directors are generally studied. Although, I recognize the endogenous nature of board composition (for a detailed account see Adams et al., 2010), for matters of parsimony I present a directional schematic model in line with Finkelstein et al. (2009). Specifically, board composition is influenced by contextual conditions. These contextual conditions include contingencies

faced by the organization (e.g., environmental uncertainty), institutional forces (e.g., social class influences) and agency conditions (e.g. management-board power differences). Observable board characteristics, like the size of the board and the proportion of formally independent directors, are then expected to predict board decisions (e.g., executive remuneration) or organizational outcomes directly. Board decisions, in turn, influence organizational performance. Contextual conditions (e.g., external events) can also influence board decision or organizational outcomes directly.

Figure 1.1: A Model of Research on Boards of Directors (based on Finkelstein et al., 2009)



As adhered to, an important caveat of this approach is that inferential leaps are made between the various proxies and the internal processes which presumably link inputs to outputs (Lawrence, 1997; Pettigrew, 1992). For example, the proportion of formally independent directors – as an observable board characteristic – is believed to provide an accurate proxy for the board’s incentive to monitor management, because formally independent directors are less dependent on the organization. The proportion of formally independent directors is then expected to be positively related to organizational



performance, because boards with a larger proportion on formally independent directors limit agency costs. Formal independence, however, does neither motivate directors to be knowledgeable about organizational affairs nor does it reflect a director's ability to objectively scrutinize managerial decision making per se (cf. Hillman & Dalziel, 2003).

Specifically, by not explicitly studying the mediating mechanisms related to the functioning of boards, such an approach relies on unquestioned behavioral assumptions pertaining to the functioning of boards and that of individual directors (van Ees, Gabrielsson, & Huse, 2009). Indeed, despite a considerable amount of empirical research on linking observable board characteristics to board decisions and organizational performance, the results have remained ambiguous, as can be concluded in several meta-analyses and overview papers on board research (e.g. Daily et al., 2003; Dalton, Daily, Certo, & Roengpitya, 2003; Dalton, Daily, Ellstrand, & Johnson, 1998). Similarly, also at a practical level, regulators proscribe provisions for observable board characteristics maintaining that 'correct' board composition in terms of director independence or gender will stimulate board vigilance and foster superior organizational performance.

Logic, anecdotal evidence, suggests, however, that such formal requirements do not necessarily lead to board effectiveness (Dowell, Shackell, & Stuart, 2011). A director quoted in Carter & Lorsch (2004, p. 15), for instance notes that "*our board satisfies all requirements of Cadbury, Greenbury and Hampel, but our board meetings are a complete waste of time*". There is much we do not know about the inner working and of boards (Daily et al., 2003; Hambrick et al., 2008) and the search for parsimony may have led governance scholars to oversimplify the causal chain linking observable board characteristics to organizational performance (Ravasi & Zattoni, 2006; Stiles & Taylor,

2001). An account that acknowledges that boards act as human decision making groups is warranted.

### **On Board(s): A Behavioral Perspective on Boards of Directors**

The paucity of consistent empirical findings in board research has prompted calls for a richer and more behavioral oriented understanding of boards of directors (Daily et al., 2003; Hambrick et al., 2008; Hillman et al., 2008; van Ees et al., 2009). A behavioral perspective on corporate governance acknowledges that micro-social forces, derived from social psychology affect board outcomes (Westphal, 1998). These micro-social forces consist of group level processes, the influence of individual level characteristics, and interpersonal relations between individuals. Accordingly, when we interpret boards as human decision making groups there are many mediating mechanisms at these different levels of analysis that are not captured when studying the direct link between observable board characteristics and observable board outcomes.

In order to understand the inner workings of boards we need to study board processes at different levels of analysis. Consequently, the research question of this thesis is how selected micro-social forces within boards of directors, deemed most relevant for the functioning of boards at different levels of analysis, affect board decision making processes. I study these topics at the aforementioned distinct, albeit interrelated, levels of analysis: the board level of analysis, the director level of analysis, and the dyadic level of analysis. I employ faultline theory and social categorization theory to study subgroup formation and conflict management at the board level of analysis. At the individual level of analysis, I draw from social identity theory to study determinants of director task performance. At the dyadic and individual level of analysis I incorporate insights from

status characteristics theory to gauge the determinants and consequences of status differences among directors.

### **Overview of this Dissertation**

In the chapters that follow, I present three empirical studies designed to study boards as human decision making groups at these different levels of analysis. I do so by employing three unique datasets. First, the study at the group level of analysis incorporates data on decision making processes within 313 Dutch pension fund boards and was conducted in cooperation with Montae and De Nederlandsche Bank. In return for participation, all participating pension fund boards received a tailored report concerning board processes of their particular board. Second, the study at the individual level of analysis incorporates data on 154 non-executive directors from 30 Dutch housing corporations. Access to boards of these housing corporations was acquired in cooperating with the VTW and ProBoards, all chairpersons of the participating organization were individually contacted and interviewed to garner commitment and cooperation from all board members of a particular housing corporation. Third, at the individual and dyadic level 57 non-executive directors from 10 organizations provided 341 interpersonal ratings. I personally interviewed all executive and non-executive directors of these organizations and in return for full cooperation by all directors Jaap van Manen and I provided a detailed board evaluation for these participating organizations that was based on survey data and interview data.

In chapter 2, at the board level of analysis, I examine perceived subgroup formation and conflict management strategies within pension fund boards as a result of social categorization processes. It is proposed that demographic faultlines foster subgroup

formation, thereby negatively affecting board functioning (see Lau & Murnighan, 1998). Specifically, whereas studies on boards of directors generally interpret demographic differences between directors as a source of information that may benefit the board, these demographic differences may also engender subgroupings within boards, thereby negatively affecting board functioning. Thus, by explicitly studying the mediating mechanisms linking board diversity to board decision making, attention is given to the possible detrimental effects from board diversity. Additionally, it is argued that reflecting on board functioning (e.g., board evaluations) can attenuate these negative effects from demographic faultlines. This may be considered as an important message for scholars and practitioners.

Chapter 3 focuses on director task performance at the individual level of analysis. Specifically, I draw from social identity theory (Tajfel, 1978) to demonstrate that salient social identities act as important antecedents for director task performance. In particular, organizational identification and director identification are considered as relevant salient identities for directors in performing their task as directors of an organization (Hillman et al., 2008). An important premise of this chapter is that formal independence does neither necessarily motivate directors to be knowledgeable about organizational affairs nor does it reflect a director's ability to objectively scrutinize managerial decision making per se (cf. Hillman & Dalziel, 2003). Instead, a director's social identification with the organization and social identification with being a director provide more proximal antecedents for director task performance.

Chapter 4 takes status differences at the individual director level and dyadic level of analysis as an important behavioral topic for boards of directors. In this chapter I focus

on a simple question pertaining to who has the most and who has the least say within the boardroom. Like in any social group, status differences are neither absent nor irrelevant, and inevitably emerge within boards (cf. Magee & Galinsky, 2008), bestowing some directors with the right to perform certain actions, while refusing this to others (cf. Anderson, Srivastava, Beer, Spataro, & Chatman, 2006; Berger, Rosenholtz, & Zelditch, 1980). Consequently, the functioning of directors at the individual and dyadic level of analysis is to a large extent dependent on such informal status differences within boards of directors.

In sum, these different theoretical perspectives all have clear theoretical bearing with topics relevant for the functioning of boards as human decision making groups and aid towards an increased understanding of how boards function. Figure 1.2 contains a conceptual overview of this current dissertation. The upper part of Figure 1.2 replicates the model that was already introduced in Figure 1.1. The lower part of Figure 1.2 presents a detailed exposition of the linkage between observable board characteristics and observable board outcomes and emphasizes that there are many mediating mechanisms at different levels of analysis operating between observable board characteristics and board decisions. It is worth mentioning that not all relationships presented in Figure 1.2 are dealt with in this dissertation. Specifically, I have not focused on the relationship between director interactions at the dyadic level of analysis and board processes at the group level of analysis nor have I studies board decisions itself. Notwithstanding, Figure 1.2 indicates that in order to understand the linkage between board characteristics and board outcomes careful study of intermediate mechanisms is warranted. A schematic overview of the

different chapters is presented in Figure 1.3. A general conclusion with an overview on the main findings and avenues for further research is presented in chapter 5.

Figure 1.2: A Behavioral Perspective on Boards of Directors

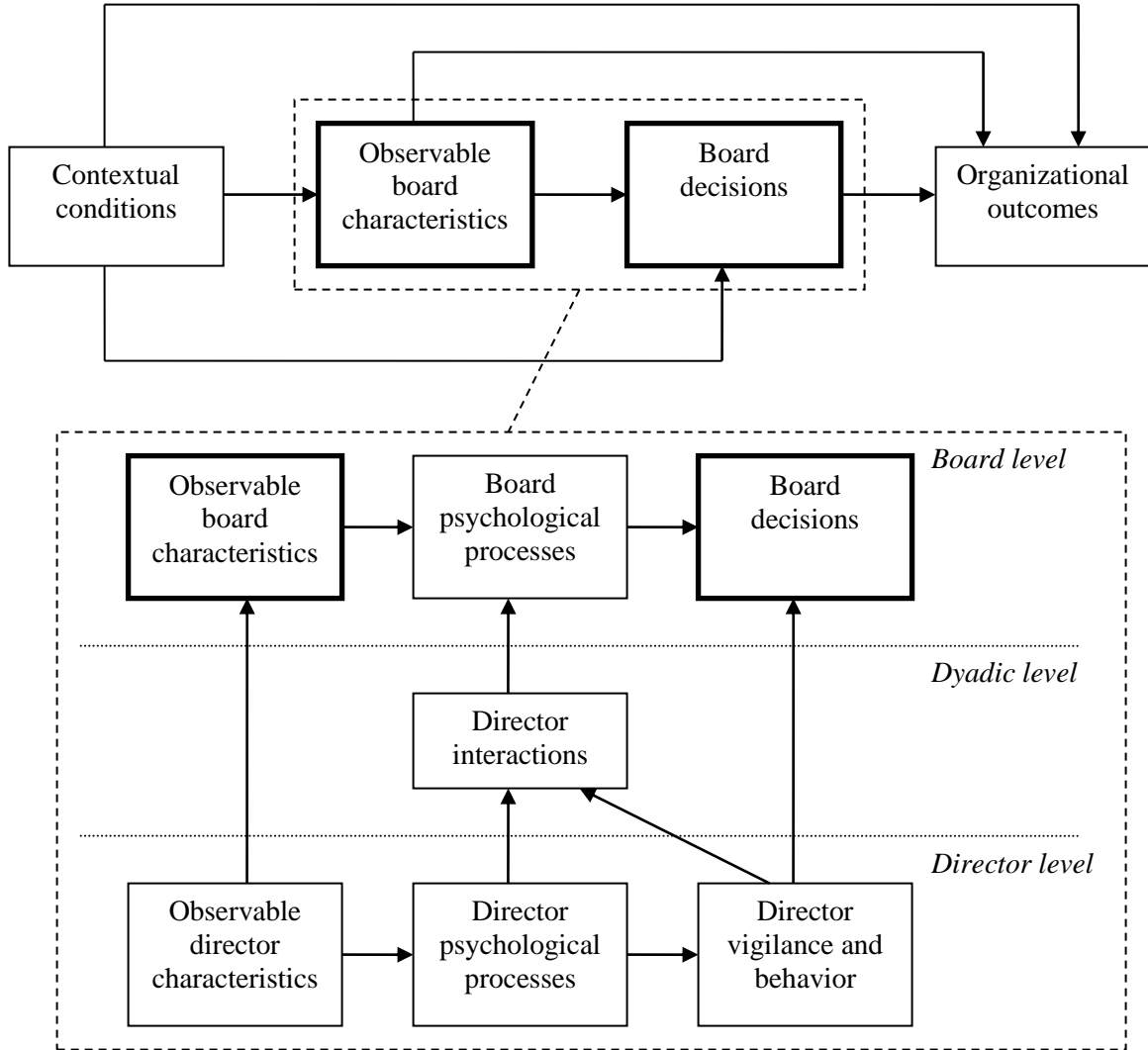
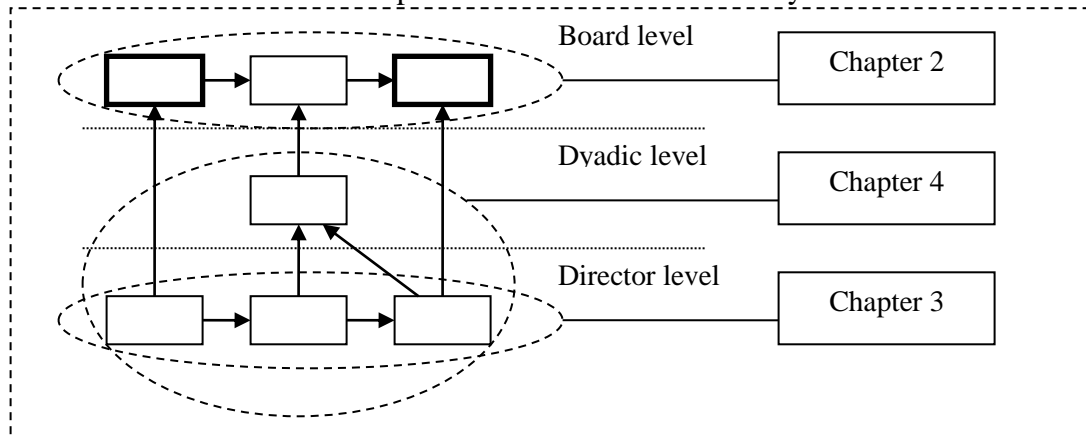


Figure 1.3: Overview dissertation chapters at different levels of analysis



## CHAPTER 2

### A TALE OF TWO FACTIONS

*Board members bring their individual and constituencies' interests and commitments to the board (Goodstein, Gautam, & Boeker, 1994, p. 243)*

There are several situations in which board members do not come to a board as independent entities, but rather as representatives of specific (interest) groups. For instance, following a merger, the board of directors of the newly formed organization will usually consist of board members from the two merged organizations. Similarly, boards of joint ventures will have board members who are appointed as delegates to protect their parents' interests (Hambrick, Li, Xin, & Tsui, 2001). Executives and non-executives can also be regarded as two subgroups that represent different interests (cf. Kaczmarek, Kimino, & Pye, forthcoming). A similar case can be made for boards of family firms. Research has shown that founding families have substantial stakes in the largest companies around (Anderson & Reeb, 2004; La Porta, Lopez-de-Silanes, & Shleifer, 1999) and the boards of these firms consist of family and non-family board members who represent two different stakeholder groups. In this study we argue that board members with different delegate affiliations can be viewed as “factional groups”, i.e. “groups in which members are representatives, or delegates, from a small number of (often just two) social entities and are aware of, and find salience in, their delegate status” (Li & Hambrick, 2005, p. 794).

Factional affiliations among board members impose a first-order demarcation, affecting how additional elements of board member characteristics influence board



decision making processes (Li & Hambrick, 2005). Accordingly, when demographic characteristics align with factional affiliations – e.g., one factional group consisting of women in their thirties and one of men in their sixties – the demographic faultline between these factions will be strong. Demographic faultlines allow predictions about board processes that are difficult to generate with customary evaluations of diversity in terms of variety (see Harrison & Klein, 2007; Lau & Murnighan, 1998; Lau & Murnighan, 2005; Li & Hambrick, 2005). Importantly, faultline theory draws attention to negative effects of group diversity that have largely been ignored by the literature on board composition. In accordance with social categorization theory, demographic faultlines are likely to be associated with in-group/out-group stereotyping (Lau & Murnighan, 1998; Li & Hambrick, 2005; Tajfel, 1978), which, in turn, can be expected to have disruptive consequences for board decision making processes.

We extend research on boards of directors and faultline theory in four distinct ways. First, we address both the question why and when diversity has detrimental effects on board processes and the issue of how to manage social categorization processes by reflecting on board functioning. In this context, although a great deal of literature on board composition interprets board diversity as a source of information that may benefit the board, few have interpreted diversity as a factor engendering subgroupings within boards, thereby negatively affecting board functioning. Admittedly, a number of recent studies acknowledge the possible disruptive effects of faultlines for boards of directors (e.g., Kaczmarek et al., forthcoming; Tuggle, Schnatterly, & Johnson, 2010a), yet these studies do not consider the process through which faultlines hamper board functioning. In this context, an important contribution of our present study is that we examine the process

through which faultlines affect board functioning. We do so on the basis of information on boards of Dutch pension funds. These boards are responsible for strategic investment choices. Pension fund boards provide an interesting setting, because they consist of pre-established factional groups: their members are representatives of either employers or pension fund participants. A second important contribution of our current study is that we draw attention to the effect of faultlines on the way in which diverging interests are integrated and balanced during board deliberations. The management of such divergent interests is referred to as conflict management (De Dreu, Evers, Beersma, Kluwer, & Nauta, 2001; Somech, Desivilya, & Lidogoster, 2009), which may be considered as an important determinant of effective decision making (cf. Kaufman & Englander, 2005; Lan & Heracleous, 2010). Accordingly, we believe that an important contribution of our work is that it studies the determinants of conflict management within boards of directors. Given the importance for boards of managing divergent interests effectively, it is striking to note that conflict management has not been explicitly addressed in the literature on boards.

Third, we contribute to the faultline literature by empirically investigating the mediating role of perceived subgroup formation as implied by social categorization and faultline theory. Indeed, whereas the literature on demographic faultlines has steadily increased and although diversity researchers have stressed that studies actually assessing subgroup formation as the categorization process implied by faultline theory are necessary (e.g. Homan, Greer, Jehn, & Koning, 2010; Jehn & Bezrukova, 2010; Spell, Bezrukova, Haar, & Spell, 2011), few studies have actually assessed the in-group/out-group categorization process that lies at the heart of faultline theory (see Thatcher &

Patel, 2011, for a recent meta-analysis). We fill this research gap by including perceived subgroup formation as the mediating mechanism linking factional demographic faultlines to conflict management strategies within boards.

Fourth, we identify an important factor that attenuates the influence of factional demographic faultlines on social categorization processes, namely board reflexivity. Reflexivity is defined as the extent to which board members reflect on and adapt board functioning (cf. West, 1996; West, Garrod, & Carletta, 1997). Specifically, board reflexivity entails behavior affiliated with board evaluations, which are believed to be critical for the effective functioning of boards, because they facilitate reflection on board functioning (Kiel & Nicholson, 2005; Minichilli, Gabrielsson, & Huse, 2007; Sonnenfeld, 2002). Indeed, board evaluations are one of the principal requirements in many corporate governance codes (Minichilli et al., 2007). Notwithstanding the critical role ascribed to reflection on board functioning, however, no study that we are aware of has empirically assessed the moderating role of board reflexivity. Our empirical demonstration of the attenuating role of board reflexivity may therefore be considered as an important contribution to the extant board literature with clear implications for corporate practice.

## **Theoretical Background**

### ***Factional Demographic Faultlines***

Lau and Murnighan (1998) introduced the concept of the demographic faultline as a potential dividing line that divides a group's members on the basis of one or more attributes. A strong faultline exists when each subgroup is relatively homogeneous or tightly clustered around its own central tendency (e.g., all men are in their sixties) and the central tendencies of the two subgroups differ widely (e.g., all men are in their sixties and

all women are in their thirties). Faultline theory has its theoretical rationale in social categorization theory (Lau & Murnighan, 1998; Rico, Molleman, Sanchez-Manzanares, & Van der Vegt, 2007; van Knippenberg & Schippers, 2007). The stronger the demographic faultline, the more group members are expected to categorize themselves and others as similar in-group members and dissimilar out-group members (Tajfel, 1978), leading to ‘we-they’ distinctions and subgroup formation (Homan, Hollenbeck, Humphrey, Van Knippenberg, Ilgen, & Van Kleef, 2008; Jehn, Northcraft, & Neale, 1999; Lau & Murnighan, 1998). In this context, a recent meta-analysis by Thatcher & Patel (2011), points out that demographic faultline strength diminishes group cohesion, satisfaction, and performance outcomes.

Whereas Lau and Murnighan (1998) proposed that faultlines occur by chance (see also Barkema & Shvyrkov, 2007; Bezrukova, Jehn, Zanutto, & Thatcher, 2009; Choi & Sy, 2010; Thatcher, Jehn, & Zanutto, 2003), many groups can be viewed as having ‘engineered’ faultlines (Li & Hambrick, 2005). Specifically, when members of a group are representatives of outside entities, “a demarcation is established that becomes the basis on which other elements of demography need to be assessed” (Li & Hambrick, 2005, p. 797). Such groups consist of members that are aware of, and find salience in, their delegate status (adapted from Li & Hambrick, 2005, p. 794) and may be dubbed factional groups. In factional groups the faultline can be located according to the membership of the representative factions (Li & Hambrick, 2005). This first order demarcation, imposed by factional affiliations, affects how additional elements of demography affect board processes. A strong factional faultline then exists “when two factions differ in their averages *and* each faction is tightly clustered around its own

average” (Li & Hambrick, 2005, p. 804, emphasis in original). For example, a board in which one faction consists of men in their sixties and another faction of women in their thirties would have a strong factional demographic faultline. In accordance with social categorization and faultline theory, it can be expected that the alignment of additional demographic characteristics with such factional affiliations makes each side feel it is facing a monolithic adversary, thereby keeping members psychologically located within their factional groups.

### ***Conflict Management***

The management of divergent interests is referred to as conflict management (De Dreu et al., 2001; Somech et al., 2009). Conflict management reflects interaction patterns employed when group members deal with opposing views, and can be expected to be particularly relevant for boards of directors, especially those that consist of factional groups representing diverging interests. It is important to note here that the way group members believe one another’s’ goals to be related affects their expectations and actions, and thereby the consequences of interaction (De Dreu, 2007; Deutsch, 1973; Tjosvold, 1998). Accordingly, to better understand decision making processes in boards of directors it is critical to understand how board members choose between conflict management strategies. Indeed, several studies have shown the pervasive effects of conflict management within working teams (Behfar, Peterson, Mannix, & Trochim, 2008; Chen, Liu, & Tjosvold, 2005; Hempel, Zhang, & Tjosvold, 2009; Tekleab, Quigley, & Tesluk, 2009).

In line with Deutsch’s (1973) theory of cooperation and competition there are two main approaches to managing conflicts, namely competitive and cooperative conflict

management strategies. Competitive conflict management is characterized by low concern for the other party. Group members view their interests as incompatible with the interests of the other party; emphasizing their divergent goals, they view a conflict as a win-lose situation and do whatever is necessary to ensure that their ideas prevail. This generally leads to closed discussions and frustrated communication (Chen et al., 2005). The conflict management literature provides support for the position that competitive approaches to conflict management lead to negative outcomes (Rahim, 2000; Somech et al., 2009). Alternatively, cooperative conflict management is characterized by high levels of concern for the other party in resolving a conflict. Group members tend to work towards mutually beneficial solutions and view conflicts as a joint problem, involving exchange of information about priorities and preferences, revealing insights, and making trade-offs between important and unimportant issues (De Dreu et al., 2001). In cooperative conflict management group members handle their conflict more constructively to the benefit of team functioning (Somech et al., 2009).

As noted, when the factional demographic faultline is strong, demographic differences are more likely to result in social categorization processes leading to ‘we-they’ distinctions and inter-subgroup animosity (Homan et al., 2008; Jehn et al., 1999; Lau & Murnighan, 1998) thereby disrupting behavioral integration (Bezrukova, Thatcher, Jehn, & Spell, forthcoming; Li & Hambrick, 2005). Accordingly, we propose that factional demographic faultlines make it more likely for the factions to manage their differences in a competitive way. Therefore, we expect that factional demographic faultlines are positively related to competitive conflict management. Conversely, when

the demographic faultline is weak, polarization between the factions becomes less likely and board members can be expected to resolve their differences in a cooperative way.

*H1a: Factional demographic faultline strength will be positively related to competitive conflict management.*

*H1b: Factional demographic faultline strength will be negatively related to cooperative conflict management.*

### ***Perceived Subgroup Formation***

Diversity affects group performance to the extent that it is perceived by group members (Harrison & Klein, 2007; Homan et al., 2010; Lawrence, 1997). Pertaining to faultlines specifically, Lau & Murnighan's (1998) assert that even when faultlines appear likely, they must be made active in order to affect group processes. It is therefore important to realize that social categorization processes stemming from demographic faultlines do not always occur (van Knippenberg, Dawson, West, & Homan, 2010). The faultline must be salient for it to increase the potential for subgrouping (Jehn & Bezrukova, 2010; Lau & Murnighan, 1998). Indeed, diversity scholars have argued that it is the perception of subgroup formation, rather than demographic faultlines per se, that has negative effects on group functioning (e.g., Homan et al., 2010; Jehn & Bezrukova, 2010; Spell et al., 2011; van Knippenberg & Schippers, 2007). Thus, in the context of our current study, we should gauge the categorization processes implied by faultline theory to assess whether the factional demographic faultline is indeed salient (see also Homan et al., 2010; Jehn & Bezrukova, 2010). Specifically, we hypothesize that factional demographic faultlines are

positively related to perceived subgroup formation as the probability that group members perceive subgroups increases with the existence of stronger factional demographic faultlines.

*H2: Factional demographic faultline strength will be positively related to perceived subgroup formation.*

By extension, we argue that the effects of factional demographic faultlines on conflict management are carried through by perceived subgroup formation. It is the perceived formation of subgroups, rather than just factional demographic faultlines that influences conflict management strategies within boards of directors. We therefore hypothesize that perceived subgroup formation mediates the relationship between factional demographic faultlines and conflict management strategies.

*H3a: Perceived subgroup formation will mediate the positive relationship between factional demographic faultline strength and competitive conflict management.*

*H3b: Perceived subgroup formation will mediate the negative relationship between factional demographic faultline strength and cooperative conflict management.*



### ***Moderating Effect of Board Reflexivity***

Acknowledging that demographic faultlines do not always engender subgroupings and that the faultline must be salient for it to increase the potential for subgrouping, we can identify factors that attenuate the relationship between factional demographic faultlines and perceived subgroup formation. In this context, several authors stress the importance of board evaluations, because such evaluations facilitate board members to reflect on past board functioning and adapt board processes and procedures accordingly (e.g., Conger, Finegold, & Lawler, 1998; Demb & Neubauer, 1992; Kiel & Nicholson, 2005; Leblanc, 2005; Sonnenfeld, 2002; Zahra & Pearce, 1989).

From a salience of categorization perspective, reflecting on board functioning should stimulate board members to build a shared frame of reference (van Ginkel & van Knippenberg, 2009). Openly discussing dysfunctional routines and views about performance problems concerning the board as a whole fosters the reframing of cognitive representations (de Jong & Elfring, 2010; Schippers, Den Hartog, Koopman, & van Knippenberg, 2008; West, 2000). Research by Van der Vegt et al. (2010), for instance, demonstrates that group feedback promotes a collective orientation within workgroups fostering orientation towards the workgroup as a whole. Similarly, Bezrukova et al. (forthcoming) point out that without shared goals and expectations, group members are more likely to categorize themselves and others into subgroups on the basis of differences (see also van Knippenberg et al., 2010).

Board reflexivity entails behavior associated with board evaluations. Board (or team) reflexivity is conceptualized as “the extent to which group members overtly reflect upon, and communicate about the group’s objectives, strategies and processes, and adapt

them to current or anticipated circumstances” (West et al., 1997, p. 296). It involves behaviors such as questioning, debating, exploratory learning, analyzing, divertive exploration, making explicit use of knowledge and reviewing past events (West, 1996). Reflexivity has been identified as an important instrument for identifying and addressing disruptive processes within teams (Nederveen-Pieterse, Van Knippenberg, & Van Ginkel, 2011; Schippers, Den Hartog, & Koopman, 2007; Schippers, Den Hartog, Koopman, & Wienk, 2003; West, 2000). Recent research by Nederveen-Pieterse et al. (2011), indeed, demonstrates that reflexivity is instrumental in creating a shared understanding in workgroups and thus reduces the negative effects from diversity. We therefore hypothesize that board reflexivity attenuates the relationship between factional demographic faultlines and perceived subgroup formation, because it is likely to render demographic subgroupings less salient.

*H4: Board reflexivity will moderate the relationship between factional demographic faultline strength and perceived subgroup formation, such that the relationship between factional demographic faultline strength and perceived subgroup formation will be weaker when board reflexivity is high.*

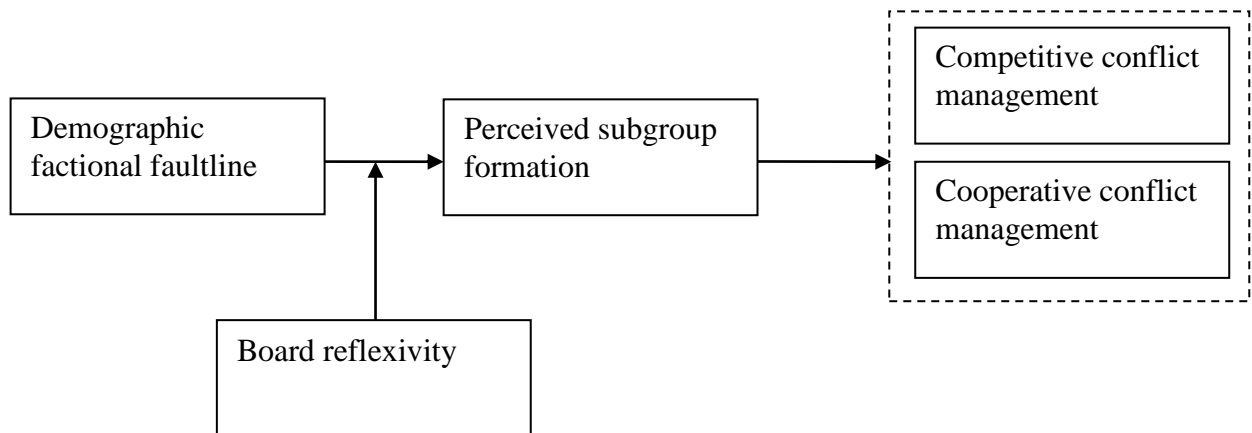
Assuming that board reflexivity moderates the relationship between factional demographic faultlines and perceived subgroup formation, board reflexivity is also likely to influence the strength of the indirect relationship (i.e. through perceived subgroup formation) between factional demographic faultlines and competitive conflict management and cooperative conflict management, respectively – thereby predicting a

pattern of moderated mediation (or conditional indirect effects), as depicted in Figure 1. Because we predict a weak relationship between factional demographic faultlines and perceived subgroup formation when board reflexivity is high and a strong relationship between factional demographic faultlines when board reflexivity is low, we hypothesize the following;

*H5a: Board reflexivity will moderate the positive indirect effect of factional demographic faultline strength on competitive conflict management (through perceived subgroup formation). Specifically, perceived subgroup formation will mediate this indirect effect when board reflexivity is low but not when it is high.*

*H5b: Board reflexivity will moderate the negative indirect effect of factional demographic faultline strength on cooperative conflict management (through perceived subgroup formation). Specifically, perceived subgroup formation will mediate this indirect effect when board reflexivity is low but not when it is high.*

Figure 2.1: Hypothesized model



## **Method**

### *Sample and Data Collection*

To empirically assess the model described in Figure 1, we use information on boards of Dutch pension funds. Pension funds in the Netherlands provide pension schemes on top of the basic old-age pension provided by the state. Although there is no statutory obligation for employers to offer a pension scheme to their employees, more than 95 per cent of all Dutch employees are covered. Both employers and employees contribute to the pension fund. Pension benefits are financed by pension contributions paid in the past and accumulated by investment yields. Pension funds are governed by boards representing of two stakeholder groups, namely pension scheme participants on the one hand, and employers on the other. These boards are responsible for strategic decisions, such as the allocation of the fund's assets. The employers and pension scheme participants in the boards have different interests. Participants will receive pension benefits after retirement and thus have a clear interest in maximizing pensions, whereas the employers attempt to minimize their financial contributions to the pension fund. We expect that board members are aware of their status as representatives of the two groups and that they act in accordance with their sponsored status (Goodstein et al., 1994). The diverging interests between employers and participants can be expected to foster a priori suspicion towards the other party. Thus, by their very nature, pension fund boards show a clear factional demarcation.

We used data on Dutch pension fund board characteristics, processes and behavior. To test our hypotheses, we distributed a questionnaire survey to all board members of pension funds that were registered with the Dutch Central Bank (De

Nederlandsche Bank, DNB) in December 2009. DNB is the supervisory authority for pension funds in the Netherlands. Under Dutch law, pension funds are legally and financially independent from the sponsoring companies. In the Netherlands there are three different types of pension funds: industry-wide pension funds (for a specific industry or sector), corporate pension funds (for a single firm), and pension funds for independent professionals, such as dentists.

To maximize the response rate for this survey, we conducted a pretest of the questionnaire with an expert panel that consisted of five practitioners with knowledge on pension funds and six academics conducting research on boards of directors and teamwork in general. We asked these experts to discuss each survey question and to provide feedback on the content and on the instructions we provided. We used this feedback to improve the clarity and design of the survey, making it more appealing for board members to complete. In selecting the scales and developing the questionnaire, moreover, we cooperated extensively with a consultancy firm primarily active within the Dutch pension sector. To further increase participation, we published several calls for participation in practitioner journals, digital newsletters for pension fund practitioners, and through the association of pension funds in The Netherlands.

We sent questionnaires to 2,917 board members of 541 pension fund boards for whom we had access to individual mailing addresses; 754 board members (26 per cent) from 353 boards (47 per cent) completed and returned the questionnaire. To minimize concerns of common source variance and to keep the questionnaire as short as possible in order to promote participation, we collected archival data on board member characteristics ourselves. Data on gender, age, and factional group affiliation was used to

calculate factional demographic faultlines for the participating boards. In order to calculate these measures we needed complete information on gender, age, and factional group affiliation for all board members. Missing data for any of these characteristics for a single board member would prevent us from calculating the factional demographic faultline for the board as a whole. We collected data using annual reports of the pension funds, the Dutch Chamber of Commerce and additional information from the DNB. We excluded pension funds that did not have board members appointed by both stakeholder groups – these were pension funds that no longer had employer appointed board members since the employer organization had ceased to exist – and we excluded boards that had only one board member appointed by the stakeholder groups, since a faction consisting of a single board member cannot really be considered as a subgroup (Thatcher et al. 2003). All in all, out of 353 participating boards we were able to gather complete information on 313 boards (consisting of 2,177 board members) that had multiple board members appointed to both factions. We used these 313 boards for our analyses. For these boards, we received one evaluation of board decision making processes for 107 boards and multiple responses for 206 boards. Using an independent sample t-test, we checked for sample inclusion bias by comparing the characteristics of the pension funds whose board participated in this study and pension funds whose board did not. The participating boards did not differ significantly from non-participating boards with respect to archival data on board member characteristics we collected. Participating boards were on average bigger than non-participating boards, however. Since we distributed questionnaire surveys to all individual board members of pension funds, bigger boards are more likely to have one or more board members responding to the survey than smaller boards.

## *Measures*

### *Conflict Management*

Competitive conflict management was measured with the forcing conflict management strategy measure taken from the updated version of the Dutch Test for Conflict Handling (DUTCH) (De Dreu et al., 2001). We adapted the four items to reflect competitive conflict management as a group level construct for boards (see also Somech et al., 2009). Board members were asked to indicate how often board members engaged in competitive conflict management (1 = not at all, 7 = very much). Specific items included: “Board members push their own points through”; and “Board members fight for a good outcome for themselves”. Cronbach’s alpha was .71.

Cooperative conflict management was measured with the problem solving conflict management strategy measure taken from the updated version of DUTCH (De Dreu et al., 2001). We adapted the four items to reflect cooperative conflict management as a group level construct. Board members were asked to indicate how often board members engaged in cooperative conflict management (1 = not at all, 7 = very much). Specific items included: “Board members examine issues until they find a solution that really satisfies all parties”; and “Board members consider ideas from both sides to find a mutually optimal solution”. Cronbach’s alpha was .70.

### *Perceived Subgroup Formation*

We measured perceived subgroup formation with a measure developed by Jehn and Bezrukova (2010) (see also Cronin, Bezrukova, Weingart, & Tinsley, 2011; Homan et al.,

2010). We adapted the three items to reflect perceived subgroup formation for boards in particular. The specific items included: “The board splits into subgroups during board meetings”, “The board divides into subsets of board members” and “The board breaks into groups during board meetings”. These items were rated on a 7-point scale (1 = strongly disagree, 7 = strongly agree). Cronbach’s alpha was .76.

### *Board Reflexivity*

Board reflexivity was measured with five items adapted from the team reflexivity measure of Schippers et al. (2007) that is based on the scale developed by Swift and West (1998) (see also Schippers et al., 2008). The measure of Schippers et al. (2007) focuses specifically on group interaction processes associated with reflection on actions and outcomes. We adapted the items to reflect board reflexivity in particular. Specific items include “We regularly discuss whether the board is working effectively” and “We regularly reflect on the way in which we communicate”. These items were rated on a 7-point scale (1 = strongly disagree, 7 = strongly agree). Cronbach’s alpha was .91.

### *Factional Demographic Faultlines*

Since our theoretical framework builds on social categorization theory we included board member characteristics associated with social category diversity. We measured factional demographic faultlines along two social category characteristics: age and gender. We chose these demographic variables based on previous research on group diversity, indicating the prominence of these variables for social category diversity (Bezrukova et al., 2009; Jehn & Bezrukova, 2010; Li & Hambrick, 2005; Milliken & Martins, 1996;



Pelled, Eisenhardt, & Xin, 1999) and based on the availability of data on these characteristics for board members in our sample.

As recommended by faultline scholars, our faultline measure is a combination of the strength of the faultline split (i.e. how cleanly a board splits into two factional groups) and the faultline distance or width (i.e. how far the factional groups are apart) (Bezrukova et al., 2009; Bezrukova et al., forthcoming; Zanutto, Bezrukova, & Jehn, 2011). First, the strength of the faultline splits was measured. We calculated the percentage of total variation in overall group characteristics accounted for by the two factions, by calculating, for every board, the ratio of the between-faction sum of squares to the total sum of squares. This statistic measures the degree of alignment of attributes within the factions. For example, in the context of our study, if all employer appointed board members are male and in their forties and all participant appointed board members are female and in their thirties, the two factional groups can be cleanly split into two homogeneous subgroups. This board would be characterized by a strong faultline split, since all variation in group characteristics is captured by differences between factions. We followed the procedure developed by Thatcher et al. (2003), which is consistent with Lau and Murnighan's (1998) original framework, in estimating how the alignment of multiple attributes divides a group into subgroups (Bezrukova et al., 2009; Bezrukova, Spell, & Perry, 2010; Lau & Murnighan, 2005; Molleman, 2005). Rather than calculating demographic faultlines for all possible combinations of subgroups and retaining the single maximum faultline score<sup>2</sup>, we calculated the demographic faultline for the two pre-existing factions, as factional affiliations already constituted a first order demarcation.

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<sup>2</sup> A board of  $n$  individuals can be split in  $2^{n-1}-1$  ways. For example, a board of eight board members can be split into 127 different ways.

Second, we measured the distance between the factions (Bezrukova et al., 2009; Bezrukova et al., forthcoming; Spell et al., 2011; Zanutto et al., 2011), which indicates the degree of difference between the factions (Bezrukova et al., forthcoming). We applied the distance measure developed by Bezrukova et al. (2009), which can be determined by calculating the distance between the subgroup centroids (the Euclidean distance between the two sets averages of affiliation, gender and age). For example, in the context of our study, the faction distance within a board with male employer appointed board members in their sixties and female participant employer board members in their thirties is greater than it would be if the male members were in their forties.

Finally, in line with recommendations by Zanutto et al. (2011, see also Bezrukova et al., forthcoming; Homan et al., 2010; Spell et al., 2011) the strength and distance scores were standardized and subsequently multiplied to account for the joint effect of the faultline split and the distance between the factions (Zanutto et al., 2011, p. 708). The rationale for this approach is that for social categorization processes to occur, it matters whether the in-groups are homogeneous (emphasis on in-group similarities) and whether the out-groups are different (emphasis on out-group differences).

Indeed, faultline theory draws on the principle of comparative fit pertaining to within-group similarities and between-group differences (Spell et al., 2011). Drawing from social categorization theory, group members are expected to categorize themselves and others as similar in-group members and dissimilar out-group members (Tajfel, 1978). Accordingly, faultlines become stronger with the alignment between the number of attributes along which two subgroups (capturing within-group similarities) and with the difference between subgroups (capturing between-group differences). A combined

faultline measure incorporating faultline split and faultline distance captures both within-subgroup similarity and between-subgroup difference, which is consistent with the notion that in-group similarities and out-group differences drive categorization salience (Homan et al., 2010; van Knippenberg et al., 2010; van Knippenberg, De Dreu, & Homan, 2004). In addition, this interpretation is line with Li and Hambrick's (2005) original interpretation of factional faultlines that strong factional faultlines exists "when two factions differ in their averages *and* each faction is tightly clustered around its own average" (p. 804, emphasis in original). We therefore incorporated this overall faultline index in our analyses.

### ***Control Variables***

#### *Pension Fund Controls*

We controlled for the difference between company pension funds, independent professional pension funds and sector pension funds by including a sector fund dummy and an independent professional fund dummy. Another consideration relevant for our sample of pension fund boards is that large organizations are more visible to the public and are likely to be under close scrutiny, affecting how the board will operate (Hillman, Shropshire, & Cannella, 2007). Research shows that the size of the organization influences board decision making. Organization size is generally included through logarithmic transformation (Boivie, Lange, McDonald, & Westphal, Forthcoming; Datta, Musteen, & Herrmann, 2009; Hillman, Shropshire, Certo, Dalton, & Dalton, 2011; Kroll, Walters, & Le, 2007; Westphal & Stern, 2006). Accordingly, we controlled for pension

fund size measured as the natural log of the number of participants. The average number of pension fund participants was 44,979.

### *Board Controls*

In line with research on diversity and boards of directors, we also controlled for board size, because group size is known to influence group dynamics (Hillman et al., 2007; Kroll et al., 2007; Tuggle et al., 2010a). Moreover, larger groups have more potential for diversity (Bantel & Jackson, 1989; Li & Hambrick, 2005). In selecting our control variables with respect to board member characteristics, we included the variables that were available in our dataset and that have been shown to influence group processes and interaction between group members. We took several steps to isolate the unique effects of faultlines.

First, we closely followed the procedures of Bezrukova et al. (2007) and Lau and Murnighan (2005) to control for heterogeneity effects (see also Bezrukova et al., 2009; Li & Hambrick, 2005). Blau's (1977) heterogeneity index was used to measure heterogeneity for categorical variables (e.g., gender). In addition, to measure age diversity we calculated the standard deviation (cf. Bezrukova et al., 2010; Harrison & Klein, 2007; Li & Hambrick, 2005). Following procedures suggested by Jehn et al. (1999) – and used in recent diversity research (Polzer, Milton, & Swann, 2002) as well as in faultline research specifically (Bezrukova et al., 2009; Li & Hambrick, 2005) – we averaged these heterogeneity variables to arrive at a demographic heterogeneity control variable. Second, we controlled for the mean demographic profiles by including mean board member age and the percentage of female board members. The mean itself acts as an important confound and should therefore be included in diversity tests (Harrison &

Klein, 2007; Jackson, Joshi, & Erhardt, 2003; Li & Hambrick, 2005), because what appear to be diversity effects may actually be the effect of the mean.

### ***Discriminant and Convergent Validity***

We used confirmatory factor analysis to assess the discriminant and convergent validity of the scales used in the hypothesized model. We computed parameter estimates using the LISREL 8.80 software package with the maximum likelihood method. We first tested a model with the four intended constructs (perceived subgroup formation, board reflexivity, competitive conflict management and cooperative conflict management). The overall fit of the model was adequate ( $\chi^2=335.12$ ,  $df=98$ ,  $p<.001$ ), the goodness-of-fit index (GFI) was .90, the comparative fit index (CFI) was .95, and the root mean square error of approximation (RMSEA) was .079. In addition, the factor loadings were all significant at  $p<.001$ . To evaluate the discriminant validity of our measures, we tested four alternative models. For the first alternative model, competitive conflict management and cooperative conflict management loaded on one latent conflict management construct, while the other factors remained unchanged ( $\Delta \chi^2=241.59^3$ ,  $df=3$ ,  $p<.001$ , GFI=.84, CFI=.91, RMSEA=.110). For the second alternative model, perceived subgroup formation and competitive conflict management loaded on a single latent factor ( $\Delta \chi^2=109.18$ ,  $df=3$ ,  $p<.001$ , GFI=.88, CFI=.93, RMSEA=.093). In the third alternative model board reflexivity and cooperative conflict management loaded on a single latent factor ( $\Delta \chi^2=429.25$ ,  $df=3$ ,  $p<.001$ , GFI=.80, CFI=.88, RMSEA=.129). The fourth alternative model contained one latent construct for all items ( $\Delta \chi^2=1488.61$ ,  $df=7$ ,  $p<.001$ , GFI=.63,

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<sup>3</sup> All  $\Delta \chi^2$  are in comparison to the hypothesized model.

CFI=.72, RMSEA=.204). The fit for all of these alternative models was significantly worse than the hypothesized measurement model.

### *Level of Analysis*

The unit of theory in the present study was the board. Perceived subgroup formation, board reflexivity, competitive conflict management and cooperative conflict management were represented by an aggregate of individual board member responses. As noted above, multiple ratings were received for 206 of the 313 boards. We anticipated that it would not be possible to collect all responses from board members of a particular board, making it necessary to rely on a subsample of board members reporting on the constructs of interest. We therefore followed a referent shift informant sampling approach in which we framed all items at the board level, asking board members to evaluate their board rather than their own personal behaviors or attitudes (cf. Simons, Pelled, & Smith, 1999; Van der Vegt & Bunderson, 2005). An informant sampling approach recognizes that many members of a particular board are qualified to provide ratings on board properties. If convergence between different raters is demonstrated, a balanced perspective can be obtained by averaging individual board member responses to represent board level constructs (James, Demaree, & Wolf, 1984). Thus, it was critical to demonstrate within-board agreement and to evaluate the measurement assumption that responses by members of the same board converged (Kozlowski & Klein, 2000) We calculated the  $r_{wg(j)}$  inter-agreement coefficient for multi-item indices (James et al., 1984; James, Demaree, & Wolf, 1993). The median values were .86, .93, .87 and .92, respectively, for perceived subgroup formation, board reflexivity, competitive conflict management and cooperative conflict management. These values indicate, first, that it makes sense to average

evaluations by multiple raters and, second, that single-rater evaluations provide reliable information where multiple ratings cannot be obtained (see also Bunderson, 2003).

In addition, we may also expect the variation between ratings by members of the same board to be more similar than ratings by members of other boards (Bliese, 2000). This was investigated by calculating the intra-class correlation coefficients ( $ICC_1$  and  $ICC_2$ ; Bliese, 2000). One-way analysis of variance suggested that ratings differed significantly between boards. All  $ICC_1$  values were highly significant ( $p < .001$ ). The  $ICC_1$  and  $ICC_2$  for perceived subgroup formation were .24 and .47, for board reflexivity .19 and .40, for competitive conflict management .21 and .43, and for cooperative conflict management 0.18 and 0.38. As indicated by James (1982)  $ICC_1$  generally ranges from 0 to .50 with a median of .12 while  $ICC_2$  is a simple function of  $ICC_1$  and the average number of respondents (Bliese, 2000). However, there are no definitive guidelines for determining acceptable values (see also Somech et al., 2009). In our present study all scales exceed the .12 median  $ICC_1$  score .12 and are highly significant, indicating that aggregation is justified (Klein & Kozlowski, 2000). All in all, these numbers indicate that board members agreed sufficiently in their ratings to justify aggregation.

### ***Analytical Methodology***

We used hierarchical multiple regression analyses to test our hypotheses. To test Hypotheses 1a and 1b, we regressed factional demographic faultlines on competitive and cooperative conflict management, respectively (Models 5 and 8 in Table 2.2). Similarly, we regressed factional demographic faultlines on perceived subgroup formation to test hypothesis 2 (model 2 in Table 2.2).

In Hypothesis 3 we posited that perceived subgroup formation will mediate the relationship between factional demographic faultlines and conflict management. The Sobel test assumes that the indirect effect is normally distributed. However, recent research shows that the indirect effect may not be normally distributed, even if the independent and the mediating variable are (Edwards & Lambert, 2007). Therefore, bootstrapping is recommended. In order to investigate the hypothesized indirect effect (or mediation) we utilized the macro developed by Preacher and Hayes (2008). This macro facilitates bootstrapping methods that are more powerful than stepwise procedures and generates the recommended bias-corrected confidence intervals. By applying bootstrap procedures, it is possible to gauge the significance of the indirect effect, while avoiding power problems from non-normal sampling distributions of the indirect effect (see Table 3). Additionally, we also regressed perceived subgroup formation on competitive and cooperative conflict management (Model 6 and Model 9 in Table 2) to assess whether the relationship between factional demographic faultlines and conflict management decreases when we include perceived subgroup formation.

According to Hypothesis 4, board reflexivity moderates the relationship between factional demographic faultlines and perceived subgroup formation. Following the recommendations of Aiken and West (1991), we mean-centered the variables involved in calculating the interaction terms and calculated interaction effects by taking the product of these mean-centered variables. To test Hypothesis 4 we regressed this interaction term on perceived subgroup formation (Model 3, Table 2). If Hypothesis 4 receives support, it is plausible that the indirect effect of factional demographic faultlines on competitive and cooperative conflict management through perceived subgroup formation is conditional on



board reflexivity. This is also known as moderated mediation (Preacher, Rucker, & Hayes, 2007). In order to investigate these hypothesized conditional indirect effects as proposed by Hypotheses 5a and 5b, we utilized the bootstrapping macro developed by Preacher et al. (2007), which was specifically designed for moderated mediation analyses (see Table 2.4).

## **Results**

### *Descriptive Statistics*

Table 2.1 presents the means, standard deviations, and Pearson zero-order correlations between variables. The average age of board members was 54 years, an average board has approximately seven members and nine percent of the board members were female. As can be seen from Table 2.1, the percentage of female board members and the age of board members are significantly negatively related, indicating that boards with a higher percentage of female board members are, on average, also younger. Not surprisingly, we see that the number of participants is significantly positively related with board size, indicating that bigger pension funds have bigger boards. There is a strong relationship between the percentage of female board members and board heterogeneity, signifying that board heterogeneity is to a large extent driven by the presence of female board members. Board size and perceived subgroup formation are positively related, which is in line with the contention that there is more potential for subgroup formation in larger groups. Moreover, although not hypothesized, board reflexivity is negatively related to competitive conflict management and perceived subgroup formation and positively related to cooperative conflict management. In interpreting this relationship, one should keep in mind that conflict management and board reflexivity are rated by the same

source. All in all, the correlations do not warrant concerns over multicollinearity issues. In addition, none of the variance inflation factors (VIFs) in the regression analyses approached 10, the commonly accepted threshold indicating a potential problem; all were well below 3 (the maximum value was 2.27).

**Table 2.1**

		<b>Means, Standard Deviations, and Correlations</b>												
<b>Variable</b>	<b>Mean</b>	<b>S.D.</b>	1	2	3	4	5	6	7	8	9	10	11	
1 Natural log number of participants	8.26	1.93												
2 Sector fund dummy	0.20	0.40	.61**											
3 Independent professional fund dummy	0.01	0.11	.01	-.06										
4 Board size	6.96	2.28	.58**	.23**	.06									
5 Average age	54.27	4.34	.09	.07	.05	.09								
6 Percentage female	0.09	0.12	.15**	.11	.33**	.03	-.22**							
7 Board heterogeneity	0.00	1.49	.09	.00	.11	.09	-.24**	.65**						
8 Competitive conflict management	3.12	0.88	.02	.11	.00	.01	-.02	-.11*	-.08					
9 Cooperative conflict management	5.26	0.72	-.09	-.06	.06	-.10	.01	.12*	.10	-.26**				
10 Factional demographic faultlines	0.53	1.54	-.09	-.08	-.06	-.15**	.01	-.03	.22**	.15**	-.05			
11 Perceived subgroup formation	2.37	1.00	.21**	.10	.08	.29**	.07	.04	.11	.47**	-.37**	.12*		
12 Board reflexivity	4.82	0.98	.13*	.09	-.18**	.04	.06	.01	.05	-.29**	.35**	.07	-.34**	

n = 313. \*p < .05. \*\*p < .01.

**Table 2.2**  
**Results of Hierarchical Regression Analysis**

Variables	Perceived subgroup formation			Competitive conflict management			Cooperative conflict management		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Natural log number of participants	.05	.11	.12	-.05	-.05	-.08	-.05	-.05	-.03
Sector fund dummy	.01	.01	.00	.17*	.17*	.16**	-.02	-.02	-.02
Independent professional fund dummy	.07	.00	.05	.06	.07	.03	.02	.02	.04
Board size	.24***	.26***	.26***	.00	.03	-.11†	-.08	-.10	.01
Average age	.06	.08	.08	-.07	-.08	-.11*	.06	.07	.08
Percentage female	-.07	-.00	-.02	-.16†	-.11	-.10	.11	.08	.07
Board heterogeneity	.13†	.08	.10	.00	-.08	-.11	.05	.09	.12
Factional demographic faultline		.18***	.22***		.18**	.10†		-.09†	-.02
Board reflexivity		-.38***	-.42***						
Demographic faultline X Reflexivity			-.17***						
Perceived subgroup formation						.51***			-.39***
R2	.10***	.26***	.29***	.04	.07***	.29***	.03	.04	.17***
Delta R2		.16***	.03**		.03**	.22***		.01	.13***

N=313. Standardized regression coefficients are reported.

One tailed-tests for hypothesized effects and two-tailed for controls.

†p < .10. \*p < .05. \*\*p < .01. \*\*\*p < .001.

### *Hypothesis Tests<sup>4</sup>*

Table 2.2 presents the results of the regression analyses, while Tables 2.3 and 2.4 show the results for the indirect effects and conditional indirect effect, respectively. According to Hypothesis 1a the factional demographic faultline is positively related to competitive conflict management. Table 2.2 (Model 5) shows a significant positive coefficient ( $\beta = .18, p < .001$ ), supporting hypothesis 1a. Similarly, under Hypothesis 1b, there is a negative relationship between factional demographic faultlines and cooperative conflict management. Table 2.2 (Model 8) provides moderate support, as the negative coefficient is only marginally significant ( $\beta = -.09, p < .10$ ).

Hypothesis 2 posits that factional demographic faultlines are positively related to perceived subgroup formation. As shown in Table 2.2 (Model 2) the coefficient for factional demographic faultline is positive and significant ( $\beta = .18, p < .001$ ), a result consistent with Hypothesis 2. Furthermore, according to hypotheses 3a and 3b, perceived subgroup formation mediates the relationship between factional demographic faultlines and, respectively, competitive and cooperative conflict management. Table 2.3 reports the indirect effects of factional demographic faultlines on competitive and cooperative conflict management through perceived subgroup formation. The 95 per cent bootstrapped confidence interval excludes zero for both competitive conflict management (.01, .10) and cooperative conflict management (-.07, -.01). Thus we find, as anticipated, a positive indirect effect for competitive conflict management and a negative indirect effect for cooperative conflict management supporting Hypothesis 3a and Hypothesis 3b.

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<sup>4</sup> We excluded five cases from our regression analyses since these cases deviated more than three standardized residuals from their predicted values. The results did not change when we included these cases.

Hypothesis 4 predicts that board reflexivity moderates the relationship between factional demographic faultlines and perceived subgroup formation. We tested this hypothesis by adding the interaction term between factional demographic faultlines and board reflexivity to Model 2 in Table 2.2, to arrive at Model 3. The coefficient for the interaction term is negative and significant ( $\beta = -.17, p < .001$ ). Model 3 also demonstrates that in addition to its moderating effect, board reflexivity is negatively related to perceived subgroup formation. Thus, although not hypothesized, board reflexivity has a significant negative direct effect on perceived subgroup formation, in addition to its moderating effect. This indicates that in addition to attenuating the disruptive effects of factional demographic faultlines, board reflexivity also has beneficial effects on board functioning itself. In interpreting this direct relationship one should keep in mind, however, that this direct relationship may result from a common source, because subgroup formation and conflict management are rated by the same board members.

To gain further insight into the nature of the interaction effect, we plotted the relationship between factional demographic faultlines and perceived subgroup formation at high and low values of board reflexivity (one standard deviation above and below the mean, respectively) (cf. Aiken & West, 1991). Figure 2.2 presents the resulting graph and confirms that factional demographic faultlines are positively related to perceived subgroup formation when board reflexivity is low, but not when it is high. Simple slope analyses indeed confirm that the slope of the relationship between factional demographic faultlines and perceived subgroup formation is significant when board reflexivity is high ( $\beta = .42, p < .001$ ), but not when it is low ( $\beta = .03, p > .10$ ). Although these results show that factional demographic faultlines interact with board reflexivity, they do not directly assess the conditional indirect effects proposed in Hypotheses 5a and 5b. We therefore examined the conditional indirect effect of factional demographic faultlines

on conflict management (through perceived subgroup formation) at different levels of board reflexivity.

Table 2.4 presents the indirect effects for competitive conflict management (Panel A) and cooperative conflict management (Panel B) at three different values of board reflexivity: low or one standard deviation below the mean (-0.98), the mean (0.00), and high or one standard deviation above the mean (0.98). The results in Table 2.4, Panel A indicate that where board reflexivity is low or at the mean, the indirect effect is significant. The 95 per cent bootstrapped bias-corrected confidence interval excludes zero for both low board reflexivity (.05, .20) and mean board reflexivity (.02, .11), but it does not exclude zero when board reflexivity is high (-.02, .07). This signifies that there is a positive conditional indirect effect when board reflexivity is low or at the mean, but not when board reflexivity is high, supporting Hypothesis 5a. Similarly, Panel B reports a negative indirect effect when board reflexivity is low or at the mean. The 95 per cent bootstrapped bias-corrected confidence interval excludes zero for both low (-.09, -.02) and mean board reflexivity (-.05, -.01), but it does not exclude zero when board reflexivity is high (-.04, .01). Thus, as anticipated, we find a negative indirect effect when board reflexivity is low, but not when board reflexivity is high. We already noted for Hypotheses 3a and 3b that the confidence interval barely excludes zero for both competitive and cooperative conflict management, corroborating our finding that the indirect effect is moderated by board reflexivity. The indirect effect for both competitive and cooperative conflict management is particularly strong when board reflexivity is low.

Finally, in addition to the results for the indirect effects presented in Table 2.3 and Table 2.4, Model 6 and Model 9 in Table 2.2 allow examination of the mediated effects by adding perceived subgroup formation to the regression model. This results in a significant increase in

explained variance in Model 6 (.22) and Model 9 (.13). Furthermore, the relationship between factional demographic faultlines and conflict management becomes insignificant when perceived subgroup formation is added to the model. These results corroborate the finding that perceived subgroup formation mediates the effects of factional demographic faultlines on competitive and cooperative conflict management.

**Table 2.3**

<b>Results for simple mediation through Perceived Subgroup Formation</b>				
	Boot indirect effect	SE	Bootstrap 95% confidence interval	
			lower bound	upper bound
<i>Indirect effect on competitive conflict management</i>				
Effect	0.04	0.02	.01	.10
<i>Indirect effect on cooperative conflict management</i>				
Effect	-0.03	0.01	-.07	-.01

n = 313. Unstandardized regression coefficients are reported. Bootstrap sample size is 5,000.  
 Bootstrap 95% bias-corrected and accelerated confidence interval

## **Discussion**

The results reported in this chapter suggest that demographic faultlines between stakeholder factions have ramifications for boards of directors. Our results demonstrate that factional demographic faultlines are positively related to competitive conflict management and moderately negatively related to cooperative conflict management. Moreover, perceived subgroup formation – as suggested by social categorization theory – mediates the relationship between factional demographic faultlines and conflict management strategies. Finally, our results corroborate the notion that board reflexivity – overt reflection on the board’s objectives, strategies and processes – attenuates the relationship between factional demographic faultlines and perceived subgroup formation within boards.



**Table 2.4**

**Results for Conditional Indirect Effects**

**Panel A Competitive conflict management**

*Conditional Indirect Effect through Perceived Subgroup Formation*

Board reflexivity	Boot indirect effect	Boot SE	Bootstrap interval	95% confidence
Conditional indirect effect at board reflexivity = $M \pm 1$ SD			lower bound	upper bound
-1 SD (-0.98)	0.10	0.04	.05	.20
M (0.00)	0.06	0.02	.02	.11
+1 SD (0.98)	0.01	0.02	-.02	.07

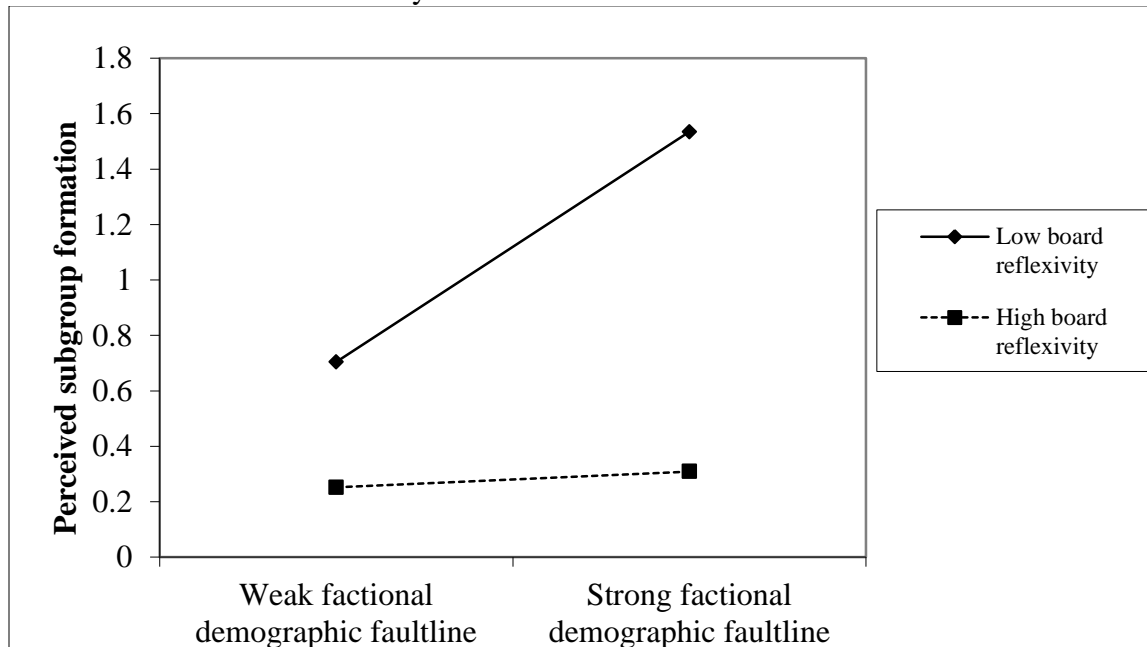
**Panel B Cooperative Conflict Management**

*Conditional Indirect Effect through Perceived Subgroup Formation*

Board reflexivity	Boot indirect effect	Boot SE	Bootstrap interval	95% confidence
Conditional indirect effect at board reflexivity = $M \pm 1$ SD			lower bound	upper bound
-1 SD (-0.98)	-0.04	0.02	-.09	-.02
M (0.00)	-0.02	0.01	-.05	-.01
+1 SD (0.98)	0.00	0.01	-.04	.01

n = 313. Unstandardized regression coefficients are reported. Bootstrap sample size is 5,000. Bootstrap 95% bias-corrected and accelerated confidence interval

Figure 2.2: Perceived subgroup Formation at Different Values of Factional Demographic Faultlines and Board Reflexivity



## **Theoretical Implications and Contributions**

The present study has several implications. First, building from the upper echelon tradition (Hambrick & Mason, 1984), for decades board researchers have devoted substantial attention to understanding the effects of board composition on board decision making processes (Dalton et al., 1998; Forbes & Milliken, 1999). However, as noted, very few of these studies have taken into account that in many instances board members can be viewed as representatives of specific (interest) groups, leading to the existence of so-called factions within boards. Our results demonstrate that factional affiliations among board members impose a first-order demarcation, affecting how other elements of board member characteristics influence board decision making processes (see also Li & Hambrick, 2005). Related to this, whereas most board scholars have interpreted board diversity as a source of information benefiting the board, there are also negative aspects affiliated with board diversity in the sense that diversity is related to subgroup formation (see Harrison & Klein, 2007, for different interpretations of diversity). This latter view, which is in line with faultline theory, has been recognized in the literature on group composition, but has been scantily acknowledged in upper echelon research and research on boards of directors (for notable exceptions see Kaczmarek et al., forthcoming; Tuggle et al., 2010a).

Second, we focused particularly on how the existence of factions influenced conflict management strategies, i.e. how boards manage internal conflicts. Particularly, in the context of conflict-laden exchanges between factions, the management of disagreements can be considered an important determinant of effective board decision making (cf. Kaufman & Englander, 2005; Lan & Heracleous, 2010). Consequently, the management of such divergent interests is critical for effective board decision making. Individuals choose, whether or not consciously, a pattern of

principles to guide them through episodes of conflict (Somech et al., 2009). We found support for our hypothesis that factional faultlines are related to conflict management. A recent study by Tuggle, Schnatterly and Johnson (2010a) pertaining to the discussion of entrepreneurial issues within boards comes to a similar conclusion, indicating that demographic faultlines within boards may impede discussion among board members. Our results add to the extant literature by corroborating the notion that demographic faultlines affect decision making processes within boards.

A third contribution of our study is that it underlines the importance of explicitly studying the mediating mechanisms that link board demography to board decision making processes. Although the importance of perceptions of diversity as a mechanism linking objective diversity to group processes has been recognized in theory (Ashforth & Mael, 1989; Choi & Sy, 2010; Harrison, Price, Gavin, & Florey, 2002; van Knippenberg et al., 2004; Williams & O'Reilly, 1998), few studies have actually included measures of such perceptions. Specifically in the context of this present study, inferring board processes from publicly available data obtained outside the boardroom may introduce empirical fallacies in the analysis of board processes (Lawrence, 1997; Priem, Lyon, & Dess, 1999). Indeed, Kaczmarek et al. (forthcoming) inferred board processes from publicly available data to examine the relationship between faultlines and firm performance. Although they do find the anticipated negative relationship and their study provides valuable insights, such an analysis based on publicly available data may lead to erroneous inferences. Our study therefore adds to current research endeavours by explicitly demonstrating the mechanisms through which demographic faultlines affect board functioning. In accordance with social categorization theory, we have included perceived subgroup formation as the mediating mechanism linking factional demographic faultlines to conflict management

strategies. Our study thus adds to the literature on diversity and on demographic faultlines in particular.

Fourth, we have demonstrated the attenuating role of board reflexivity in the relationship between factional demographic faultlines and perceived subgroup formation. In the same vein, a great deal of governance scholars argues that board evaluations are critical for the effective functioning of boards, because they facilitate reflection on board functioning within boards. Sonnenfeld (2002), for instance, notes that “no matter how good a board is, it’s bound to get better if it’s reviewed intelligently” (p. 113). In addition, board evaluations are required by many corporate governance codes (Minichilli et al., 2007). One of the main principles of the UK corporate governance code, for instance, states that “(t)he board should undertake a formal and rigorous annual evaluation of its own performance” (UK Corporate Governance Code, 2010). Similar arrangements can be found for other countries around the world (e.g., the Netherlands, Germany, Australia, and the United States). However, board scholars rarely address the effects of reflection on board functioning by the board members themselves. In this respect, the present study is one of the first academic studies that empirically assesses the attenuating role of reflexivity for boards of directors. Specifically, our results indicate that reflecting on board processes ameliorates social categorization processes fostered by factional demographic faultlines (see also van Ginkel & van Knippenberg, 2009). Thus, whether demographic differences between factions hurt board functioning depends in large part on whether boards reflect on their internal processes.

### **Managerial Implications**

Effective board functioning is generally associated with board members cooperating to exchange information, to evaluating the merits of competing alternatives, and reaching well-reasoned

decisions (Forbes & Milliken, 1999). Group processes facilitating or hampering the effective functioning of boards should therefore be considered as a particularly relevant topic for practitioners. However, practitioners and regulatory bodies generally build on the assumption that board diversity is beneficial for board decision making. Our results suggest that practitioners, including board members, should be attuned to the possible disruptive effects from diversity. These disruptive effects from diversity are most pervasive when boards consist of factional groups and when multiple characteristics align with factional affiliations, resulting in so-called demographic faultlines.

In any case, practitioners should be aware that while factional demographic faultlines can be disruptive, there are ways to leverage and curb these negative aspects. Our results show that board reflexivity may counter the potential detrimental effects of diversity. By overtly reflecting on board processes, board members can attenuate the negative influence of social categorization processes fostered by factional demographic faultlines. This may be achieved through instigation by the chairperson or by fostering board members' reflexivity through training. In this context, as was noted above regulatory bodies in various countries are increasingly stressing the necessity of board evaluations as an important instrument for board members to reflect on their board's effectiveness. Additionally, in order to reduce the disruptive effects from factional demographic faultlines, it may be wise for boards to appoint board members from different factions who do not simultaneously differ from one another on multiple characteristics to begin with. That is, boards may curb the emergence of factional demographic faultlines by managing the board's composition.

## **Limitations and Future Directions**

There are a number of limitations that warrant attention. These limitations also provide fertile ground for future research. This study adds to a growing body of research on the inner working of boards of directors (e.g., Tuggle et al., 2010a; Westphal & Khanna, 2003; Westphal & Stern, 2007). There is, however, only limited research available on the impact of factions and demographic faultlines on processes within boards of directors (e.g., Kaczmarek et al., forthcoming; Tuggle et al., 2010a). This is in part due to difficulties in garnering access to boards and collecting data on decision making processes within boards, especially on a longitudinal basis. Notwithstanding the difficulties in acquiring access to boards, an important limitation is that although our theoretical model implies a specific causal order, our cross-sectional data only allows testing whether relationships are in line with our hypotheses. Future research on boards of directors should therefore aim to incorporate a longitudinal design and field experiments to test for causal relationships.

Our analysis focuses on the board level. Our data did not permit us to assess social relationships among individual board members in view of our data. Rather than interpreting boards of directors as monolithic entities, researchers might engage in careful examination of board members as individuals and processes operating between board members at the dyadic level of analysis (Hillman et al., 2008; Hillman et al., 2011). Thus future inquiries may benefit from a fine-grained analysis studying the determinants of board decision processes and outcomes at multiple levels of analysis.

A further limitation of our study pertains to the specificity of the sampled boards of directors, namely pension fund boards. Future studies may further contribute to our understanding of factional demographic faultlines in boards of directors of different types of

organizations. Finally, future research may also examine to what extent the issues analysed in the present study are related to organizational performance. Arguably board functioning will impact performance, further research in this direction is warranted, however.

Although a great deal of literature on boards has studied the effects of board composition on board effectiveness, these studies generally interpret board diversity as a source of information (diversity as variety, see Harrison & Klein, 2007) that may benefit the board. Fewer studies have addressed diversity as a factor engendering subgroupings within boards (diversity as separation, see Harrison & Klein, 2007). The present study shows that board diversity negatively affects board functioning through subgroup formation. However, our study also demonstrates that the negative effects from diversity may be curbed through reflection on board functioning. This is an important message for both board scholars and practitioners.

## CHAPTER 3

### SOCIAL IDENTITIES IN THE BOARDROOM

*I'd say, "Tell me about the company". If the person said "we" or "us", I knew people were strongly attached to the organization. If it was "they" or "them", I knew there was less of a sense of linkage. (Reich, 1997, taken from Rousseau, 1998)*

Large-scale corporate failures and the financial crisis of 2008 have placed boards of directors at the center of the corporate governance debate (Adams et al., 2010; Daily et al., 2003; Stiles & Taylor, 2001). Residing at the top of the organizational structure, outside directors (hereafter, directors) are expected to ensure that senior management best serves the interests of the organization (Daily et al., 2003; Shleifer & Vishny, 1997)<sup>5</sup>. In line with agency theory, both governance scholars and regulators persistently assert that independent directors are more effective because they are more objective and more willing and able to scrutinize senior management (Dalton et al., 2007; Fama & Jensen, 1983; Walsh & Seward, 1990). An important premise of our research is that formal independence does neither necessarily motivate directors to be knowledgeable about organizational affairs nor does it reflect a director's ability to objectively scrutinize managerial decision making per se (cf. Hillman & Dalziel, 2003). Instead, we propose that a director's social identification with the organization and social identification with being a director provide more proximal and behaviorally oriented antecedents for director task performance. Referring to the opening quote from Reich 1997, it is the 'sense of linkage' that is the subject of this study.

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<sup>5</sup> We refer to non-executive or outside directors as directors. The chief executive officer (CEO) and the other executives are referred to as senior management. This is in line with the literature in which the board of directors is referred to as the controlling body of senior management.



Despite the interest in director independence, the extant empirical research has yielded conflicting and ambiguous results on this issue (see Adams et al., 2010; Daily et al., 2003; Dalton et al., 2003; Dalton et al., 1998; Dalton & Dalton, 2011; Hermalin & Weisbach, 2003; van Ees et al., 2009). This paucity of consistent empirical findings has prompted calls for a richer and more behaviorally oriented understanding of boards of directors. In this vein, scholars assert that instead of interpreting the board of directors as a monolithic entity, more attention to analysis at the individual director level is warranted (cf. Finkelstein & Hambrick, 1996; Hambrick et al., 2008; Hillman et al., 2008; Roberts, McNulty, & Stiles, 2005) and that the enactment of board tasks emanates from individual-level director engagement (Hambrick et al., 2008; Hillman et al., 2008; Roberts et al., 2005). In this study, we respond to these calls for a richer and more in-depth examination of director task performance at the individual level of analysis. In particular, we suggest that a behavioral oriented approach that draws from social identity theory may yield promising results for director task performance. Indeed, in the study of human cognition and behavior, identity is a key foundational concept; it “helps capture the essence of who people are and ... why they do what they do” (Ashforth, Harrison, & Corley, 2008: 334). Accordingly, social identification may therefore be considered an important driver of individual task behaviors (Albert, Ashforth, & Dutton, 2000).

With this research, we make several contributions to the management literature. First, we contribute to the literature on boards of directors by providing an empirical analysis of director task performance at the individual director level of analysis. To date, simple psychological questions pertaining to what motivates directors and what drives their performance have remained largely unexplored (Hambrick et al., 2008). Whereas prior research has generally relied on publicly available data (Adams et al., 2010; Dalton et al., 2003; Dalton et al., 1998), we

employ a peer rating approach, in which directors of a board individually rate each other. We build upon a unique multi-source dataset that combines archival data on director characteristics with self-report data on directors' social identification with the organization and with being a director and peer-ratings data by fellow directors on a focal director's task performance. To the best of our knowledge, this is the first empirical examination of the antecedents of director performance that investigates directors as individuals.

Second, in line with Hillman, Nicholson & Shropshire's (2008) pioneering theoretical account, we argue that social identity theory provides a fruitful lens to gauge the antecedents of director task performance. We agree that organizational identification and identification with being a director may be beneficial because they engender director task behaviors (cf. Hillman et al., 2008). We provide an empirical examination of the relationship between social identification and director task performance. Additionally, we augment Hillman et al.'s (2008) theoretical account by acknowledging that social identification implies a psychological merging of self and group. In this vein, we put forth that organizational identification may also inhibit directors' psychological independence from the organization (Golden-Biddle & Rao, 1997). Drawing from the literature on social identification and organizational tenure we contend that high-tenured directors are most susceptible to such disruptive influences of organizational identification.

Third, we contribute to the governance literature and social identity literature. A director's organizational identity and director identity are both situationally relevant in performing their tasks as directors for a particular organization. Whereas organizational identification is likely to foster engagement for a particular organization, director identification is likely to foster engagement in director task behaviors in general. This is because directors who strongly identify with being directors can be expected to seek more opportunities to affirm and

validate their director identity (Hillman et al., 2008; Withers, Corley, & Hillman, forthcoming). In line with recent research on the interaction of multiple targets of social identification (e.g., Hekman, Bigley, Steensma, & Hereford, 2009a; Hekman, Steensma, Bigley, & Hereford, 2009b; Richter, West, Van Dick, & Dawson, 2006; van Dick, van Knippenberg, Kerschreiter, Hertel, & Wieseke, 2008), we propose that director identification may reinforce the effects of organizational identification. Or in other words, directors that identify with a particular organization and that identify with being a director are more likely to expend effort in engaging in director task behaviors for that particular organization. By drawing from social identity theory, we aim to explicate the linkage between these two situationally relevant targets of social identification on the one hand and director task performance on the other.

In sum, our study highlights the relevance of in-depth behavioral research into behavioral antecedents and, as such, illustrates the complexity of such behavioral antecedents. Similarly, it demonstrates the importance of extending the agency-theoretic interpretation of director independence in governance research and practice toward more proximal and psychologically oriented interpretations of director independence and engagement.

## **Theory and Hypotheses**

### ***Director Task Performance***

First, we must start our arguments with thinking about what constitutes task performance. In particular, Campbell and his colleagues (Campbell, 1990; Campbell, McCloy, Oppler, & Sager, 1993) argued for a distinction between performance as outcome and performance as behavior. Specifically, they put forth that performance is in the doing, not in the result of what has been done. This view is fairly common in many areas of management and applied psychology (Beal, Cohen, Burke, & McLendon, 2003; Gerhart, Rynes, & Fulmer, 2009) and takes into

consideration that many impediments to performance are outside the control of the individual. Particularly when output standards are hard to define there is a tendency to use task behaviors instead of outcomes (Gerhart et al., 2009). In the context of our current study, directors face complex and multifaceted tasks and they produce output that is completely cognitive in nature (Forbes & Milliken, 1999). Indeed, several scholars put forth that it is often impossible to establish formal rules to effectively gauge directors' work (e.g., Finkelstein & Mooney, 2003; He & Huang, 2011; Leblanc, 2005; Lorsch & MacIver, 1989). Gauging director task performance in terms of task behaviors, rather than the result of what has been done is therefore most appropriate.

Second, we must think about what constitutes director task behavior. Building upon agency theory and resource dependence theory, management scholars have developed the perspective that the board's role includes two separate forms of administration: the provision of advice and the exercise of control (Hillman & Dalziel, 2003; Westphal, 1999; Zahra & Pearce, 1989). Both forms may be considered as core ingredients of director task performance (Carpenter & Westphal, 2001; Demb & Neubauer, 1992; Hillman & Dalziel, 2003; Lorsch & MacIver, 1989; Westphal, 1999). In this vein, Campbell (1990, p. 704, emphasis in original) argues that "(i)t is axiomatic that job performance is not one thing. A job, *any* job is a very complex activity; and, for *any* job, there are a number of major performance components". Accordingly, in seeking to clarify what directors in reality do, Stiles and Taylor (2001, p. 61) indicate that "the seeming conflict between the board's strategic role and the control role is more apparent than real" and that the distinction between the two roles is blurred. In this vein, we maintain that a simultaneous consideration of conceptually alternative task ingredients may be more in line with the reality of

what individual directors do (see also Demb & Neubauer, 1992; Kroll, Walters, & Wright, 2008; Sundaramurthy & Lewis, 2003).

### ***Social Identity Theory***

In addition to unique, individuating characteristics, an individual's self-concept may be extended to include social groups (Ashforth & Mael, 1989; Dutton, Dukerich, & Harquail, 1994; Haslam, Ryan, Postmes, Spears, Jetten, & Webley, 2006; van Knippenberg & Sleebos, 2006). This self-conception in terms of 'we' rather than 'I' is referred to as social identity and implies a psychological merging of self and group (van Knippenberg & Sleebos, 2006). According to social identity theory, part of an individual's self-concept is derived from his or her membership of social groups, which results in salient social identities (Tajfel, 1982). Social identification refers to the definition of self vis-à-vis a group, such as an occupation or organization (Ashforth & Mael, 1989; Kreiner, Ashforth, & Sluss, 2006). Tajfel (1978, p. 63) defines social identity as "that part of an individual's self-concept which derives from a person's knowledge of his or her membership of a social group together with the value and emotional significance attached to that membership". Social identities provide individuals with a sense of entity: who they are, who or what other entities are and how these entities are associated (Ashforth et al., 2008).

Self-categorization refers to how social categorization produces prototype-based depersonalization of self and others and thus generates social identity phenomena (Hogg & Terry, 2000). It leads individuals to internalize group-defining characteristics in their self-concept and strive for behaviors that are prototypical for the social group (Ashforth et al., 2008; van Knippenberg & Hogg, 2003). As noted by Ashforth et al. (2008), a person may be a member of an organization, a profession, division, and so on, each of which has its own distinct social identity. In identifying with these social groups, one tends to enact the group identity when the

group is salient (Hogg & Terry, 2000). Consequently, the more an individual identifies with salient social groups, the more that individual's behavior will be shaped by that group membership (Albert et al., 2000; Ellemers, De Gilder, & Haslam, 2004; van Knippenberg & Hogg, 2003).

Research suggests that when examining professional employees, such as corporate directors, both the employee's professional and organizational identification are critical to understanding that person's work behavior (Hillman et al., 2008; Withers et al., forthcoming). Indeed, professional employees generally maintain dual social identities and simultaneously define themselves with the organization and with their professional group (Ashforth et al., 2008; Bamber & Iyer, 2002; Hekman et al., 2009a; Hekman et al., 2009b; Johnson, Morgeson, Ilgen, Meyer, & Lloyd, 2006; Molleman, Broekhuis, Stoffels, & Jaspers, 2010). The social identities of being a director and being an organizational member may, therefore, be considered as situationally relevant social identities for directors (Hillman et al., 2008; Withers et al., forthcoming).

Although both social identity and identity theory address the structure and function of the socially constructed self – and there are substantial overlaps between the theories (Stets & Burke, 2000; Withers et al., forthcoming) – identity theory is a sociological theory and does not emphasize generative cognitive processes (Hogg, Terry, & White, 1995). In contrast to identity theory, social identity theory specifies in greater detail “how identities are internalized, how contextual factors make different identities salient, and how identities produce identity-consistent behavior” (Hogg et al., 1995: 266). Particularly relevant for our current research is that directors may cognitively and behaviorally assimilate the defining features of the social group of the

organization and of being a director (Hogg, 2001). Social identity theory's cognitive emphasis on self-categorization is particularly relevant for our current study.

### ***Organizational Identification***

Organizational identification can be defined as the extent to which individuals define themselves in terms of a specific organization and the value attached to that self-definition (Ashforth et al., 2008; Cooper & Thatcher, 2010, see also Tajfel 1978). In organizational contexts, the vast majority of research on social identification has examined an individual's identification with the organization (e.g., Dutton et al., 1994; Mael & Ashforth, 1992; Umphress, Bingham, & Mitchell, 2010). Organizational identification has been found to be an antecedent of many desired outcomes in organizations, such as the adoption of work behavior, voluntary learning, cooperation, in-role and extra-role performance, and job involvement (Ashforth & Mael, 1989; Hekman et al., 2009b; Riketta, 2005; Walumbwa, Cropanzano, & Hartnell, 2009). Indeed, Boivie et al. (2011) recently found that CEOs that identify strongly with the organization are more likely to act in way that is beneficial for the organization, thereby influencing the extent to which an organization incurs agency costs. We expect that individuals that strongly identify with their organization are more likely to be engaged in their work (Dutton et al., 1994), to exert effort to contribute to the organization (Carmeli, Gilat, & Waldman, 2007; Mael & Ashforth, 1992; Riketta, 2005). We hypothesize that organizational identification is positively related to director task performance (cf. Hillman et al., 2008).

*Hypothesis 1. Organizational identification will be positively related to director task performance.*

### ***Director Identification***

Being a member of a professional group one develops a social identity affiliated with that professional group. Social identification with a profession exists “when the defining characteristics of a successful professional in a particular career path become the core defining characteristics of the self” (Ng & Feldman, 2008, p. 857). Agency theorists have long recognized that directors seek to maintain a favorable reputation by acting as active directors (Fama, 1980; see also Zajac & Westphal, 1996). Particularly relevant here is that professional identification refers to the extent to which a professional experiences a sense of oneness with the profession (Hekman et al., 2009b) and that professional identification has been found to be a predictor of behaviors that validate the professional identity (Bamber & Iyer, 2002; Hekman et al., 2009a; Hekman et al., 2009b; Kreiner et al., 2006; Ng & Feldman, 2008; Russo, 1998). Accordingly, being a director can be considered a meaningful and salient social identity for directors. Drawing from social identity theory we can state that professional identification with being a director leads directors to include central and distinctive facets of being a director into their self-concept (cf. Ashforth et al., 2008).

Accordingly, the more a director identifies with being a director, the more his or her “cognition is attuned to and guided by prototypicality” (Hogg & Terry, 2000: 126), the more he or she tries to embody the relevant prototype and engages in behaviors to act upon his or her social identity as a director (Hogg et al., 1995). This is consistent with the contention that the more individuals identify with salient identities, the more likely they are to engage in activities that validate and reinforce salient social identities (Meyer, Becker, & Van Dick, 2006; Ng & Feldman, 2008). Our main argument here is that for directors that strongly identify with being a director, the director prototype becomes a strong source of appropriate behavior that guides



directors' attitudes and behaviors (cf. Turner, Hogg, Oakes, Reicher, & Wetherell, 1987). Accordingly, director identification leads directors to dedicate more effort to the prototypical behaviors relevant to their social identity as directors. Since engaging in director task behaviors allows directors to act upon their social identity as directors we expect a positive relationship between director identification and director task performance.

*Hypothesis 2. Director identification will be positively related to director task performance.*

### ***The Moderating Role of Director Tenure***

In a recent theoretical account Withers et al. (forthcoming, p. 8) note that “(a) director that exits from a board of an organization that he or she highly identifies with can also experience as sense of losing one’s self”. They propose that directors tend to remain at an organization because the organization becomes part of the director’s self-concept. It is not difficult to imagine that such a psychological attachment to an organization may impede a director’s psychological independence from that organization, thereby affecting director task performance. This is in line with Golden-Biddle and Rao (1997, p. 608), who note that “the ties that bind can also blind” for corporate directors. Accordingly, we expect that whereas organizational identification has many advantages for directors in terms of engagement towards the organization, the impediment of director objectivity from organizational affairs may place directors in jeopardy. It makes sense to look for contextual factors that clarify when a positive relationship between organizational identification and director task performance exists and when a negative relationship may be expected.

Given that the most extensive learning about an organization takes place in the early years of tenure (Finkelstein & Hambrick, 1996; Hambrick & Fukutomi, 1991; Kor, 2006) and that organizational identification fosters engagement with the organization and spurs directors to learn more about the organization (Ashford & Black, 1996; Dutton et al., 1994; Hillman et al., 2008), we expect that organizational identification is particularly beneficial for low-tenured directors. That is, for directors that have limited firm-specific information and have much to learn about the organization. Indeed, tenure with the organization is generally considered an indicator of work experience; individuals accumulate relevant work experience as their tenure increases (Ng & Feldman, 2010). Accordingly, low-tenured directors can be expected to have limited knowledge about specific organizational affairs and a disadvantage in terms of facts, trends, information, contacts, and procedures related to the successful conduct of directors in the firm (Hambrick & Fukutomi, 1991; Musteen, Datta, & Kemmerer, 2010; Roberts et al., 2005), these directors have most to benefit from organizational identification. It is important to note that, whereas tenure with the organization is likely to be positively associated with organizational identification (Mael & Ashforth, 1992), it does not necessarily imply organizational identification. A meta-analysis by Riketta (2005) shows that tenure with organizations is only weakly correlated with organizational identification<sup>6</sup>, corroborating the notion that organizational identification and organizational tenure are clearly separate constructs and that tenure does not necessarily imply organizational identification or vice versa (see also Ashforth et al., 2008; Mael & Ashforth, 1995).

Particularly relevant for our current study is that when directors identify with an organization they become psychologically intertwined with that organization (Mael & Ashforth,

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<sup>6</sup> This can also be seen from the modest bivariate correlation of .22 between director tenure and organizational identification in the current study (see table 1).

1992) and they define themselves in terms of their organizational membership (Ashforth & Mael, 1989; Dutton et al., 1994; Withers et al., forthcoming). Organizational identification may even compel directors to adhere to organizational norms even when these norms can be considered unethical or in contrast with personal norms (Ashforth & Anand, 2003; Umphress et al., 2010). In this vein, research on tenure indicates that high-tenured individuals are generally more rigid and unwilling to deviate from established routines (Boeker, 1997; Miller, 1991; Nishii & Mayer, 2009). When directors have served on boards for extended periods of time, they are more likely to become committed to the correctness of their views and narrow their information search (Finkelstein & Hambrick, 1996; Hambrick, Geletkanycz, & Fredrickson, 1993; Hillman et al., 2011; Kor, 2006; Walters, Kroll, & Wright, 2007; Westphal & Fredrickson, 2001; Wiersema & Bantel, 1992). Indeed, the traditional perspective of tenure is characterized by Katz (1982), who suggests that high tenure is associated with greater rigidity, strong commitment to established practices and limited awareness of alternative solutions (see also Golden & Zajac, 2001; Hambrick et al., 1993). Accordingly, high-tenured directors that identify with the organization are more likely to have aligned their beliefs with organizational norms (cf. Kreiner & Ashforth, 2004; Tangirala & Ramanujam, 2008, see also Hirschman, 1970: 78) and likely to be less receptive to alternative solutions that are not in line with organizational norms and values, thereby thwarting their psychological independence from the organization. In sum, we hypothesize that;

*Hypothesis 3. Director tenure will moderate the relationship between organizational identification and director task performance; such that the relationship will become less positive as director tenure increases.*

### ***The Moderating Role of Director Identification***

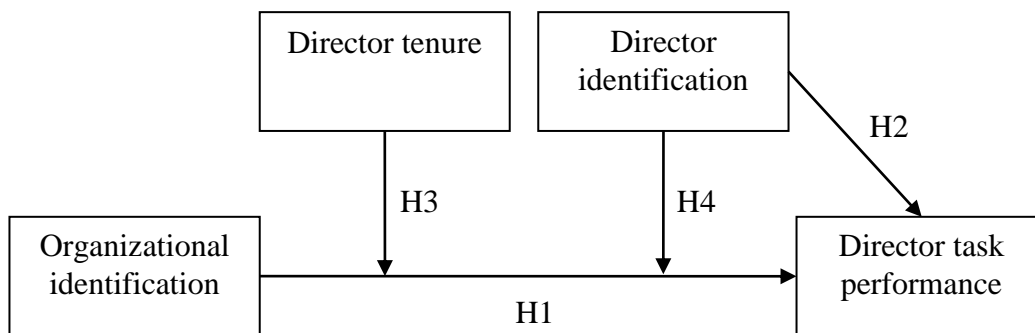
Central to social identity theory is the recognition that the self is composed of multiple identities that provide specific behavioral expectations. We can expect that work behaviors are strongly affected by the intensity of various social identities in concert rather than any single social identity per se (Ashforth et al., 2008; Johnson et al., 2006). Because both professional and organizational identities are rooted in the work context, salient professional identification (e.g. director identification) is likely to reinforce salient organizational identification (cf. Ng & Feldman, 2008). Indeed, recent research suggests that organizational and professional identification interact to predict work behavior (Hekman et al., 2009a; Hekman et al., 2009b). Thus, in addition to directly contributing to director task performance, organizational identification and director identification may interact to affect director task performance.

Specifically, whereas organizational identification is expected to foster engagement for a particular organization, director identification is expected to foster engagement in director task behaviors in general. Regardless of organizational membership, directors that strongly identify with being a director can be expected to engage in behaviors that validate their director identity. Conversely, if directors do not identify with being a director, regardless of organizational membership, they are less likely to engage in director task behaviors to begin with, because being a director is not an important part of who they are. Accordingly, when directors identify with a particular organization and with being a director they are more likely to expend effort in engaging in director task behaviors for that particular organization, because engaging in director task behaviors for a particular organization allows them to act upon their organizational and their director identity. In sum, we expect that director identification strengthens the effect from organizational identification on director task performance. We hypothesize that the contingent

relationship between organizational identification and director task performance – a positive relationship that becomes less positive as director tenure increases – is strengthened by director identification. An overview of our hypotheses is presented in Figure 3.1.

*Hypothesis 4. Director identification will strengthen the interactive effects of organizational identification and director tenure on director task performance.*

Figure 3.1: Director Social Identities and Director Tenure



## Method

### *Research Setting*

Our research focused on the boards of directors at Dutch housing corporations. Dutch housing corporations have a two-tier governance structure. In a two-tier governance structure, executive directors, including the CEO, reside in a management board, and the non-executive directors reside in a supervisory board. Despite the formal difference between a one-tier and a two-tier structure, the tasks that non-executive directors perform within a one-tier board are similar to the tasks of members of a supervisory board. For matters of parsimony, we refer to supervisory board members as directors and to the management board as senior management.

The main tasks of Dutch housing corporations are to build, rent, and maintain affordable housing. The majority of low rent houses in the Netherlands are owned by housing corporations. The housing sector in the Netherlands has its own corporate governance code, which is based on and thus very similar to the national Dutch corporate governance code for stock listed firms. Our research was conducted in the fall of 2009. In 2009, there were 430 housing corporations in the Netherlands with 2.4 million houses and a total capital of 32.6 billion euros (42.3 billion USD)<sup>7</sup>. The main tasks of the supervisory board are to supervise the policies of the management board and the general organization (i.e., scrutinize senior management) and assist management with advice (Principle III.1, Dutch corporate governance code, Principle III.1, Aedes governance code, Dutch civil law book 2 title 3, article 63f).

### ***Sample and Procedure***

One of the most challenging aspects of research on boards of directors is securing access to these boards (Leblanc & Schwartz, 2007). To gain access we contacted the chairpersons of boards of directors through the association of directors of Dutch housing corporations (VTW). The VTW sent out letters to the hundred largest housing corporations in the Netherlands and to the chairpersons of the supervisory boards of these corporations. We informed the chairpersons that we would contact them to discuss the overall purpose of the research project. To foster commitment from the chairpersons, we organized face-to-face meetings with them to explain the purpose of our research and to assure absolute confidentiality. Thirty-two chairpersons indicated that they were willing to schedule an appointment with us. Thirty chairpersons agreed to participate in this research project. We subsequently asked these chairpersons to endorse our research for the other directors on the board. Within a few days after each face-to-face meeting,

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<sup>7</sup> <http://www.rijksoverheid.nl> accessed on 10-10-2010.

we sent access codes to all directors on the board; these access codes could be used to login to a secured website through which directors could rate their fellow directors and answer questions about themselves.

We followed additional procedures that have been shown to enhance response rates (Westphal & Stern, 2007). To improve the appearance of the online survey instrument, we pretested the online questionnaire on two boards of directors that were not included in this research project. Moreover, we sent two further rounds of personal reminders to non-respondents, and in addition to obtaining endorsement from the chairpersons, we obtained endorsement from the Dutch association of directors of housing corporations. Of the 181 directors from the thirty participating boards that received a personal access code for the website, 154 directors (85%) completed the questionnaire. The average age was 58 years ( $SD = 7.9$  years), and 27% were female. All directors were assured absolute confidentiality in rating their peers; they were informed that their answers would not be made available to their fellow directors under any circumstances.

## **Measures**

### *Director Task Performance*

In the Netherlands, as in other countries, directors are legally obliged to monitor senior management, evaluate senior management, and provide senior management with advice (Principle III.1, Dutch Corporate Governance Code). Similar to Dutch law, monitoring, evaluating, and advising senior management are generally included in corporate law in countries around the world as a director's fiduciary responsibility and are also referred to as such by a host of board scholars (e.g., Demb & Neubauer, 1992; Gulati & Westphal, 1999; Hillman & Dalziel,

2003; Kroll et al., 2008; Lorsch & MacIver, 1989; Roberts et al., 2005; Westphal, 1999). Although we agree that the strategic role and the control role constitute two core ingredients of director task performance, pertaining to the actual work that individual directors do the distinction between the strategic role and control role is often unclear (Stiles & Taylor, 2001). Thus, although several performance dimensions such as monitoring and advice are distinguished in the governance literature, for the purpose of our study at the individual director level of analysis we focus on overall director task performance. Moreover, given that task performance includes activities that fulfill prescribed job duties (Campbell, 1990; Whiting, Podsakoff, & Pierce, 2008) and that monitoring, evaluating, and advising senior management collectively reflect a director's fiduciary responsibility, it is most appropriate to consider these task behaviors as indicators that describe and capture director task performance in its entirety as a reflective measure (see Edwards, 2011, for an account on the use of reflective and formative measures).

We measured individual director task performance using peer ratings that we aggregated to the mean for each individual director. Due to the labor intense nature of using a peer ratings approach for directors (every director rated all other directors individually), we were forced to keep our instrument as short as possible. Because director task behaviors describe the same underlying construct, we selected three of the six items from Westphal (1999) that most closely resembled directors' legal task requirements (i.e., their fiduciary responsibilities), and we adapted these items to the individual director level. As adhered to, Dutch law prescribes directors to monitor the policies of senior management, to evaluate the senior management, and to assist management with advice. The following items were included: "To what extent does 'this director' monitor top management strategic decision making?", "To what extent is 'this director' involved in formally evaluating top management?", and "To what extent is 'this director' a



sounding board for management?”. For these items, ‘this director’ was replaced by the name of the focal director to be rated by his or her fellow directors. These three items were measured on a seven-point scale (1=minimally, 7=very much so), and Cronbach’s alpha was .83.

#### *Organizational Identification*

Organizational identification was measured with four items from Mael and Asfthorth (1992). The items were: “When someone criticizes this organization, it feels like a personal insult”, “When I talk about this organization, I usually say ‘we’ rather than ‘they’”, “This organization’s successes are my successes”, “When someone praises this organization, it feels like a personal compliment”. Directors rated their organizational identification on a seven-point scale (1=strongly disagree, 7=strongly agree), and Cronbach’s alpha was .70.

#### *Director Identification*

Identification with being a director was measured with four items adapted from Jetten et al. (2003) and Luhtanen and Crocker (1992) (also see Crisp & Beck, 2005). The referent category was adapted to reflect the director identity. The items were “I identify strongly with other directors in general”, “Being a director is an important part of who I am”, “I feel strong ties with other directors in general” and “I feel a strong sense of solidarity with other directors in general”. The items were rated on a seven-point scale (1=strongly disagree, 7=strongly agree), and the Cronbach’s alpha was .85.

#### *Director Tenure*

We define director tenure as the length of a director’s tenure in the organization. The participating organizations were legally obliged to publish information on their board of directors in their annual accounts. Information on director tenure was obtained from the annual accounts

of the participating organization in combination with additional information from the Dutch Chamber of Commerce. Tenure was measured in months; to ease interpretation, we divided tenure by twelve to arrive at a measure of tenure in years.

### *Control variables*

We included a number of control variables. Similar to prior studies, we controlled for board size in all of our analyses (Hillman et al., 2007; Kroll et al., 2007; Tuggle et al., 2010a) because board size influences board dynamics. Board size ranged from 4 to 9 ( $M=6.21$ ,  $SD=1.27$ ). We included a chairperson dummy to control for the position of the chairperson. A director's level of expertise is likely to affect a director's task performance (Hillman & Dalziel, 2003); we therefore also controlled for managerial expertise and sector specific expertise. Managerial expertise was measured with three items asking directors about their level of "financial-economic expertise", "internal control and administrative organizational expertise" and "general business and organizational expertise". Cronbach's alpha was .73. Sector-specific expertise was measured with three items: "care and well-being expertise", "safety and habitability expertise", and "residential expertise". Cronbach's alpha is .76. All expertise items were measured on a seven-point scale asking directors about their level of expertise (1=very low, 7= very high).

### *Discriminant and Convergent Validity*

We used confirmatory factor analysis to assess the discriminant and convergent validity of the scales used in the hypothesized model. We computed parameter estimates using the LISREL 8.80 computer package with the maximum likelihood method. We first tested a model with the five intended constructs (organizational identification, director identification, director task performance, managerial expertise, and sector-specific expertise). The overall fit of the model

was adequate ( $\chi^2=173.78$ ,  $df=109$ ,  $p<.001$ ), the goodness-of-fit index (GFI) was .88, the comparative fit index (CFI) was .94, and the root mean square error of approximation (RMSEA) was .062. In addition, the factor loadings were all significant at  $p<.001$ . To evaluate the discriminant validity of our measures, we tested four alternative models. For the first alternative model, all organizational and director identification items loaded on one latent identification construct, and the other factors remained unchanged ( $\Delta \chi^2=79.06^8$ ,  $df=4$ ,  $p<.001$ , GFI=.84, CFI=.89, RMSEA=.090). For the second alternative model, all identification items loaded on one identification construct, and all expertise items loaded on one expertise construct ( $\Delta \chi^2=223.99$ ,  $df=7$ ,  $p<.001$ , GFI=.77, CFI=.79, RMSEA=.13). The third alternative model contained one latent construct for all predictor items and one latent construct for director task performance ( $\Delta \chi^2=342.19$ ,  $df=9$ ,  $p<.001$ , GFI=.72, CFI=.72, RMSEA=.15). Lastly, the fourth alternative model contained only one latent construct for all the items ( $\Delta \chi^2=551.94$ ,  $df=10$ ,  $p<.001$ , GFI=.64, CFI=.58, RMSEA=.18). The fit for all of these alternative models was significantly worse than the hypothesized measurement model.

### ***Interrater Agreement and Reliability***

All constructs were explicitly conceptualized at the individual level. Because we used a peer ratings approach for director task performance in which fellow directors rated each other's task performance, it was important to evaluate how the measurement assumption that the responses from fellow directors regarding a focal director's task performance converged (Kozlowski & Klein, 2000). To investigate this, we calculated James, Demaree, and Wolf's (1984, 1993) average inter-agreement coefficient for multi-item indices ( $r_{wg(j)}$ ). Compared with a uniform distribution, the median  $r_{wg(j)}$  value for task performance was .89 (mean = .83). In addition,

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<sup>8</sup> All  $\Delta \chi^2$  are in comparison to the hypothesized model.

compared with a heavily skewed distribution, the median  $r_{wg(j)}$  reads .67 (mean = .72) (see LeBreton & Senter, 2008), which can still be considered as adequate. We would also expect the variation between the ratings of director task performance for a focal director to be more similar to one another than the ratings of task performance for other directors (Bliese, 2000). This was investigated by calculating the intraclass correlation coefficients (ICC[1] and ICC[2]; Bliese, 2000). One-way analysis of variance suggested that ratings differed significantly between different non-executive directors. The ICC(1) for task performance was .35 ( $p < .001$ ). The reliability of the aggregated means for the individual director level was investigated by calculating the ICC(2) coefficient. The ICC(2) coefficient for director task performance was .66. These numbers indicate that there was sufficient agreement to justify aggregation. All in all, these results support the aggregation of peer ratings of director task performance at the individual director level.

### ***Analytical Methodology***

We performed a random effect, maximum likelihood regression to estimate the variance components for our model. We also tested our hypotheses with a restricted maximum likelihood regression (REML) and with a generalized least square (GLS) regression employing the Huber/White sandwich estimates for variance that is robust for clustering and heteroskedasticity (see White, 1980; Williams, 2000). Our results remained substantively unchanged. We first fitted an empty model to determine the intraclass correlation. The intraclass correlation of .20 was highly significant ( $p < .001$ ), informing us that a multilevel model was warranted and that we needed to take into account the nesting of directors in boards. Following the recommendations of Aiken and West (1991), we standardized all variables involved in computing the interaction terms.

## **Results**

The means, standard deviations, and Pearson zero-order correlations between variables are presented in Table 3.1. As shown, the chairperson dummy, managerial expertise and tenure are positively related to director task performance and there is a positive relationship between the chairperson dummy and managerial expertise. In addition, board size is negatively related to director task performance indicating that individual directors are less engaged in director task behaviors as board size increases. Organizational identification and tenure are moderately positively related. Furthermore, organizational identification and director identification are positively related. Table 3.2 presents the results of the regression analyses used to test our hypotheses. We included five models to isolate the contributions of the different terms. We included the control variables in model 1 (Table 3.2). In model 2, we included the main effects of organizational identification, director identification, and tenure. We added the interaction term between organizational identification and tenure in model 3, followed by the remaining two-way interactions in model 4. Finally, the three-way interaction between organizational identification, tenure, and director identification was included in model 5. We used the deviance statistic to indicate the fit of the different models.

**Table 3.1**  
**Means, Standard Deviations, and Correlations**

Variables	Mean	S.D.	1	2	3	4	5	6	7
1 Board size	6.21	1.28							
2 Chairperson dummy	0.18	0.38	-.10						
3 Managerial expertise	5.07	0.96	-.14	.24**					
4 Sector specific expertise	4.84	0.95	-.06	.02	-.18*				
5 Organizational identification	5.08	0.87	.10	.15	.22**	-.02			
6 Director identification	4.59	1.05	.03	.10	.32**	.08	.46**		
7 Tenure	5.20	3.50	.08	.17*	.03	.11	.22**	.03	
8 Director task performance	5.21	0.82	-.33**	.44**	.28**	-.09	.10	.07	.18*

\*\* p<.01, \* p<.05

Note: n = 154

**Table 3.2**  
**Results of Random Effects Maximum Likelihood Regression for Director Task Performance**

Step and variables	Model 1		Model 2		Model 3		Model 4		Model 5	
	Estimates	SE	Estimates	SE	Estimates	SE	Estimates	SE	Estimates	SE
<b>Controls</b>										
Board size	-0.23**	(0.08)	-0.24**	(0.074)	-0.23**	(0.08)	-0.23**	(0.08)	-0.23**	(0.07)
Chairperson dummy	0.82**	(0.14)	0.78**	(0.139)	0.77**	(0.14)	0.77**	(0.14)	0.74**	(0.14)
Managerial expertise	0.10+	(0.06)	0.10+	(0.058)	0.10+	(0.06)	0.10+	(0.06)	0.12*	(0.06)
Sector specific expertise	-0.09	(0.06)	-0.10+	(0.056)	-0.11*	(0.06)	-0.11*	(0.06)	-0.11*	(0.05)
<b>Main effects</b>										
Organizational identification (OI)			0.00	(0.063)	0.01	(0.06)	0.01	(0.06)	-0.01	(0.06)
Director identification (DI)			-0.02	(0.063)	-0.02	(0.06)	-0.02	(0.06)	0.00	(0.06)
Tenure			0.12*	(0.057)	0.12*	(0.06)	0.12*	(0.06)	0.19**	(0.06)
<b>Two-way interactions</b>										
OI x Tenure					-0.12*	(0.05)	-0.14*	(0.07)	-0.18**	(0.07)
OI x DI							-0.02	(0.05)	0.00	(0.05)
Tenure x DI							0.03	(0.07)	0.03	(0.07)
<b>Three-way interaction</b>										
OI x Tenure x DI									-0.11*	(0.05)
Intercept	5.07**	(0.08)	5.08**	(0.076)	5.10**	(0.08)	5.11**	(0.08)	5.13**	(0.08)
Deviance (-2ResLogLik)	313.75		308.79		303.72		303.47		299.37	
Δ Deviance (compared to previous model)			4.96		5.07*		0.25		4.10*	

Standard errors in parentheses. Unstandardized regression coefficients reported.

\*\* p<.01, \* p<.05, + p<.10

Note. N=154, Number of boards = 30

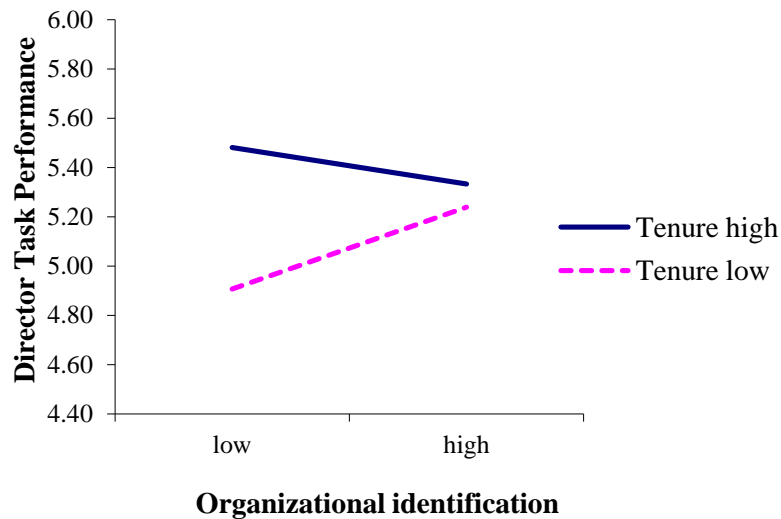
We do not find support for the first hypothesis that predicted a positive relationship between organizational identification and director task performance (Table 2, Model 2,  $b = 0.00$ , *ns*). Similarly, there is also no evidence of a positive relationship between director identification and director task performance as predicted in hypothesis 2 (Table 2, Model 2,  $b = -0.02$ , *ns*). Although we did not hypothesize a positive direct relationship between director tenure and director task performance, the results in Table 2 demonstrate that director tenure is positively related to director task performance. Consistent with our third hypothesis, however, the results support an interaction effect between organizational identification and tenure on director task performance (Table 2, Model 3,  $b = -0.12$ ,  $p < .05$ ) and we find a significant change in the relationship between organizational identification and director task performance for different levels of director tenure. To gain further insight into the nature of this interaction effect, we plotted the relationship between organizational identification and director task performance at high (one standard deviation above the mean) and low (one standard deviation below the mean) values of director tenure (cf. Aiken & West, 1991). The pattern of results depicted in Figure 2 is consistent with the third hypothesis. We therefore find support for our third hypothesis.

The fourth hypothesis predicts that director identification strengthens the interactive effects of organizational identification and director tenure on director task performance. In support of our fourth hypothesis (Table 2, Model 5), director identification significantly moderates the interaction effect of organizational identification and tenure on director task performance ( $b = -0.11$ ,  $p < .05$ ). Plotting these relations shows that director identification indeed strengthens the relationship between organizational identification and director task performance for low-tenured directors and



high-tenured directors, respectively (see Figure 3). These results support the fourth hypothesis.

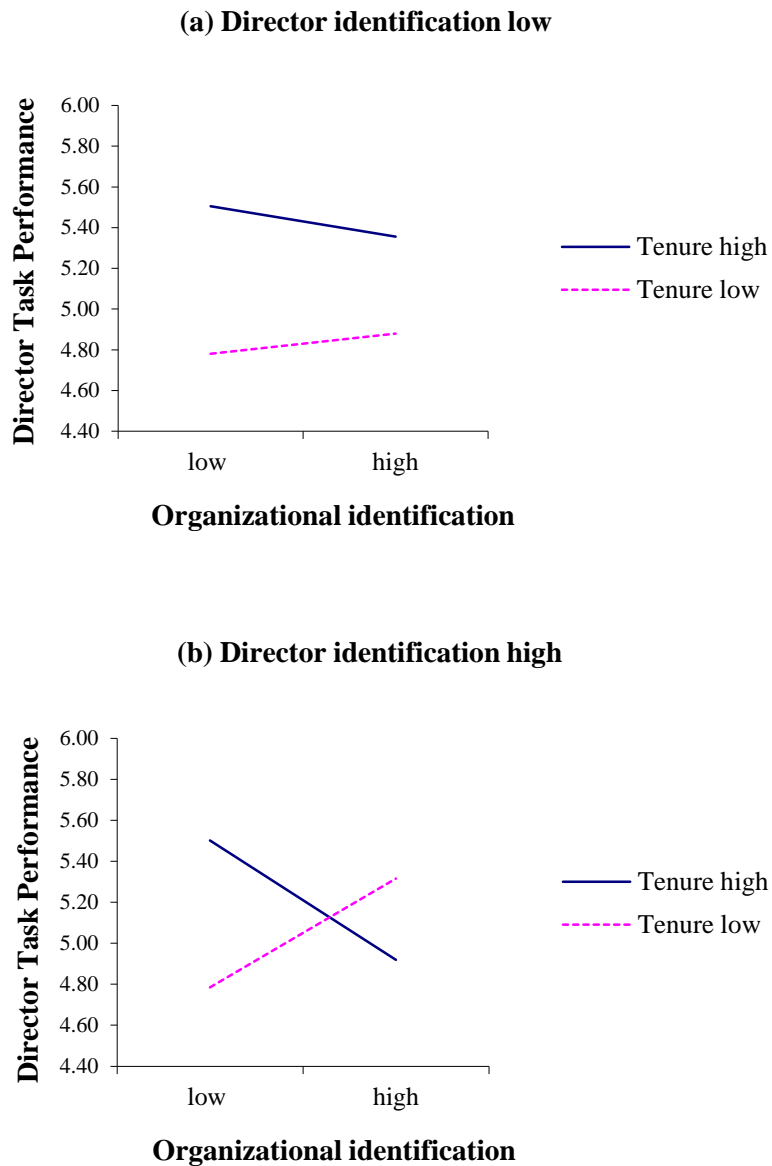
Figure 3.2: Two-way Interaction Organizational Identification and Director Tenure



## Discussion

In discussing the future of corporate governance research, Hambrick et al. (2008) recently stated that until scholars understand individual directors' motives, they will have great difficulty in comprehending board processes and director effectiveness. To date, to the best of our knowledge, no study has empirically investigated directors as individuals, and we believe this to be an important contribution of our work. By integrating insights from governance research and research on social identification, we have provided the first large-scale empirical analysis that supports the notion that identification with situationally salient social identities has application for directors, as individuals, whose job it is to monitor, evaluate, and advice senior management.

Figure 3.3: Three-way Interaction Organizational Identification, Tenure, and Director Identification



Notwithstanding the pervasive theoretical arguments for a direct relationship between organizational and director identification on the one hand and director task performance on the other (e.g., Hillman et al., 2008), we do not find evidence for simple direct effects. In this vein, Golden-Biddle and Rao (1997) suggested that scholars investigating boards should be sensitive to when organizational identification should be considered a strength

and when it should be considered a constraint for directors. In particular, we have argued that organizational identification may thwart a director's psychological independence specifically for high-tenured directors, whereas it is expected to be positively related to director task performance for low-tenured directors. Our results confirm that director tenure plays a moderating role in this respect. Furthermore, director identification is an important boundary condition for the interactive effects of organizational identification and director tenure on director task performance. Directors that do not identify with being a director are more likely to be passive board participants (see also Hillman et al., 2008) and are thus less engaged in prototypical director behaviors. As a result these directors are less likely to be engaged in director task behaviors to begin with.

Perhaps the most important quality of directors is independence of mind in objectively evaluating and scrutinizing managerial decisions and providing senior management with valuable advice (Fama & Jensen, 1983; Hillman & Dalziel, 2003; McDonald, Westphal, & Graebner, 2008; Roberts et al., 2005). According to a director from Roberts et al. (2005, p. 16), “[directors] quite often have that vision of being able to see something in a flash rather than be involved in bits, seeing the wood and not the trees”. A noteworthy finding in this respect is that director identification exacerbates the detrimental effects of organizational identification for high-tenured directors. Whereas this may seem as a counterintuitive finding, regardless of the motivation to spend effort on prototypical director behavior, directors who lack the psychological independence from organizational affairs are likely incapable of performing their tasks as directors. For directors who lack such independence, engaging in prototypical director behaviors and actively contributing may hurt rather than help director task performance. We believe that

this is a significant contribution of our work because it underscores the relevance of in-depth behavioral research into directors' social identification and illustrates the complexity of behavioral antecedents.

In sum, we find support for the premise that social identification acts as a determinant of director task performance. More specifically, organizational identification may either be beneficial or detrimental for director task performance, depending on a director's tenure with the organization and director identification. Although our main contribution is to the literature on boards of directors, our results also contribute to the social identity literature. We have found that social identification with different targets interacts to predict director task performance. Furthermore, we have found that organizational identification can also be detrimental. A great deal of research on organizational identification has explicitly investigated the beneficial effects of organizational identification on a host of desirable job-related outcomes. However, identity scholars have recently begun to acknowledge the possible negative effects of organizational identification (Haslam et al., 2006; Umphress et al., 2010). Our results add to this literature by specifically introducing tenure as a possible moderator for the relationship between organizational identification and task performance.

Furthermore, whereas professions are prevalent in organizational life, identification with the profession has been scantily addressed by social identity scholars (Ashforth et al., 2008). Our current study indicates that for directors residing at the upper echelon of the organization, director identification acts as an important boundary condition for the interactive effects of organizational identification and director tenure on director task performance. These interactive effects of organizational and professional

identification may also be expected to be relevant for groups other than directors. Therefore, our results also add to the growing literature on effects of organizational and professional identification for professional employees (Ashforth et al., 2008; Hekman et al., 2009a; Hekman et al., 2009b; Kreiner et al., 2006; Withers et al., forthcoming).

### **Limitations and Future Directions**

Given the characteristics of the sample, there are certain cautions that should be exercised in interpreting and generalizing from this study. Specifically, this study adopted a cross-sectional design that limits our ability to draw empirical conclusions about the direction of causality that we cannot conclusively eliminate. Future research may include repeated measurements and longitudinal designs. Given the difficulty of gaining access to boards of directors, this will provide a serious challenge for board scholars in the future.

We incorporated multiple sources of data in our analysis. Specifically, social identification was based on self-report data, director tenure was drawn from archival information, and task performance was rated by fellow directors. Although this approach helps to alleviate concerns about common source bias, the use of a survey instrument to collect measures of social identification and task performance may have introduced common method bias into these results (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). The use of a completely different measure for task performance (e.g., based on board minutes, observations of board meetings) would strengthen our confidence in these results.

Whereas several researchers have acknowledged the inherent weakness of investigating the board of directors as a monolithic entity from a board level perspective (e.g., Finkelstein & Hambrick, 1996; Hillman et al., 2008; Zahra & Pearce, 1989), to the

best of our knowledge, this study provides the first empirical examination of individual-level director task performance. We encourage board scholars to further examine directors as individuals to garner an understanding of individual director task performance, interactions, board behavior and board effectiveness. Future research may replicate our findings using additional objective data on director task performance. We believe that such an understanding is pertinent for research on board behavior and board effectiveness.

The Netherlands has a two-tier governance structure. Generalization to other countries and other institutional settings may pose a limitation of our current research project because our study sample is situated in the Netherlands. Notwithstanding the formal difference between a one-tier and a two-tier structure, the tasks that directors perform within a two-tier board are similar to the tasks that directors perform within a one-tier board. Although the institutional structure is an important contextual element to take into consideration and although we encourage researchers to further explore the effects of institutional contextual elements on board behavior, we are confident that our results may be generalized to boards of directors in other institutional settings.

We specifically included two situationally relevant targets of identification for directors, namely, identification with the organization and identification with being a director, which we argued to be particularly salient for directors of an organization in performing their fiduciary responsibilities as directors for that organization (see also Withers et al., forthcoming). Future research may look for additional moderators between organizational and director identification and task performance and for additional targets of identification. Admittedly, directors may identify with additional relevant targets of

identification, such as the board of directors itself (i.e., team identification), stakeholders, the corporate elite, being a CEO (if the director is a CEO elsewhere), or the specific industry (Hillman et al., 2008; Westphal & Graebner, 2010). In addition to the potential direct effects of identification with these other targets, it would be particularly interesting to study the interactive effects of simultaneously identifying with multiple targets. For example, identification with being a CEO elsewhere might strengthen the effects of organizational identification due to higher engagement with the organization and higher engagement in strategic decision making or it might interfere with the effects of director identification due to a lower inclination to scrutinize senior management. Relatedly, although this was not the purpose of the current study, interesting research can be done on different role identities of directors. Research may address, for instance, what factors facilitate or hamper directors' role transitioning from one role to another (e.g., shifting from the role as a CEO to the role as a director).

Finally, future research may gauge the linkage between individual level director task performance and individual director characteristics with board level effectiveness and board level antecedents. This specifically calls for multilevel theorizing and analyses, thereby opening up a wide and virtually unexplored field for board researchers. Indeed, recent research on boards of directors explicitly acknowledges the benefits of employing multilevel approaches to flesh out the individual director-level determinants of board-level effectiveness (Hillman et al., 2011). In a similar vein, employing multilevel theorizing and analysis, board researchers may also examine the antecedents and consequences from dyadic processes within a board that operate between directors and senior management.

## **Practical Implications**

The practical implications of understanding antecedents of director task performance become apparent when we realize that directors reside at the top of the organizational structure and that we know very little about the antecedents of individual-level director task performance. This is surprising, as poorly performing directors can have ramifications for the organization as a whole. As a result, regulators increasingly stress the need for boards of directors to assess the task performance of individual directors. To date, however, research that specifically focuses on director task performance has been scant. Our findings add to the understanding of antecedents of individual level director task performance and are relevant both for practitioners and regulators to help shape the topics that may be addressed in assessing individual directors. In this vein, by utilizing scales developed to measure social identification, it is possible to measure directors' social identification with situationally relevant social identities such as the organization and being a director. In assessing individual directors, the chairperson may, for instance, incorporate these scales to garner insight into a director's identification with the organization and with being a director.

Our findings indicate that the antecedents for director task performance differ for low-tenured and high-tenured directors in assessing individual directors. The chairperson may specifically attune to the degree to which directors identify with the organization and with being a director discriminating between low-tenured and high-tenured directors. In selecting new directors, the chairperson may consider the implications of 'being a director' for this new director. For directors that strongly identify with the organization, perhaps because it is their only directorship, and who feel strongly about being a director,



organizational identification has beneficial effects on director task performance for low-tenured directors, but these effects become negative for high-tenured directors. In this vein, our results suggest that newly appointed directors can benefit from following introduction programs, visiting social events arranged by the organization, and meeting organizational members, as these programs can be expected to foster their organizational identification. Conversely, high-tenured directors may need to more actively distance themselves from organizational affairs.

Best practice provisions for boards are often formulated for a board as a whole; our current findings suggest, however, that discriminating by director tenure might be relevant for increasing director task performance and, ultimately, effective governance in organizations. The broader implication of this finding is that practitioners and regulatory bodies may, to a larger extent, need to discriminate between low-tenured and high-tenured directors in formulating best practice provisions. Whereas prescriptions and best practice provisions related to director independence are included in corporate governance codes in almost every country across the globe (Aguilera & Cuervo-Cazurra, 2009), regulators might pay more attention to more proximal behavioral aspects of board behavior, such as directors' identification with the organization or with being a director. Although additional research is needed, regulators may, in time, prescribe what behavioral aspects need to be included in evaluating individual directors and the board of directors as a whole.

## **Conclusion**

Responding to calls for a richer understanding of board behavior (e.g., Finkelstein & Hambrick, 1996; Hambrick et al., 2008; Hillman et al., 2008), our results underscore the

merit of investigating directors as individuals. Much of the literature on boards assumes that demographic characteristics are good predictors of boardroom behavior, irrespective of directors' individual-level engagement (Hillman et al., 2008). Rather than relying on unquestioned assumptions, we investigate the psychological drivers of directors' engagement in performing their tasks as directors in terms of identifying with the organization and being a director. A central premise of this study is that within the confines of the boardroom, director task performance has less to do with a director's formal independence and more to do with a director's psychological independence—in other words, an independence of mind from organizational affairs. Our results underscore the need to extend governance research and practice toward more proximal and psychologically oriented interpretations of director independence and director motivation. This study suggests that social identity theory provides an appealing avenue for providing such a behaviorally oriented investigation of board behavior and director task performance.

## CHAPTER 4

### STATUS AND CONFORMITY IN THE BOARDROOM

*What happens in these boardrooms that make a society's corporate leaders be as unwilling as an unprepared child in a classroom quiz to raise their hands during board meetings? (Lorsch & MacIver, 1989, p. 88)*

Research on boards and governance often overlooks the fact that boards of directors are, first and foremost, social groups (for notable exceptions see Finkelstein & Mooney, 2003; Forbes & Milliken, 1999; He & Huang, 2011). Simple but relevant questions pertaining to who has the most and who has the least say within the boardroom have remained largely unanswered (Hambrick et al., 2008). Yet, it is a well-established fact of group life that some group members are accorded higher status than others and that intra-group status differences shape patterns of intra-group participation, influence and conformity (Bales, Strodbeck, Mills, & Roseborough, 1951; Berger, Fisek, Norman, & Zelditch, 1977). Like in any social group, status differences are neither absent nor irrelevant, and inevitably emerge within boards (cf. Magee & Galinsky, 2008), bestowing some directors with the right to perform certain actions, while refusing this right to other members (cf. Anderson et al., 2006; Berger et al., 1980). Consequently, the functioning of non-executive directors (NEDs) may, to a large extent, be dependent on such informal status differences within boards of directors.

Intra-group status differences have been observed in a wide variety of groups including workgroups, street corner gangs, groups of young children, and also outside the human realm, social animals construct informal hierarchies that produce marked

inequalities (Gould, 2002; Groysberg, Polzer, & Elfenbein, 2011; Magee & Galinsky, 2008; Sapolsky, 2005). Status differences establish a social order. On the one hand, those high in status are given considerable leeway and influence. On the other hand, low-status individuals are more likely to obey and conform to high-status individuals (Magee & Galinsky, 2008; Milgram, 1965). Thus, although a board may be comprised of different expertise domains, status differences can hamper the integration of views from these different expertise domains in board deliberations because low-status NEDs are likely to conform. In essence, the importance of recognizing the determinants of intra-group status becomes clear when it is realized that social status determines who is influential and who conforms, thereby affecting an NED's functioning and NED's contribution to board decision-making processes. In this vein, He and Huang (He & Huang, 2011) recently stated that directors are likely to sort themselves into an informal hierarchy, thereby structuring patterns of conformity and influence among directors. A fundamentally unaddressed question for both corporate governance theory and practice is the extent to which such status differences materialize and shape patterns of intra-group influence and conformity among NEDs.

This study seeks to address this fundamental question and makes the following contributions to the extant literature on boards of directors. First, following previous research, the paucity of consistent empirical findings in board research has prompted calls for a richer and more behavioral oriented understanding of boards of directors (Daily et al., 2003; Hambrick et al., 2008; Hillman et al., 2008; van Ees et al., 2009). In this respect, recent research on board effectiveness recognizes that the enactment of board tasks emanates from individual-level director engagement (Finkelstein &

Hambrick, 1996; Hambrick et al., 2008; Hillman et al., 2008; Roberts et al., 2005). Accordingly, rather than interpreting the board of directors as a monolithic entity, we focus on the determinants and consequences of NED status at the individual level and at the dyadic level of analysis. To this end, we incorporate a full round-robin questionnaire in which 57 NEDs from 10 Dutch boards of directors<sup>9</sup> provided 341 inter-personal ratings of one another. This full round-robin design allows us to separate group-level variance, individual-level variance and dyadic-level variance, thereby facilitating a fine-grained analysis of the antecedents and consequences of social status within boards of directors. To the best of our knowledge, we are the first to study NEDs at the individual and dyadic level of analysis by employing a round-robin design.

Second, we suggest that a behavioral oriented approach that draws upon research on status differences may yield promising results for explaining how board decision-making processes will be affected by informal hierarchical differences between NEDs. By investigating the antecedents and consequences of status differences of NEDs, this study attempts to fill a critical gap in the literature on boards and governance pertaining to informal hierarchical differences between directors. Indeed, recent research suggests that informal hierarchical differences may arise within boards of directors(He & Huang, 2011). Although recent research acknowledges the merit of studying such informal differences, these differences are still inferred from publicly available data from outside the boardroom. Inferring these informal differences may introduce empirical fallacies in the analysis of board processes (see Lawrence, 1997). In this study, rather than inferring status differences from such data, we incorporate peer-ratings provided by fellow NEDs.

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<sup>9</sup> The Netherlands has a two-tier governance structure. Non-executive directors, or supervisory board members, reside in a supervisory board. For purposes of parsimony we refer to such supervisory board members as non-executive directors (NEDs) and we refer to supervisory boards as boards of directors.

We utilize a multi-source dataset that contains peer ratings in which all NEDs of an organization rate and are rated by their fellow directors on social status and conformity. The use of peer-ratings data is suitable for measuring status because it allows for a more precise measurement of status differences, given that status in face-to-face groups can be defined as an individual's prominence, respect, and influence in the *eyes of others* (Anderson et al., 2006).

Third, our results underscore the importance of extending the agency-theoretic interpretation of director effectiveness in governance research and practice towards more proximal- and socio-psychological-oriented interpretations of director influence within boards of directors. By garnering insights from sociology, psychology, and management research, we illustrate the relevance of a multidisciplinary approach in research on boards of directors. We propose that high-status NEDs are more influential within boards, whereas low-status NEDs are expected to conform. As status-organizing processes structure interactions for social groups (Berger et al., 1980) like boards of directors, the ramifications for the functioning of NEDs can be large, particularly when such status-organizing processes do not necessarily reflect the actual competence of NEDs. Status is accorded to those NEDs who are *perceived* to be more competent. Ultimately, the complex relationships between NED competence and expertise, on the one hand, and NED influence and conformity, on the other, may be determined by status differences within the board. A deeper understanding of the complexity of status differences within boards may increase our insight in NED influence and conformity and the determinants of a board's decision-making effectiveness.

## **Background and Theory Development**

Status in face-to-face groups is defined as an individual's prominence, respect, and influence in the eyes of others (Anderson et al., 2006). Status is an ubiquitous and naturally occurring feature of group life (Pettit, Yong, & Spataro, 2010). It is a well-established fact of group life that some members are accorded higher status than others and that intra-group status differences shape patterns of intra-group participation and influence (Bales et al., 1951; Berger et al., 1977). According to functionalist theories of status, the group develops an implicit consensus as to which individual characteristics are valuable and allocates status based on the extent to which an individual possesses these characteristics (Berger, Cohen, & Zelditch, 1972; Berger et al., 1977). Although the sociological literature on group behavior has extensively studied the effects of social status (e.g., Berger et al., 1972; Berger, Ridgeway, Fisek, & Norman, 1998), social status has rarely been addressed in the study of management and organizational life (Anderson & Brown, 2010; Bunderson & Reagans, 2011; Magee & Galinsky, 2008; Ravlin & Thomas, 2005).

Status characteristics theory may provide a relevant starting point for gauging the determinants and implications of status differences for NEDs. Research in this tradition indicates that presumed, but not necessarily valid, indicators of competence drive performance expectations and intra-group influence (Bunderson & Reagans, 2011). In this respect, status characteristics theory holds that status is driven by the 'performance expectations' that members of a group have for one another (Berger et al., 1977). Research on social status in small groups suggests that individuals spontaneously and rapidly form expectations about one another's social status and competence and that these

expectations guide interactions and conformity among group members (Magee & Galinsky, 2008). Such performance expectations do not necessarily reflect the actual competence of individuals. The key tenet of this research is that members who are *perceived* to be more competent receive more status. In particular, status characteristics theory, and the closely related expectation states theory, holds that members that are initially accorded high performance expectations are awarded more action opportunities to contribute to the group's task and therefore become more influential. This, in turn, increases performance expectations for these members. As a result, initial performance expectations become a self-fulfilling mechanism resulting in stable prestige differences among group members (Berger et al., 1977; Ridgeway & Berger, 1986).

Furthermore, status characteristics theory explicitly acknowledges two distinct categories of status cues that form performance expectations, namely specific and diffuse status characteristics (Berger et al., 1977). A status characteristic differentiates actors into categories that are associated with differential status value and performance expectations of the people within those categories. A status characteristic is 'specific' when it signals expertise or competence related to a particular task (e.g., task expertise). Conversely, a status characteristic is 'diffuse' when it signals capability across a range of tasks and provides information on an individual's general aptitude, which is presumed to affect his or her competence (Berger et al., 1980; Bunderson, 2003). Such diffuse characteristics are not necessarily related to the specific task at hand and may include gender, ethnicity and age (Berger et al., 1980). Status characteristics theory asserts that the group develops an implicit consensus about which diffuse and specific status characteristics are important and, consequently, determines those who are accorded high and low status.



### ***Task-Relevant Expertise***

Task-relevant expertise is an especially prominent predictor for individual status in workgroups (Berger et al., 1998; Groysberg et al., 2011) and is characterized as a specific status characteristic. For individuals to attain high status within groups, they need to possess specialized knowledge related to the problems faced by the group (Anderson & Kilduff, 2009b). For example, in hunter-gatherer tribes, status is conferred to those with superior hunting skills because those skills are critical for the group's success (Anderson & Kilduff, 2009a, see also Ellis, 1994). Similarly, a director's level of expertise is likely to affect a director's task performance (Hillman & Dalziel, 2003), and we can expect that NED task-relevant expertise is positively related to NED status. It is important to note, however, that NED expertise needs to be situated in a relevant domain (e.g., hunting skills are likely not relevant for NEDs). In this vein, NEDs are generally selected for their expertise, but we know very little about the relationship between NED task-relevant expertise and NED social status within the board. Moreover, given that expertise cannot be directly observed (Bunderson, 2003; Littlepage & Mueller, 1997), NEDs can stress the importance of their contributions. As a result, fellow NEDs may not correctly gauge a focal NED's task-relevant expertise. This may be particularly relevant for NEDs because they face complex multifaceted tasks, meet episodically, and the output they produce is completely cognitive in nature (Forbes & Milliken, 1999).

We focus on two situation-relevant sources of NED task-based expertise that are pertinent to NED functioning, namely financial expertise and sector-specific expertise (Davis, 2009; Haynes & Hillman, 2010; Kor & Sundaramurthy, 2009; Pozen, 2010; Stiles & Taylor, 2001). Financial expertise is increasingly recognized as an important skill for

NEDs (Agrawal & Chadha, 2005; Davis, 2009; Defond, Hann, & Hu, 2005; Kaczmarek et al., forthcoming). The Sarbanes-Oxley Act (SOX), for instance, requires each US-listed public company to disclose the financial experts of its board of directors' audit committee. In many other countries, provisions in corporate governance codes require NEDs' financial expertise on the board (e.g., the United Kingdom, Germany, the Netherlands). The motivation for these provisions is the belief that financial expertise is critical for boards to function effectively because it will lead to better oversight. In this vein, a great deal of accounting research has demonstrated the importance of NED financial expertise. For instance, consistent with the idea that boards with financial expertise are more effective in providing oversight, Agrawal and Chadha (2005) find that firms with NEDs with financial expertise have a lower probability of financial restatements. Similarly, McDaniel, Martin and Maines (2002) demonstrate that financial experts differ in their evaluations of financial reporting quality. In their seminal study, Stiles & Taylor (2001) note that "(i)t was certainly the case in interviews with non-executive directors that the chief source of information on which they based their judgments was financial data" (p. 67). Accordingly, we propose that financial expertise is critical for NED functioning and is positively related to a NED's perceived status.

*Hypothesis 1a:*

*A NED's financial expertise will be positively related to the NED's perceived status.*

A second important critical source of NED task-based expertise is knowledge about the organization and its industrial sector. NEDs frequently lack sufficient expertise

in the relevant industry, which limits their ability to critically assess the current problems facing the organization (Lorsch & MacIver, 1989; Pozen, 2010). Fama and Jensen (1983) suggest that specific knowledge about the organization determines how NEDs fulfill their function of control. One director in Lorsch & MacIver's (1989) study, speaking about work of NEDs, noted that "it's a difficult task, because outside directors [i.e., NEDs; the authors] often have no intimate knowledge of the specific business that will be discussed during the meeting" (p. 85). Similarly, several scholars studying corporate boards emphasize that NEDs are limited in their ability to effectively perform tasks because of their inadequate knowledge of company affairs (Hooghiemstra & van Manen, 2004; McNulty & Pettigrew, 1999; Stiles & Taylor, 2001). Carpenter & Westphal (2001) found that having specific expertise on the situations that face a particular organization allows NEDs to better understand the inner workings of the organization, thereby resulting in better monitoring (see also Hillman & Dalziel, 2003). In addition, Kroll et al. (2007; 2008) maintain that NEDs with sector-specific expertise are in a superior position to advise and vigilantly monitor management (see also Haynes & Hillman, 2010; Kor & Sundaramurthy, 2009). Accordingly, we propose that sector-specific expertise is particularly relevant for NEDs and hypothesize that sector-specific expertise is positively related to NED social status.

*Hypothesis 1b:*

*A NED's sector-specific expertise will be positively related to the NED's perceived status.*

### ***Multiple Directorships***

Pertaining to NED board memberships in Mace's (1986) seminal book, a director illustrates what it means to hold multiple board memberships: "(i)f I can be on seven boards, I have seven medals and citations, and I'm better than the guy with four" (Mace, 1986, p. 105). Although this observation was made many years ago, the status-signaling effects of board members are largely unchanged in today's corporate community (He & Huang, 2011). In a recent study, He & Huang (2011) argued that the inequality of directors' number of board memberships can serve as a proxy for the respect and recognition each director receives. Similarly, Finkelstein (1992) noted that the greater the number of directorships, the greater the prestige for an individual director. Furthermore, D'Aveni (1990) suggested that membership in networks of boards of directors is an important diffuse status characteristic for the corporate elite, and board memberships help to build prestige for individual directors. In accordance with status characteristics theory, D'Aveni notes that "prestige helps to maintain an illusion of competence and control ... That is, prestige is taken as an indication that the manager is competent, credible, and trustworthy." (D'Aveni, 1990, p. 121; see also Fama & Jensen, 1983). Thus, we can expect that board memberships signal the respect that each director receives from the general corporate community (cf. D'Aveni, 1990; Finkelstein, 1992; He & Huang, 2011). A NED's other directorships may serve as diffuse status characteristics because they do not signal a NED's expertise in a specific domain. Accordingly, we interpret a NED's other directorships as a diffuse status characteristic and propose that this characteristic is positively related to the NED's perceived status.

*Hypothesis 1c:*

*A NED's other directorships will be positively related to the NED's perceived status.*

### ***The Moderating Role of Performance Goal Orientation***

We have argued that NED task-based expertise is positively related to NED status. It is important to realize, however, that expertise cannot be directly observed (Bunderson, 2003; Littlepage & Mueller, 1997). Group members allocate influence and status on the basis of what they believe each group member's competence to be (Anderson & Kilduff, 2009b; Bunderson, 2003). Anderson & Kilduff (2009b), for instance, found that an important mechanism for dominant individuals to attain influence is that they are rated more competent by fellow group members, even after controlling for individuals' actual abilities. In terms of demonstrating task-based competence, we propose that NED performance orientation may act as a crucial moderator.

Performance goal orientation reflects a desire to demonstrate one's competence to others (Bell & Kozlowski, 2002). An individual's goal orientation can be interpreted as his or her predisposition to adopt and pursue certain goals in achievement contexts (Elliot & Dweck, 1988; Payne, Youngcourt, & Beaubien, 2007; VandeWalle, 1997). Performance goal-oriented individuals define their success primarily in terms of outperforming others and demonstrating their competence (Bell & Kozlowski, 2002; Janssen & Van Yperen, 2004). They try to demonstrate their competence by looking better than others. Research from several disciplines suggests that an individual's goal orientation is a robust predictor of behavior in achievement situations (Elliot & Dweck, 1988; VandeWalle, 1997). Performance orientation may be separated into approach and avoidance components (Elliot & McGregor, 2001; Payne et al., 2007). Research

demonstrates that performance-approach and performance-avoidance can be interpreted as distinct and independent constructs (Elliot & McGregor, 2001; Janssen & Van Yperen, 2004; VandeWalle, 1997). Because we are interested in the moderating effects of performance orientation in terms of demonstrating competence, we focus particularly on the performance-approach component as a distinct construct.

Given that performance-oriented NEDs have the desire to demonstrate their competence and performance to others, these NEDs can be expected to stress the importance of their task-relevant expertise. In so doing, they may attain higher status among their peers (cf. Anderson & Kilduff, 2009a; Molleman, Emans, & Turusbekova, 2012). Given that expertise cannot be directly observed and that performance-oriented NEDs will try to depict themselves as experts, we hypothesize that a NED's performance orientation strengthens the relationship between his or her expertise and his or her NED's perceived status.

*Hypothesis 2a:*

*A NED's performance orientation will moderate the relationship between the NED's financial expertise and the NED's perceived status such that the relationship is stronger when the NED's performance orientation is high.*

*Hypothesis 2b:*

*A NED's performance orientation will moderate the relationship between the NED's sector-specific expertise and the NED's perceived status, such that the relationship is stronger when NED's performance orientation is high.*

We do not expect performance goal orientation to moderate the relationship between a NED's other directorships and perceived status. In contrast with task-relevant expertise, which cannot be directly observed, NED's other appointments are readily observable by fellow NEDs. As a result, a focal NED would have difficulty inflating the importance of his or her directorships. Furthermore, whereas task-relevant expertise is a specific status characteristic, particularly in terms of a NED's demonstration of competence, other appointments can be characterized as diffuse status characteristics that do not signal expertise in a specific domain. Hence, appointments at other organizations are not directly relevant to a NED's demonstration of competence.

### ***Conformity***

Conformity occurs when individuals are willing to do what another person asks even when they disagree (Yukl, Chavez, & Seiefert, 2005). This is similar to Kelman's (1958) notion of compliance (see also Falbe & Yukl, 1992; Kelman, 1956). For purposes of parsimony and in line with the literature on status, we use the term conformity.<sup>10</sup> It is well known that individuals are obedient and conform to higher status individuals even when the subject's own inclinations are clearly right (see Milgram, 1965). High-status individuals are allowed to control group interactions and make decisions for the group (Anderson et al., 2006; Berger et al., 1972), and the perspectives of higher-ranking individuals are given disproportionate weight in group interactions (see Bunderson & Reagans, 2011, for a review). Status characteristics theory holds that performance

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<sup>10</sup> The term 'compliance' is also used in the institutional and legislative literature on corporate governance to refer to the adoption of best practices or obedience to the law. For purposes of parsimony, we use the term 'conformity'.

expectations determine who is influential and who should defer. Consistent with this logic, we expect that when a NED has high social status, fellow NEDs are more likely to conform to this director.

*Hypothesis 3:*

*A NED's perceived status will be positively related to conformity with that NED.*

Together, these hypotheses specify a model in which a NED's task-based expertise and other directorships increase conformity with that NED by contributing to that NED's perceived status. The relationship between a NED's task-relevant expertise and the NED's perceived status is moderated by the NED's performance goal orientation, thereby suggesting a pattern of moderated mediation (or conditional indirect effects) for the indirect effect of a NED's task-expertise on conformity through the NED's perceived status. We expect the mediating effect of a NED's social status for the relationship between the NED's task-based expertise and conformity to be moderated by the NED's performance orientation. In addition, we expect a NED's perceived status to mediate the relationship between the NED's multiple directorships and conformity with that NED.

*Hypothesis 4a:*

*A NED's performance orientation will moderate the indirect effect of NED's financial expertise on conformity with that NED (through NED's perceived status). Specifically, a NED's perceived status will mediate the relationship between the NED's financial*



*expertise and conformity with that NED when the NED's performance orientation is high but not when it is low.*

*Hypothesis 4b:*

*A NED's performance orientation will moderate the indirect effect of the NED's sector-specific expertise on conformity with that NED (through the NED's perceived status). Specifically, a NED's perceived status mediates the relationship between the NED's sector-specific expertise and conformity with that NED when the NED's performance orientation is high but not when it is low.*

*Hypothesis 4c:*

*A NED's perceived status will mediate the relationship between the NED's multiple directorships and conformity with that NED.*

### ***The Moderating Role of Fellow NED's Perceived Status***

We proposed that a NED's perceived status is positively related to conformity with that NED by fellow NEDs. However, whether fellow NEDs have high or low status is a relevant factor. Our previous argumentation suggests that NEDs with high perceived status are less likely to conform than NEDs with low perceived status and that low-status NEDs are expected to defer and keep their opinions to themselves (Anderson et al., 2006; Berger et al., 1972; Bunderson, 2003; Keltner, Gruenfeld, & Anderson, 2003). Thus, a NED's perceived status may not result in a fellow NED's conformity with a focal NED if that fellow NED has a high perceived status. Similarly, NED's perceived status is more likely to result in a fellow NED's conformity with a focal NED if that fellow NED has a

low perceived status. In sum, we expect that a fellow NED's perceived status moderates the relationship between the focal NED's social status and a fellow NED's conformity with that focal NED.

*Hypothesis 5:*

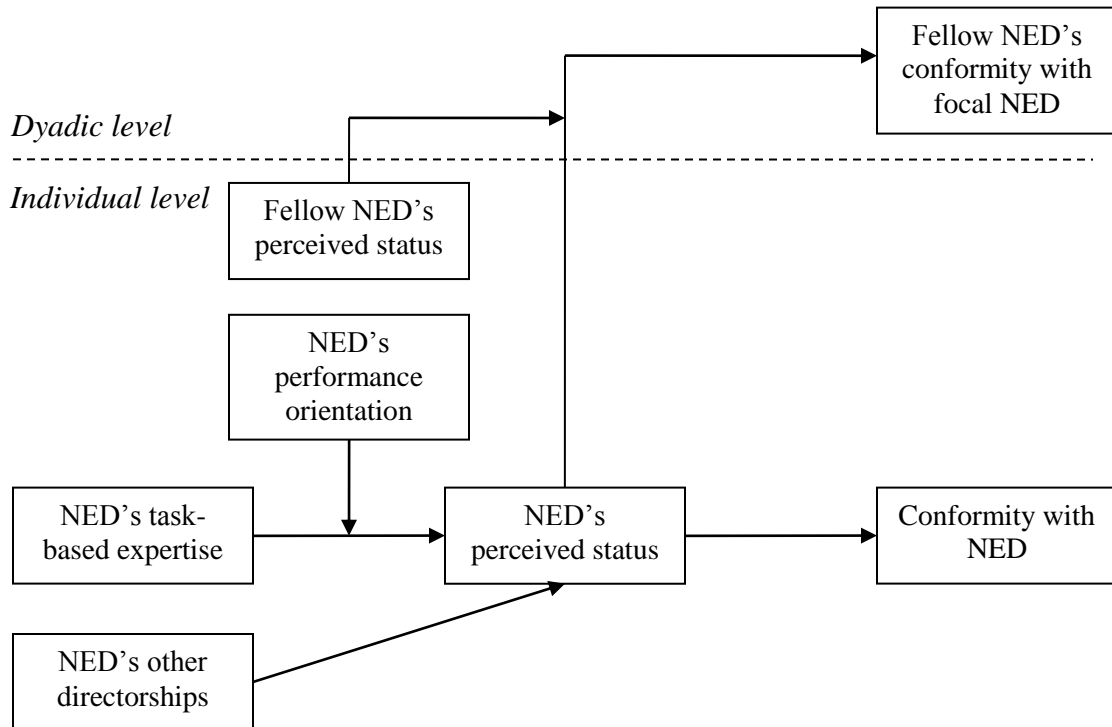
*A fellow NED's perceived status will moderate the relationship between a focal NED's perceived status and the fellow NED's conformity with the focal NED such that the relationship is stronger (weaker) when the fellow NED's perceived status is low (high).*

An overview of our hypotheses is presented in Figure 4.1.

## **Method**

In preparation for this study, we held informal conversations with NEDs from several organizations. The purpose of these conversations was twofold. We held these conversations to obtain access to boards, ultimately resulting in 10 organizations in which all NEDs indicated that they were willing to participate. During these conversations, we also asked NEDs to describe how their boards operate and how NEDs interacted with other NEDs. These informal conversations suggested that there are real differences in expertise among NEDs. Financial expertise and sector-specific expertise were highlighted as particularly important. Given that specific status characteristics are relative to a particular task situation, we felt that it is important to require insight into expertise domains that serve as specific status cues in the particular setting of boards (cf. Bunderson, 2003). We therefore explicitly addressed this issue upfront.

Figure 4.1: Theoretical Model and Hypotheses



### ***Sample and Research Design***

We conducted our research in Dutch organizations. Organizations included consultancy firms, large hospitals, manufacturing firms, and financial institutions amongst others. Dutch organizations generally have two-tier boards. In a two-tier board, executive directors, including the CEO, reside in a management board and the non-executive directors reside in a supervisory board. For purposes of parsimony, we refer to supervisory board members as non-executive directors (NEDs). Participation was voluntary, and NEDs were assured that their responses would be confidential and used for research purposes only. To ensure maximum cooperation, the first and the fifth author conducted intake interviews with the chairpersons of the supervisory board and explained the overall setup of the research project. In return for full cooperation, we agreed to

facilitate a plenary board meeting in which we provided directors with feedback on their board functioning. After an endorsement from the chairperson, the first author held semi-structured interviews with 63 NEDs from ten organizations at a location most convenient for these directors. Directors completed a questionnaire and were interviewed about their fellow directors.

We collected data using a round-robin questionnaire (Kenny, Kashy, & Cook, 2006; Warner, Kenny, & Stoto, 1979) in which each organization's NED rates and is rated by every other non-executive director of that organization. The number of NEDs that provided peer ratings ranged from four to eight for the ten participating organizations. The full round-robin design yielded a total of 341 interpersonal ratings. We utilized these 341 ratings to accurately calculate group, perceiver, target, and relationship effects for our sample of NEDs (see the next section). Our initial sample consisted of 63 NEDs from ten organizations. Three NEDs indicated that they were unable to accurately assess their fellow directors because they had been recently appointed to the supervisory board. In addition, their fellow directors indicated that they were unable to adequately assess these newly appointed directors. Moreover, two NEDs were unwilling to provide ratings on their fellow directors and one non-executive director was unwilling to answer all items related to himself. We therefore excluded these six NEDs from our sample. Our sample therefore eventually consisted of 57 NEDs and 341 interpersonal ratings between these NEDs.

## ***Measures***

### *Conformity*

NEDs provided ratings on conformity with fellow NEDs. We used a single item measure on a scale ranging from (1) minimally to (7) very much that was based on Yukl et al. (2005): “To what extent do influence attempts by this person result in your compliance while not being enthusiastic about it initially?” (see also Falbe & Yukl, 1992; Yukl, Kim, & Falbe, 1996). This person was replaced by the name of the focal NED and NEDs rated their conformity with each director. Due to the labor intensive nature of rating all fellow NEDs and as NEDs may feel uncomfortable in providing ratings on their fellow directors, we used a single round-robin item (cf. de Jong, Van der Vegt, & Molleman, 2007) to measure conformity. Indeed, this approach is consistent with social network research in employing one-item measures (e.g., Umphress, G., Kass, & L., 2003; Venkataramani, Green, & Schleicher, 2010; Zagenczyk, Scott, Gibney, Murrell, & Thatcher, 2010). Still, a limited number of NEDs refused to provide these ratings. As noted, ultimately we were able to use 341 interpersonal ratings from 57 NEDs.

### *Perceived Status*

Interpersonal ratings of social status among NEDs raised less concern among NEDs. Social status was measured with four items from Anderson et al. (2006) on a 7-point scale ranging from (1) very little to (7) a very great deal. The items were “this person demonstrates high ability”, “this person influences decision making”, “this person makes valuable contributions”, and “this person receives respect”. For these items, this person was replaced by the name of the focal director. The Cronbach’s alpha was .88.

### *Task-Based Expertise*

We measured director expertise with four items based on interviews with NEDs. Non-executive directors rated their own expertise regarding “financial matters”, “internal control and administration”, “operations of the organization” and “industry of the organization”. All expertise items were rated on a seven-point scale ranging from (1) very low to (7) very high. Exploratory factor analyses confirmed that the first two items loaded on a financial expertise factor and the last two items loaded on a sector-specific expertise dimension.<sup>11</sup> These two factors both have eigenvalues that exceed the 1.0 threshold and explain 82% of the variance. Accordingly, we separated expertise into financial expertise and sector-specific expertise both measured with two items. The Cronbach’s alpha for financial expertise was .89. Cronbach’s alpha for specific expertise was .65.

### *Multiple Directorships*

We gathered information on multiple directorships from the annual reports of the participating organizations. Organizations in the Netherlands are typically required to disclose information on their NEDs. To take into account the diminishing marginal effects of each additional directorships in reflecting status and deference, we log transformed the raw number of appointments (cf. He & Huang, 2011).

### *Performance Goal Orientation*

We measured NED’s performance orientation using three items from the performance approach measure of Janssen & Prins (2007), based on the method of Elliot and McGregor (2001). All items were preceded by “in performing my work it is important for

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<sup>11</sup> These results are available upon request from the first author.

me that...” and the items were “I perform better than others”, “I am more competent compared to others” and “I receive better performance appraisals than others”. These items were scored on a seven-point scale, ranging from (1) not applicable (7) highly applicable. Cronbach’s alpha for the performance orientation scale was .89.

### *Control Variables*

Given that age and gender are also referred to as diffuse status characteristics in the general literature on status characteristics (Berger et al., 1980; Bunderson, 2003), we controlled for age (in years) and gender (0=male, 1=female) in the analyses.

## **Data Analysis**

### *Social Relations Model (SRM)*

Given our round-robin research design for status perceptions and conformity we employed the social relations model (SRM; Kenny, 1994; Kenny et al., 2006). In SRM, each dyadic score is a function of four components (Kenny et al., 2006): a target effect, a perceiver effect, a dyadic effect, and a group effect. The *group effect* reflects the average of the outcome score for the group. At the group level, directors of a particular organization may have scored high on conformity relative to other groups. Directors from one organization may conform more to one another than directors from other organizations for instance. At the individual level, an individual’s tendency to rate others in a particular way is called the *perceiver effect*. For instance, Bill may have the tendency to conform more with other directors in general. Also at the individual level, the *target effect* reflects the degree to which certain individuals tend to elicit similar ratings from others. Other directors may, for instance, conform more towards Ann. At the dyadic

level, the *relationship effect* reflects the unique combination of two individuals after removing group effects, perceiver effects, and target effects. For instance, Bill may conform more with Ann more often than the overall group tendency to conform (group effect), Bill's own tendency to conform with other directors in general (perceiver effect) and Ann's tendency to be conformed with (target effect) (see Kenny et al., 2006, for a more detailed account).

We employed the SOREMO software program to implement the SRM analyses (Kenny, 1995). SOREMO is designed for round-robin data analysis and explicitly considers the four different sources of variance present in a round-robin design setup. Particularly relevant for this study is that SOREMO calculates *target scores* for each participant on each peer-rated dimension. SOREMO removes group differences, making target scores independent of group membership (see also Anderson & Kilduff, 2009b). In addition, SOREMO also provides *relationship scores* for each unique relationship. SOREMO partials out perceiver and target effects (Kenny et al., 2006), making relationship scores independent from the perceiver and the target. Thus, individual level target scores are independent of group membership and dyadic level relationship scores are independent from the perceiver and the target, in addition to being independent from group membership.

#### *Tests of (moderated) mediation*

Our mediation hypotheses related to the indirect effect of a focal NED's expertise (hypothesis 4a and 4b) is referred to as conditional indirect effects (Preacher et al., 2007, this is also known as moderated mediation). To investigate the hypothesized conditional indirect effects, we utilized the macro for bootstrapping, designed by Preacher et al.



(2007). The indirect effects for focal NED's other directorships (hypothesis 4c) were investigated with a similar macro developed for assessing simple indirect effects (Preacher & Hayes, 2008). These macros both facilitate bootstrapping methods that are more powerful than stepwise procedures and generate the recommended bias-corrected confidence intervals. The Sobel test assumes that the indirect effect ( $ab$ ) is normally distributed. However, recent research shows that the indirect effect may not be normally distributed even when the independent and mediating variables are normally distributed (Edwards & Lambert, 2007). Therefore, bootstrapping is recommended. By applying bootstrap procedures, it is possible to assess the significance of the indirect effect, while avoiding power problems from non-normal sampling distributions of the indirect effect. The macros developed by Preacher et al. (2008; 2007) employ such a bootstrapping procedure. Additionally, the MODMED macro (Preacher et al., 2007) provides a method for assessing the significance of the conditional indirect effect at different values of the moderator variable.

## **Results**

The means, standard deviations, and Pearson zero-order correlations between variables are presented in Table 4.1. The average age of board members was 56 years and twenty three percent of the board members were female. In Table 4.1, the gender dummy and age of directors are significantly negatively related, which indicates that female directors are typically younger. Furthermore, female directors have less financial expertise, whereas they have marginally more sector-specific expertise when compared to male directors. The natural log of the number of directorships and financial expertise are positively related to a NED's perceived status, therefore demonstrating that NEDs with

multiple directorships and more financial expertise are awarded higher status by their fellow directors. There is a strong positive relationship between a focal NED's perceived status and conformity with that focal NED. At the dyadic level, a fellow NED's conformity with a focal NED is not related to any of the individual-level variables. This is because we partialled out perceiver and target effects, thereby making fellow NED's conformity with a focal NED independent from perceiver and target effects.

### ***Hypothesis Tests***

The results of the hierarchical regression analyses for NED's perceived status and conformity with that NED are reported in Table 4.2 and Table 4.3, respectively. The results for the indirect effects for a NED's other directorships and conditional indirect effects of the NED's task-relevant expertise are reported in Table 4.4 and Table 4.5.

Model 1 in Table 4.2 shows that financial expertise is positively related to a focal NED's perceived status ( $\beta = .39, p < .01$ ). These results support hypothesis 1a. Surprisingly, regarding hypothesis 1b, sector-specific expertise is not significantly positively related to a focal NED's perceived status ( $\beta = -.05, ns$ ). A focal NED's number of directorships is significantly positively related to the focal NED's perceived status ( $\beta = .25, p < .05$ ), thereby confirming hypothesis 1c. Furthermore, regarding hypothesis 2a, we see from Model 2 that a focal NED's performance orientation moderates the relationship between financial expertise and that NED's perceived status. The coefficient for the interaction term is positive and significant ( $\beta = .34, p < .01$ ). In contrast with hypothesis 2b, Model 3 shows that the coefficient for the interaction term is negative and significant ( $\beta = -.31, p < .05$ ).

**Table 4.1**  
**Means, Standard Deviations, and Correlations**

Variable	Mean	s.d.	1	2	3	4	5	6	7	8
1 NED's gender (a)	0.23	0.42								
2 NED's age	56.46	9.10	-.30*							
3 NED's appointments (natural log)	1.27	0.83	-.11	.23+						
4 NED's financial expertise	4.81	1.18	-.27*	-.06	.22					
5 NED's sector-specific expertise	4.80	1.03	.23+	-.26+	-.15	-.25+				
6 NED's performance orientation	3.54	1.26	-.14	.12	.00	.16	.23+			
7 NED's perceived status	0.00	0.59	-.04	.08	.34**	.45**	-.13	.21		
8 Conformity with NED	0.00	0.44	-.01	.10	.25+	.24+	-.09	.19	.65**	
9 Fellow NED's conformity with NED (b)	0.00	0.36	.00	.00	.00	.00	.00	.00	.00	.00

(a) dummy variable; "female" = 1 (b) dyadic level variable , individual level variance is partialled out

Individual level n=57 non-executive directors, dyadic level n=341 interpersonal ratings

+p <.10, \*p <.05, \*\*p <.01

We plotted these interactions in Figure 4.2. The pattern depicted in Figure 4.2A is consistent with hypothesis 2a. Simple slope analyses confirm that the slope for the relationship between financial expertise and a focal NED's perceived status is significant when performance orientation is high ( $\beta = .78, p < .01$ ), but not when it is low ( $\beta = -.06, ns$ ). In contrast with hypothesis 2b, the pattern depicted in Figure 4.2B demonstrates that sector-specific expertise is negatively related to perceived status for directors with a high performance orientation and that sector-specific expertise is not significantly related to perceived status for directors with a low performance orientation. Simple slope analysis show that the relationship between sector-specific expertise and focal NED's perceived status is significant and negative when performance orientation is high ( $\beta = -.43, p < .05$ ), but not when it is low ( $\beta = .14, ns$ ). These results oppose hypothesis 2b.

The results related to our third hypothesis regarding the positive relationship between a focal NED's perceived status and conformity with that NED, can be seen in Table 3 Model 2 ( $\beta = .63, p < .01$ ) and Model 4 ( $\beta = .60, p < .01$ ), in which we included perceived status as the mediating variable linking the interactive effects of expertise and performance goal orientation with conformity. Table 4.3 also reports the results related to hypothesis 4a. In hypothesis 4a, we predicted that a focal NED's performance goal orientation moderated the effect of focal NED's financial expertise on conformity with that NED. In Model 1, the coefficient for the interaction term is positive and significant ( $\beta = .27, p < .05$ ). Simple slope analyses confirm that the slope for the relationship between financial expertise and conformity with the focal NED is significant when performance orientation is high ( $\beta = .49, p < .01$ ), but not when it is low ( $\beta = -.17, ns$ ). We plotted this interaction in Figure 4.3A. The pattern depicted in Figure 4.3A is consistent with hypothesis 4a.

In hypothesis 4b, we hypothesized that a focal NED's performance orientation moderated the effect of focal NED's sector-specific status on conformity with that NED. The results for hypothesis 4b can be found in Model 3, and the coefficient for the interaction term is negative and significant ( $\beta = -.33, p < .05$ ). Simple slope analysis for sector-specific expertise shows that the relationship between sector-specific expertise and conformity with a focal NED is significant and negative when performance orientation is high ( $\beta = -.47, p < .05$ ), but not when it is low ( $\beta = .14, ns$ ). Regarding hypothesis 4b, the pattern depicted in Figure 4.3B demonstrates that focal NED sector-specific expertise is negatively related to conformity with that NED when that focal NED has a high performance goal orientation. A focal NED's sector-specific expertise is not significantly related to conformity with that NED when that NED has a low performance orientation. These results contrast hypothesis 4b.

To substantiate hypotheses 4a and 4b we conducted moderated mediation analyses for task-relevant expertise analyses. These results are presented in Table 4.4. Panel A presents the conditional indirect effects for financial expertise at three different values of focal NED goal performance orientation: one standard deviation below the mean, the mean, and one standard deviation above the mean. The results in Table 4.4 Panel A indicate that when NED goal orientation is high (one standard deviation above the mean) or at the mean, the indirect effect is significant. The 95% bootstrapped bias corrected confidence interval excludes zero for both mean performance orientation (.06, .45) and high performance orientation (.20, .83), but it does not exclude zero when performance orientation is low (-.41, .26). This signifies that there is a positive conditional indirect effect for a focal NED's financial expertise (through NED's perceived status) when that NED's performance orientation is high or at the mean, but not when that NED's performance orientation is low, which further substantiates hypothesis 4a.

With respect to hypothesis 4b, panel B reports a negative indirect effect for focal NED sector-specific expertise when a focal NED's performance goal orientation is high. The 95% bootstrapped bias corrected confidence interval excludes zero for high performance goal orientation (-.56, -.05), but it does not exclude zero when performance goal orientation is low (-.06, .33) or at the mean (-.26, .05). Thus, in contrast with hypothesis 4b, we find a negative indirect effect for a focal NED's sector-specific expertise on conformity with that NED (through NED's perceived status) when that NED's performance orientation is high, but not when that NED's performance orientation is low or at the mean.

Table 4.5 includes the results for the indirect effect of a focal NED's other directorships on conformity with that NED through NED's perceived status (hypothesis 4c). The 95% bootstrapped bias corrected confidence interval does not exclude zero (-.02, .48). Given that hypothesis 4c is directional, we can interpret the 90% confidence interval to gauge the significance of the positive indirect effect at the 5% level of significance. The 90% bias corrected confidence interval does exclude zero (.01, .42). Thus, directionally we find modest evidence for an indirect effect of a focal NED's other directorships on conformity with that NED through the NED's perceived status.

To test our fifth and last hypothesis, we regressed the interaction term between a focal NED's perceived status and fellow NEDs' perceived status on that fellow NED's conformity with a focal NED. Because a fellow NED's conformity with a focal NED is a dyadic score for which we partialled out individual level effects, it does not make sense to include individual level variables in this regression (the regression coefficients of these variables would be zero by definition). The beta coefficient of this interaction term is significantly negatively related to B's conformity with A ( $\beta = -.17, p < .01$ ), indicating that high-status NEDs are less likely to conform

with a focal NED and low-status NEDs are more likely to conform with a focal NED as a result of that focal NED's perceived status. Plotting this interaction effect would result in a full crossover because individual level effects from perceived status are partialled out. For purposes of parsimony, and to avoid redundancy, we did not plot this interaction effect.

**Table 4.2**  
**Results of hierarchical regression analyses for NED's perceived status**

Variables	NED's perceived status		
	Model 1	Model 2	Model 3
	$\beta$	$\beta$	$\beta$
NED's gender (a)	0.14	0.18	0.19
NED's age	0.06	0.10	0.10
NED's financial expertise	0.39**	0.36**	0.44**
NED's sector-specific expertise	-0.05	-0.16	-0.14
NED's directorships (log)	0.25*	0.24*	0.25*
NED's performance orientation	0.17	0.26*	0.20
NED's financial expertise x NED's performance orientation		0.34**	
NED's sector-specific expertise x NED's performance orientation			-0.31*
R2	0.30	0.40	0.38 0.08*
Delta R2	0.30**	0.10**	(1)

n = 57 non-executive directors. Standardized regression coefficients reported.

+p < .10, \*p < .05, \*\*p < .01; t-tests are one-tailed for hypothesized effects, two-tailed for controls.

(a) dummy variable; "female" = 1

(1) compared to model 2

**Table 4.3**  
**Results of hierarchical regression analyses for conformity with a NED**

Variables	Conformity with NED			
	Model 1	Model 2	Model 3	Model 4
	$\beta$	$\beta$	$\beta$	$\beta$
NED's gender (a)	0.15	0.03	0.17	0.06
NED's age	0.09	0.03	0.11	0.05
NED's directorships (log)	0.19	0.03	0.19	0.04
NED's financial expertise	0.16	-0.07	0.24+	-0.03
NED's sector-specific expertise	-0.16	-0.06	-0.17	-0.08
NED's performance orientation	0.26+	0.09	0.21	0.09
NED's financial expertise x NED's performance orientation	0.27*	0.06		
NED's sector-specific expertise x NED's performance orientation			-0.33*	-0.14
NED's perceived status		0.63**		0.60**
R2	0.20	0.44	0.23	0.45
Delta R2	0.20**	0.22**	0.09*(1)	0.22**

n = 57 non-executive directors. Standardized regression coefficients reported.  
 +p < .10, \*p < .05, \*\*p < .01; t-tests are one-tailed for hypothesized effects, two-tailed for controls.

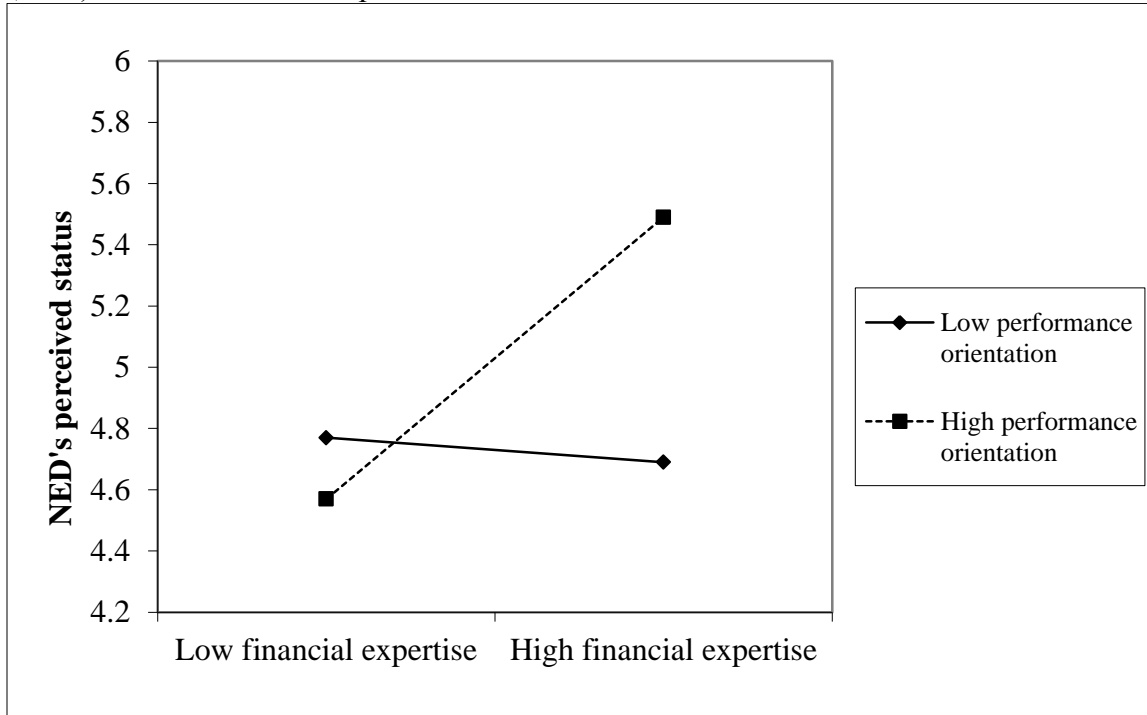
(a) dummy variable; "female" = 1

(1) compared to model 1



Figure 4.2: Interactions for Expertise and Performance Orientation on NED's perceived status

(4.2A) NED's Financial Expertise



(4.2B) NED's Sector-specific Expertise

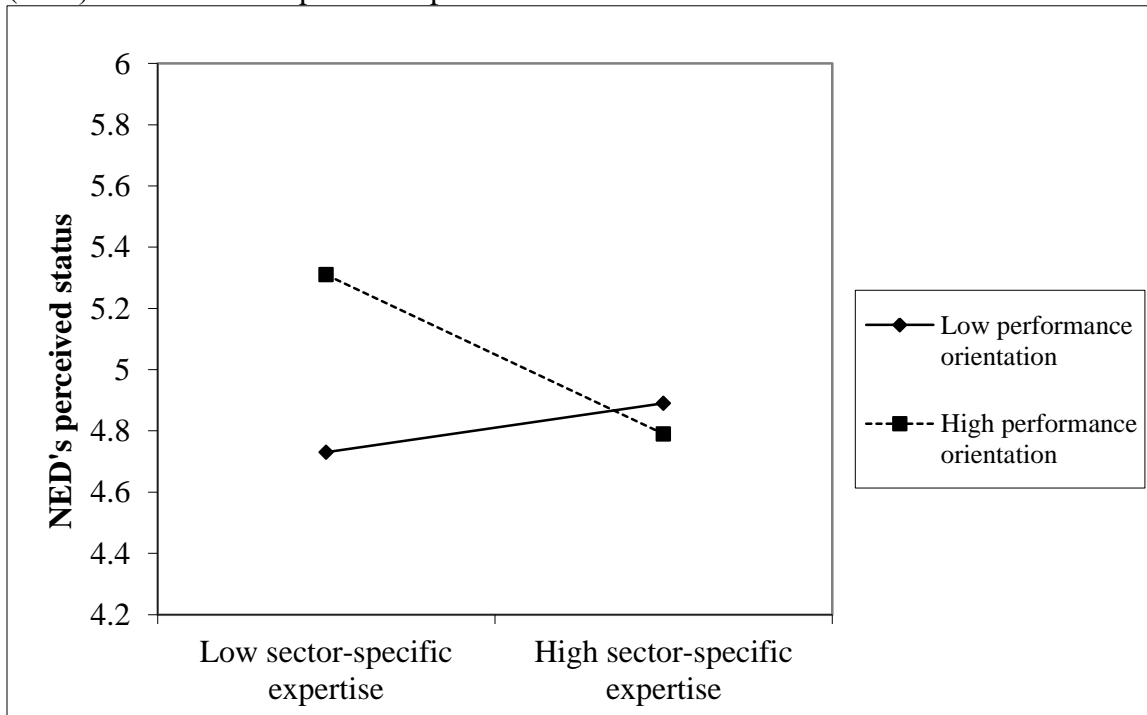
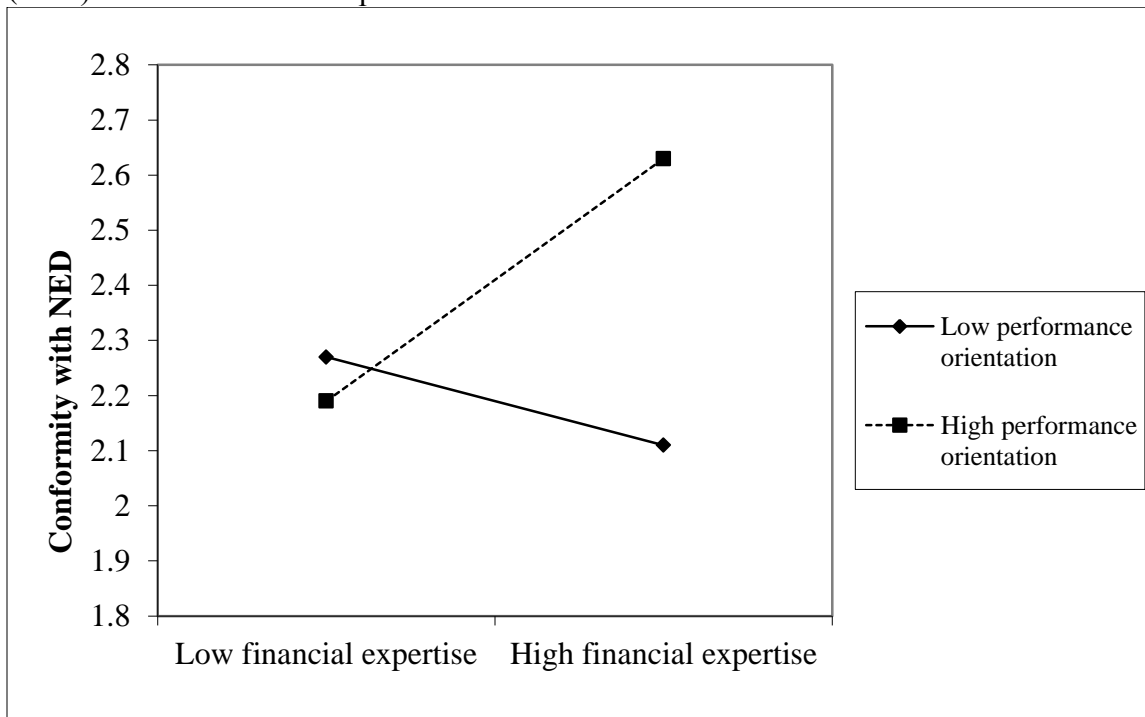
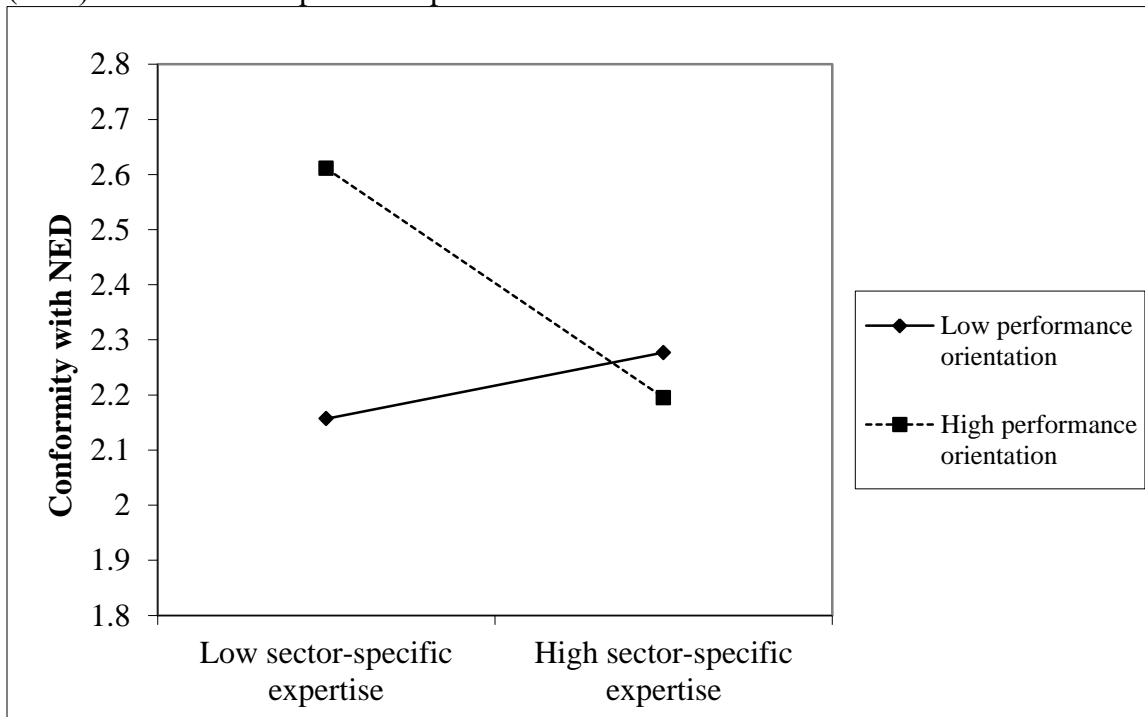


Figure 4.3: Interactions for Expertise and Performance Orientation on Conformity with NED

(4.3A) NED's Financial Expertise



(4.3B) NED's Sector-specific Expertise



**Table 4.4**  
**Results for conditional indirect effects**

**Panel A**

Conditional indirect effect of NED's financial expertise on conformity with NED through NED's perceived status

<b>Performance orientation</b>	<b>Boot indirect effect (a)</b>	<b>Boot SE</b>	<b>95% confidence interval (b)</b>	
Conditional indirect effect at performance orientation = $M \pm 1$ SD				
			lower bound	upper bound
-1 SD	-0.02	0.16	-.41	.26
M	0.23	0.10	.06	.45
+1 SD	0.49	0.16	.20	.83

**Panel B**

Conditional indirect effect of NED's sector-specific expertise on conformity with NED through NED's perceived status

<b>Performance orientation</b>	<b>Boot indirect effect (a)</b>	<b>Boot SE</b>	<b>95% confidence interval (b)</b>	
Conditional indirect effect at performance orientation = $M \pm 1$ SD				
			lower bound	upper bound
-1 SD	0.09	0.10	-.06	.33
M	-0.07	0.08	-.26	.05
+1 SD	-0.24	0.12	-.56	-.05

(a) Indirect effects are bootstrap estimates. Bootstrap sample size = 5.000

(b) Bootstrap 95% bias corrected and accelerated confidence interval.

**Table 4.5**  
**Results for indirect effects**

Indirect effect of NED's other directorships on conformity with NED through NED's perceived status

<b>Data</b>	<b>Boot indirect effect (a)</b>	<b>Boot SE</b>	<b>95% confidence interval (b)</b>	
			lower bound	upper bound
0.16	0.16	0.12	-.02	.48

(a) Indirect effects are bootstrap estimates. Bootstrap sample size = 5.000

(b) Bootstrap 95% bias corrected and accelerated confidence interval.

## **Discussion**

In discussing the future of corporate governance research, Hambrick et al. (2008) recently noted that simple but relevant questions pertaining to who has the most and who has the least say within the boardroom have remained largely unanswered. In addressing these questions, we maintain that boards of directors are, first and foremost, social groups, and like any other social entity, intra-group status differences shape patterns of intra-group participation and influence among non-executive directors (NEDs). As a result, until governance scholars understand the antecedents and consequences of such status differences, they will have great difficulty in understanding which NED is most influential within the boardroom. Accordingly, the purpose of this study was to study the antecedents and consequences of NED social status and conformity within boards of directors. Drawing from the available literature on boards of directors we have identified diffuse and specific status characteristics for NEDs. Our findings advance research on boards of directors in four ways.

First, to the best of our knowledge, no study to date has empirically investigated NEDs at the individual and dyadic level of analysis. This is due in part to almost impossible access to boards of directors, which limits a researcher's opportunity to study such board processes (see Westphal & Stern, 2006, for a similar observation). Our study provides the first empirical examination of NED perceived status that does not solely infer status-organizing processes from publicly available data, and we believe this to be one of the important contributions of our work. Contrary to our expectation, which were based on the available board literature, financial expertise and sector-specific expertise are related to NED status differently. This finding suggests that a more nuanced perspective is necessary when one is considering expertise and status-organizing processes within boards. Additionally, these results stress that inferring board

processes from publicly available data, which is not directly related to the actual processes that operate between directors, may introduce empirical fallacies into the analyses of board processes (Lawrence, 1997). A related contribution is that our findings substantiate the notion that NED directorships are related to NED status. A recent study from He and Huang (2011) suggests that informal hierarchical differences between directors greatly influence board decision making processes. To test their hypotheses, they inferred director status and conformity from the number of directorships. A contribution of our current study is that it provides empirical evidence that directorships are indeed related to NED status and conformity.

Second, although we adopt concepts of status characteristics from existing literature, we also make a contribution to that literature by examining the moderating role of NED performance goal orientation. Status characteristics theory holds that status is accorded to those individuals *perceived* to contribute to the group's success. Given that expertise cannot be observed directly (cf. Bunderson, 2003), individuals may inflate their contribution to the group's success. To date, discussions within this literature have primarily focused on the direct relationship between status characteristics and accorded status. The influence of individual level traits, like performance goal orientation, has been rarely addressed. In particular, the episodic, complex and ambiguous setting (cf. Forbes & Milliken, 1999) in which NEDs operate may allow performance-oriented individuals to inflate the importance of their task-relevant expertise. A recent study performed by Molleman et al. (2012) shows that performance-oriented individuals are more likely to self-promote, but only when these individuals were faced with ambiguous tasks.

A third contribution to the literature on boards is that for performance-oriented NEDs, the positive relationship between financial expertise and NED social status was strengthened, whereas the relationship between sector-specific expertise and NED social status became

negative. It is important to reiterate here that status-organizing processes are not always fair and perceptions can be misguided. Status organizing processes allocate status to those individuals *perceived* to contribute to the group's success. Although we did not anticipate these divergent findings for financial expertise and sector-specific expertise, future research may discriminate between different types of task-relevant expertise and explicitly draw attention to the added value of different types of task-relevant expertise as perceived by fellow directors. A possible post-hoc explanation in line with functionalist theories of status is that when sector-experts demonstrate their sector-specific expertise, as we would expect from performance oriented NEDs, they are sanctioned because sector-expertise is not recognized as a contribution to the board's success. Anderson et al. (2006) note that status can be interpreted as a social currency. When individuals are claiming more of this social currency than the group believes they are entitled to receive, these individuals are sanctioned accordingly. This may explain why performance-oriented sector-experts are accorded less status, whereas performance-oriented financial experts are accorded more status by fellow NEDs.

A fourth and final contribution is that rather than interpreting boards as monolithic entities, our findings underline the importance of studying boards of directors at multiple levels of analyses (Dalton & Dalton, 2011; Hambrick et al., 2008; Hillman et al., 2011). In our analyses we focused specifically on the individual and dyadic levels of analysis. At the individual level of analysis, our results demonstrate that fellow NEDs are more likely to conform to a focal high-status NED. At the dyadic level of analysis, conformity depends on whether fellow NEDs have high or low-status themselves. That is, high-status fellow NEDs are less likely to conform to a focal high-status NED, whereas low-status fellow NEDs are more likely to conform to a focal high-status NED.

These results are in line with the literature on status-organizing processes (e.g., Berger et al., 1980) and illustrate that some NEDs have a great deal of influence within boards, while other NEDs are more likely to conform. Although decision-making groups are likely to benefit from pooling member's information to arrive at unbiased characterizations of decision alternatives (Stasser & Titus, 1985), our findings suggest that board discussions are dominated by financial experts. As a result, board deliberations are likely to be biased towards financial issues, and NEDs may consequently have a distorted picture of decision-making alternatives. Thus, even though a board is balanced in the sense that it is comprised of different expertise domains, views from these different expertise domains may fail to be integrated during board deliberations (see also Van der Vegt & Bunderson, 2005, for workgroups in general). The majority of research on boards of directors assumes, however, that NEDs have equivalent influence on a board's decision-making processes. Pertaining to board independence, for example, it is implicitly assumed that all NEDs have equal sway and that the ratio of independent NEDs serves as a good proxy for the board's ability to scrutinize management. In this respect, our results suggest that a more detailed analysis at the individual and dyadic levels is necessary to arrive at accurate proxies of board decision-making processes.

### **Managerial Implications**

Despite the lack of attention to status differences in academic research on boards of directors, the relevance of this theme has not gone unnoticed among practitioners. Finkelstein & Mooney (2003, p.105) quote a director stating that “[I]f you threw five dogs in a room, they would be very clear about who the senior dog was and who the junior dogs were”. Our findings suggest two practical implications for the functioning of NEDs.

First, an important implication of our research is that NEDs do conform as a result of status differences among NEDs. Our results demonstrate that low-status NEDs are more obedient and often conform to fellow high-status NEDs (cf. Anderson & Brown, 2010; Milgram, 1965; Ravlin & Thomas, 2005). The finding that financial expertise is positively related to NED perceived status, as opposed to sector-specific expertise that is not related to NED perceived status, indicates that sector-experts are more likely to conform and are less influential in board decision-making processes. It is not uncommon for governance arrangements to focus particularly on the composition of the board of directors in terms of availability of relevant expertise domains. Although a board may be balanced in the sense that it is comprised of different expertise domains, status differences can hamper integration of views from different expertise domains.

Second, governance scholars, regulatory bodies, and directors should be aware that boards of directors operate as episodic decision-making groups faced with complex issues and output that is completely cognitive in nature (Forbes & Milliken, 1999). As a result, performance-oriented financial experts are accorded a disproportionate amount of status by fellow NED. NEDs low in performance orientation are less likely to demonstrate their competence. To ensure that all relevant expertise is brought to the fore, such NEDs may be actively given more opportunities to contribute to the board's decision-making processes.

### **Limitations and Directions for Future Research**

We acknowledge several limitations of this study. Although our model implies a specific causal order, our cross-sectional data does not formally allow us to make causal inferences. Despite this limitation, the pattern of relationships is consistent with status characteristics theory, which acknowledges a causal order. Our mediation analysis and moderated-mediation analysis provide



support for the causal model presented here. In addition, one strength of our research is that we partial out actor effects, thereby ameliorating common source issues. Nevertheless, it will be important for future research to incorporate a longitudinal design in which repeated measurements are incorporated. Notwithstanding the strength of such a longitudinal approach, board scholars will have great difficulty in getting access to this kind of data given a researcher's limited access to primary field data in the board context (Hillman et al., 2008).

Our sample at the individual level of analysis is relatively small. Several scholars studying the functioning of boards study a large number of organizations and use publicly available data to proxy for board processes. They do so because access to boards is almost impossible (He & Huang, 2011). In a sense, we are at the opposite end of this spectrum. We did not incorporate proxy measures that may also indicate something other than competence or influence. Our results, however, are based on ratings from a limited number of NEDs from a limited number of organizations. Our sample provides modest statistical power for detecting our hypothesized effects. Nevertheless, we were able to identify financial expertise and the number of directorships as significant predictors for NED status. Our small sample may explain why we did not find a significant main effect from sector-specific expertise and NED status. Despite the small sample, we did find a significant interaction effects between NED expertise and performance orientation. McClelland and Judd (1993) note that specifically for field studies, interaction effects are notoriously difficult to detect because field studies are susceptible to higher levels of measurement errors than experimental research. Scholars commonly note that it is difficult to detect interaction effects due to their small effect sizes and the extremely low statistical power for finding these interaction effects (for additional recent examples see Engle & Lord, 1997; George & Zhou, 2007; Triana & Garcia, 2009). In light of these difficulties, we

maintain that our consistent pattern of findings for multiple independent and dependent variables is noteworthy.

Our study stops short of examining the performance implications of NED status differences for the board as a whole. He & Huang (2011) maintain that status differences may be beneficial for board effectiveness because status informal differences help to coordinate boardroom interactions. Other scholars attest, however, that status differences are detrimental to group functioning, particularly when outcomes are ambiguous and status maneuvering might result in according disproportionate levels of status to less-qualified individuals (Anderson & Kilduff, 2009a, 2009b). Indeed, the very existence of boards of directors is rooted in the belief that collective knowledge is necessary for an effective board (Forbes & Milliken, 1999). Status differences may disrupt effective integration of knowledge from different expertise domains. Attention to the performance implications of our findings for the board as a whole will require theoretical perspectives and data well beyond what can be presented here, but such an avenue might be fruitful. Future research may investigate the conditions under which status differences are beneficial or detrimental for board (see also Halevy, Chou, & Galinsky, 2011).

Another issue is that we use a single-item measure for conformity. As noted, NEDs did not feel comfortable rating their fellow directors. This is particularly true for conformity because NEDs do not like to admit that they conform to other NEDs. Similar to social network research, we employed a single network item to measure conformity (e.g., Umphress et al., 2003; Venkataramani et al., 2010; Zagencyk et al., 2010). A wide volume of research suggests that single-item measures can be reliable, particularly if the construct measured is sufficiently narrow and unambiguous to the respondents (Sackett & Larson, 1990). Future research may also include observation studies focused on nonverbal behavior. Research from the status characteristics and

expectation states tradition demonstrates, for instance, that status differences predict eye gaze during speaking and listening (Ridgeway, Berger, & Smith, 1985).

Given that status differences greatly influence the functioning of NEDs (cf. Hambrick et al., 2008), it is perplexing that board scholars have rarely addressed the antecedents and consequences of social status within boards. This is an important topic from an academic and practical perspective. Our study provides one of the first empirical examinations on this matter. Although our findings are in line with functionalist theories of status differences, given the paucity of empirical research at the individual level of analysis within boards, we feel the need to stress that future research should further corroborate the findings presented in this study.

## CHAPTER 5

### CONCLUSION

Boards of directors have a central role in the way organizations are governed. Yet, despite a considerable amount of empirical research on the relationships between structural board characteristics, board decisions and organizational performance, the results have remained ambiguous (Daily et al., 2003; Dalton et al., 2003; Dalton et al., 1998). The paucity of consistent empirical findings in board research has prompted calls for a richer and more behavioral oriented understanding of boards of directors (Daily et al., 2003; Hambrick et al., 2008; Hillman et al., 2008; van Ees et al., 2009). In addition, given that boards can be characterized as episodic decision making groups that face complex tasks and produce output that is entirely cognitive in nature (Forbes & Milliken, 1999), an understudied fact is that boards are first and foremost workgroups of individual directors. Whereas some governance scholars argue that research on boards of directors should focus on “predicting economic outcomes rather than a correct description of decision-making processes” (Malmendier & Tate, 2005b, p. 649), without an accurate understanding of board decision making processes, such an approach is likely to lead to erroneous inferences. Indeed, as recently reiterated by Adams et al. (2010, p. 100) “(a) robust understanding of the role of directors requires a better understanding of just what goes on in the boardroom”. Accordingly, I took a behavioural perspective on the functioning of boards that acknowledges that micro-social forces (derived from social psychology) affect board outcomes. Specifically, moving away from the rationality assumption and moving away from studying boards as monolithic entities, the research question of this dissertation was how selected micro-

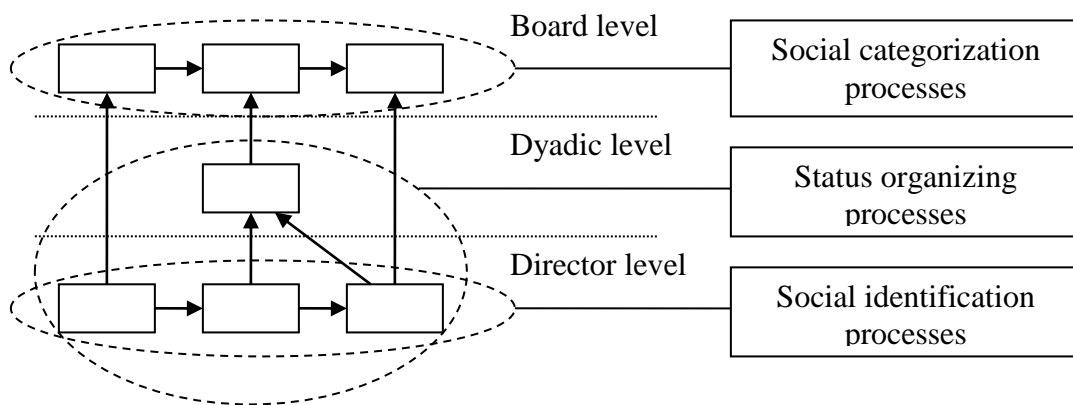
social forces within boards of directors, deemed most relevant for the functioning of boards at different levels of analysis, affect board decision making processes. Accordingly, the goal of this dissertation was to provide a detailed account of board functioning building upon several theoretical insights from the field of social psychology.

To systematically investigate this matter, I conducted three empirical studies at different levels of analysis incorporating different theoretical perspectives. These theoretical perspectives provide a behavioural perspective on important governance topics operating at different levels of analysis. First, at the board level of analysis I focused on board composition and I drew from social categorization and faultline theory to study the influence of board composition on board processes. In particular, whereas studies on board composition generally interpret board diversity as a source of information that may benefit the board, by drawing from social categorization theory and faultline theory this dissertation provides a nuanced view of the relationship between board composition and board processes. Second, at the individual level of analysis I focused on director independence and I drew from social identification theory to study social identification processes as a determinant of director task performance. An important premise in this respect is that formal independence does neither necessarily motivate directors to be knowledgeable about organizational affairs nor does it reflect a director's ability to objectively scrutinize managerial decision making. Rather, a director's social identification with the organization and social identification with being a director provide more proximal and behaviorally oriented antecedents for director independence and engagement. Third and finally, at the dyadic level of analysis I focused on influence relationships and I drew from status characteristics theory to study the antecedents of status organizing processes and conformity among directors. This study draws

specific attention to a simple but relevant question pertaining to who has the most and who has the least say within the boardroom. See Figure 5.1 for a schematic overview.

Although the three empirical studies presented in this dissertation draw from different theories from the field of organizational behavior and social psychology, they all build from the contention that director cognition is likely to influence director behavior and board functioning. Each study focused at a different level of analysis with the underlying argument that cognitions and heuristics play an important role in the process of strategic management (cf. Cyert & March, 1963; Forbes & Milliken, 1999; Hambrick & Mason, 1984). Additionally, given that these three studies draw from distinct behavioural theoretical perspectives they also contribute to these respective theoretical perspectives separately. The focus in this chapter, however, is on presenting overall findings and implications pertaining to the functioning of boards as workgroups of individual actors. For a detailed exposition of the implications for the specific theoretical perspective employed the reader is referred to the respective chapters in this dissertation.

Figure 5.1: Cognition in the boardroom at different levels of analysis



## **Summary of the main findings**

The three studies in this dissertation have yielded new insights into how boards function. Below, I will briefly summarize the main findings. First, chapter 2 provided a qualification of board diversity as a source of information benefiting the board. In particular, although a great deal of literature on board composition interprets board diversity as a source of information that may benefit the board, board diversity is scantily interpreted as a factor engendering subgroupings within boards. In this vein, chapter 2 provided an examination of the process through which board diversity is likely to hamper board functioning. Building on social categorization and faultline theory, chapter 2 demonstrated that diversity in the form demographic faultlines between factional groups is likely to lead to perceived subgroup formation ultimately affecting conflict management strategies (see Harrison & Klein, 2007, for different interpretations of diversity). Additionally, the results demonstrated that board reflexivity – behaviors affiliated with board evaluations – attenuated the disruptive influences from these factional demographic faultlines. The theoretical and practical implications for linking board composition to decision making processes and director perceptions (e.g., perceived subgroup formation) will be discussed in the next section.

Second, chapter 3 provided a detailed account of director task performance at the individual director level of analysis. In particular, chapter 3 takes a social identity perspective and argued that in addition to unique, individuating characteristics, an individual's self-concept may be extended to include social groups (e.g., an organization). The results presented in chapter 3 demonstrate that salient social identities act as proximal antecedents for director task performance. Surprisingly, however, organizational identification and director identification did not directly predict director task performance. Rather, director tenure moderated the relationship

between organizational identification. Organizational identification was positively related to director task-performance for low-tenured directors and negatively related to director task performance for high-tenured directors. In addition, director identification strengthened the interactive effects of organizational identification and tenure on director task performance.

Third, chapter 4 integrated insights from governance research and research on social status and demonstrated the determinants and consequences of status perceptions among directors. The results presented in chapter 4 demonstrate that within the confines of the boardroom social status determines who is influential and who conforms. Specifically, the results demonstrated that directorships at other organizations and financial expertise were found to predict a director's status. Additionally, because expertise cannot directly be perceived by fellow directors, performance-oriented directors are likely to inflate the importance of their task-relevant expertise. As a result, the relationship between financial expertise and accorded status was stronger for performance oriented directors. Contrary to expectations, however, sector-specific expertise did not contribute to a director's social status. In addition, for performance-oriented directors the relationship between sector-specific expertise and social status became negative. Lastly, dyadic level analyses revealed that conformity with a focal director by a fellow director was contingent on that fellow director's status.

### **Contribution to the perspective of boards as human decision making groups**

Ever since March and Simon's (1958) exposition of bounded rationality, scholars have argued that senior executives' cognitive limits and biases steer strategic decision making (see also Hambrick & Mason, 1984; Malmendier & Tate, 2005a). Notwithstanding the difference between senior managers and directors (Fama & Jensen, 1983), there is no reason to suppose that directors are any more or less rational than senior managers. Just as senior managers, directors



are faced with complex tasks pertaining to strategic issue processing (Forbes & Milliken, 1999) and just as senior managers, directors can be expected to rely on a variety of heuristics to render the world manageable. Additionally, senior managers are often appointed as directors in other organizations themselves (see McDonald & Westphal, 2010). Accordingly, rather than rationally acting out their fiduciary responsibilities, directors inject their experiences, preferences, and personalities into the strategic decision making processes and as a result director cognitions play an important role for the functioning of boards (cf. Cyert & March, 1963; March & Simon, 1958). As put forth by Finkelstein, Hambrick and Cannella Jr. (2009, p. 44) “(t)his is not to say that strategic decision makers are capricious or whimsical, but simply that they act on the basis of what they know, believe, perceive, and want”. Such factors serve to limit the extent to which complex decisions can be made on a rational techno-economical basis.

In sum, the findings presented in the three studies have implications for studying boards as human decision making groups and indicate that director cognition plays an important role in the functioning of boards and individual directors. First at the board level of analysis, pertaining to board composition, perceived subgroup formation mediated the relationships between demographic faultlines and conflict management strategies. This corroborates the notion that the objective state of affairs (e.g., board composition) is filtered and interpreted through director cognitions (e.g., perceived subgroup formation).

Second at the individual level of analysis, director independence was studied through a social identity lens. Specifically, in the study of human cognition and behavior, identity is a key foundational concept as it “helps capture the essence of who people are and ... why they do what they do” (Ashforth et al., 2008, p. 334). Accordingly, also at the individual level director cognition played a prominent role and should be considered an important driver of individual

task behaviors. A central premise was that within the confines of the boardroom, an individual director's task performance has less to do with a director's formal independence and more to do with a director's psychological independence—in other words, an independence of mind from organizational affairs. Seen from the perspective of rational-economic decision making, the incorporation of director cognition may point at the existence of relevant and hitherto unexplained biases in board decision making. Biases that may both favorably and adversely affect the efficiency of board decision making, such depending on situational contingencies. An important implication in this respect, particularly relevant for directors whose job it is to scrutinize managerial decision making, is that governance scholars should be sensitive to when organizational identification should be considered a strength and when it should be considered a constraint for directors (see also Golden-Biddle & Rao, 1997).

Third at the individual and dyadic level of analysis, director perceptions played an important role in the performance expectation that directors have for one another (Berger et al., 1977), importantly these expectations did not necessarily have bearing with the actual competence of directors, which again may provide unresolved biases in decision making. Rather, status is accorded to those directors who are *perceived* to be more competent by their fellow directors.

### **Practical implications and contributions**

Several practical implications can be identified from the results presented in this dissertation regarding the selection of directors and structuring board evaluations. First, pertaining to the selection of directors, the results presented relate to engagement and independence of individual directors, their expertise domains, their individual level traits, as well as the selection of directors on their demographic characteristics. Second, board evaluations are required by many corporate

governance codes (Minichilli et al., 2007). One of the main principles of the UK corporate governance code, for instance, states that “(t)he board should undertake a formal and rigorous annual evaluation of its own performance” (UK Corporate Governance Code, 2010). Similar arrangements can be found for other countries around the world (e.g., The Netherlands, Germany, Australia, The United States). However, board scholars rarely address the effects from reflecting on board functioning by board members and directors struggle with how to structure board evaluations and what to focus on in these board evaluations. In this vein, a number of specific practical implications are brought to the fore below.

Pertaining to the composition of the board, even though factional demographic faultlines may be disruptive for board functioning it is possible to take away these disruptive influences. This can be done on the one hand, through the board’s composition itself by the selection of directors, to prevent the existence of demographic faultlines to begin with. That is, structure boards in such a way that homogeneous subgroups and differences between subgroups are less likely. On the other hand through actively reflecting on board functioning board members can curb the disruptive influences of factional demographic faultlines. Sonnenfeld (2002), for instance, notes that “no matter how good a board is, it’s bound to get better if it’s reviewed intelligently” (p. 113). The results presented in this dissertation demonstrated the attenuating effect of board reflexivity – behaviors affiliated with board evaluation – for the relationship between demographic faultlines and subgroup formation. Additionally, the chairperson may pay particular attention towards fostering identification with a superordinate identity (e.g., the board) among board members, because this is likely to make subgroupings less salient (Ashforth et al., 2008; Gaertner, Mann, Murrell, & Dovidio, 1989). Similarly, also for individual directors

reflecting on individual director functioning may have important beneficial effects for the functioning of boards and individual directors.

In evaluating and selecting individual directors, it makes sense to pay particular attention to social identification with situational relevant targets of identification like the organization and of being a director, and discriminate between low-tenured and high-tenured directors. Specifically, the results demonstrated that organizational identification was beneficial for low-tenured directors, whereas it was detrimental for high-tenured directors. Accordingly, for the evaluation of individual directors it makes sense to utilize scales developed to measure social identification, making it is possible to measure directors' social identification with situationally relevant social identities. In this vein, our results suggest that newly appointed directors can benefit from following introduction programs, visiting social events arranged by the organization, and meeting organizational members, as these programs can be expected to foster their organizational identification. Conversely, for high-tenured directors it is pertinent to distance themselves from organizational affairs. Furthermore, in the appointment of directors, identification with the organization and identification with being a director may be important criteria for director selection, because especially such directors are likely to be engaged early in their tenure. As a director's tenure progresses, however, organizational identification and director identification may give reason to dismiss a particular director, because these are likely to thwart a director's independence over time.

Finkelstein & Mooney (2003, p.105) quote a director stating that “[I]f you threw five dogs in a room, they would be very clear about who the senior dog was and who the junior dogs were”. This quote illustrates that the relevance of status differences among directors has not gone unnoticed among practitioners. An important practical implication is that directors conform as a

result of status differences. Even when a focal director does not agree with fellow directors, that particular director is likely to be unwilling to speak up when that director has lower status among his or her peers. Thus, even though a board may be balanced in the sense that it is comprised of different expertise domains, status differences can hamper integration of views from different expertise domains. This is particularly germane for the functioning of boards also taking into account that financial experts were accorded more status, whereas sector experts were not.

As a result, directors may pay particular attention to status differences among directors, since such status differences hamper the integration of insights from different expertise domains. Additionally, directors that are low in performance orientation, are less likely to demonstrate their competence. Accordingly, to ensure that all relevant expertise is brought to the fore, directors that are low in performance orientation may be given more opportunities to contribute to the board's decision making. In particular, the chairperson should be attuned to making sure that all directors are able to contribute to the discussion from their own perspective, in order to reach a comprehensive picture during board deliberations. This can be achieved by structuring board discussions, for instance, by specifically asking low-status directors to express their views first.

As adhered to, board members and directors often struggle with what to focus on in discussing board functioning. In this respect, in addition to the attenuating role for disruptive board processes of reflecting on board functioning itself, a number of specific practical implications were brought to the fore in this section. A schematic overview of these implications at the director and dyadic level is presented in Figure 5.2A and Figure 5.2B respectively. This overview is by no means exhaustive and is intended to aid directors during board deliberations.

Figure 5.2A: Practical guidance for board deliberations at the director level

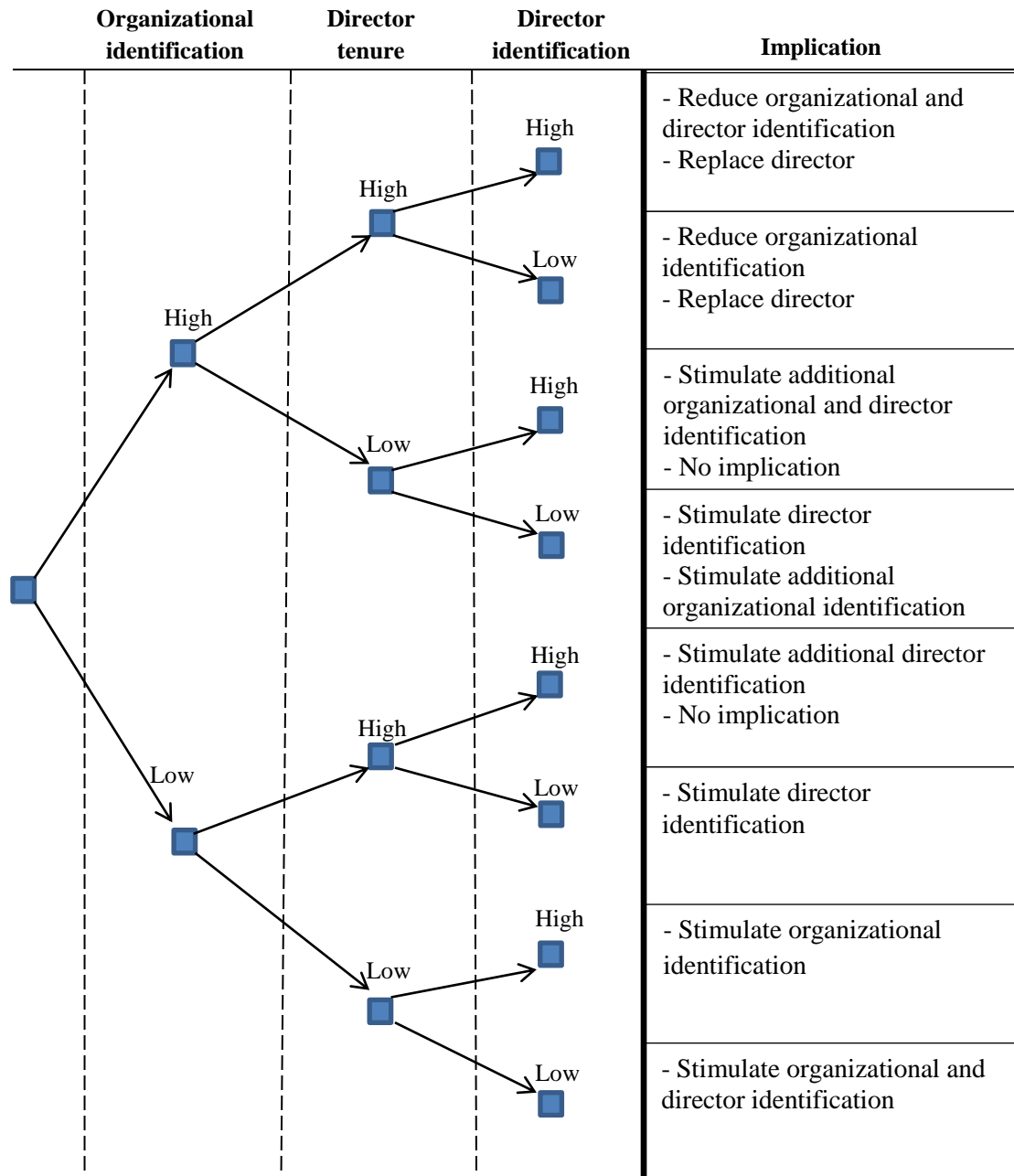
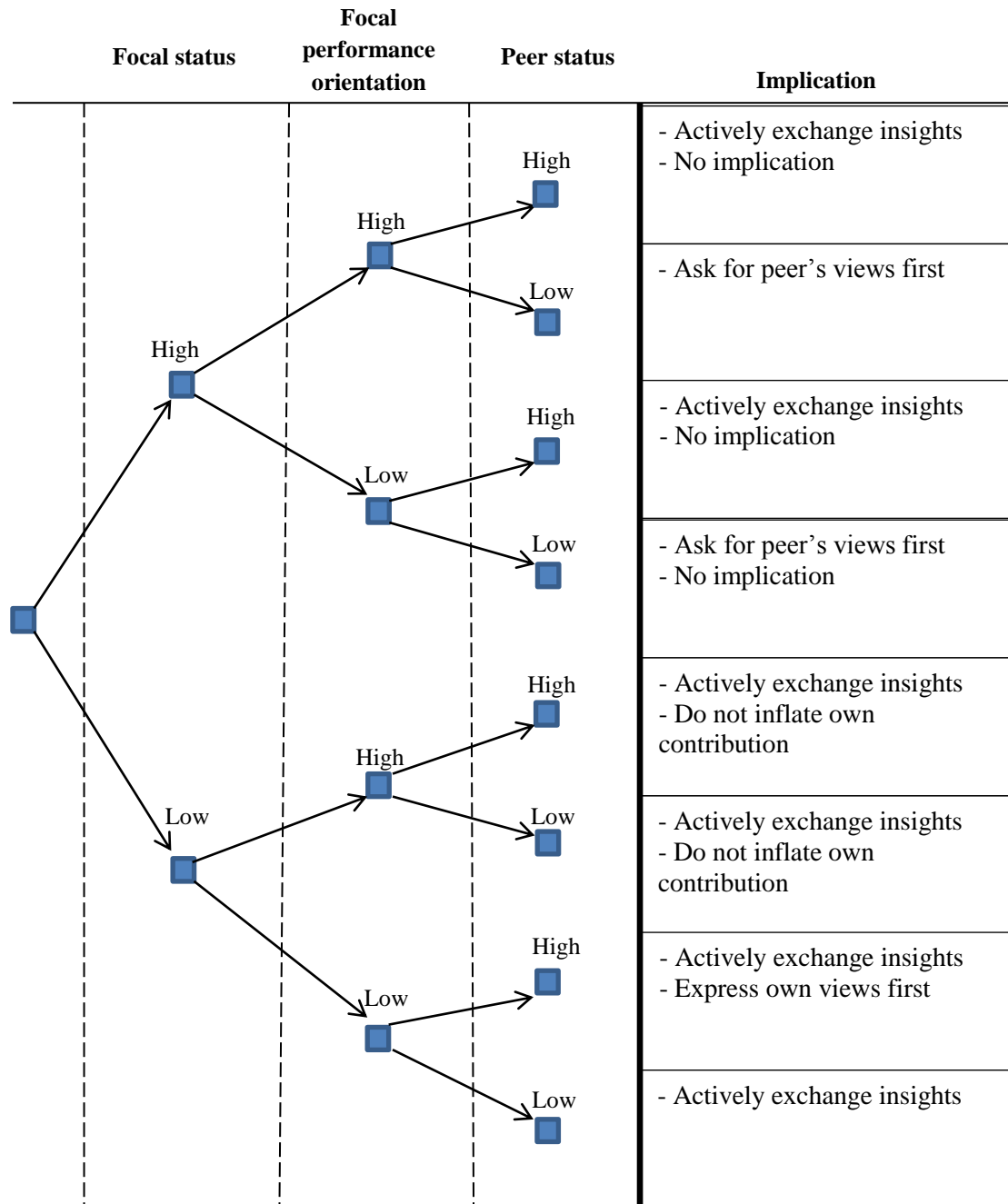


Figure 5.2B: Practical guidance for board deliberations at the dyadic level



### Limitations and Directions for Future Research

Although the models presented in this dissertation imply a specific causal order, our cross-sectional data does not allow us to make causal inferences. Despite this limitation, the pattern of

relationships is consistent with theoretical rationale presented. In addition, mediation analyses and moderated mediation analyses provide theoretical support for the causal models presented. Nevertheless, it will be important for future research to incorporate a longitudinal design in which repeated measurements are incorporated. In this vein, it should be noted, however, that we went to great lengths to ameliorate common source issues. We incorporated multiple sources of data in all our analysis. Getting directors to rate each other on status differences and task behaviours was no easy task. Although we are optimistic, it may be difficult for board scholars to have access to longitudinal multi-source data given researcher's limited access to primary field data in the board context (Hillman et al., 2008). Notwithstanding such difficulties, this is one of the future avenues for board researchers to pursue.

As noted, the goal of this dissertation was to foster an increased understanding of how boards operate. This dissertation focuses on studying micro-social processes at different levels of analysis deemed most relevant for the functioning of boards and stops short of investigating the effects of these micro-social processes on observable board outcomes and organizational performance. Future studies may address the relationship between board processes operating at different levels of analysis on the one hand and board outcomes and ultimately organizational performance on the other hand. Attention to the performance implications of our findings for the board and organization as a whole will require theoretical perspectives and data well beyond what was presented in this dissertation, but such an avenue might be very fruitful. To date, however, the governance literature has scantily studied boards from a multi-level framework as human decision making groups and much work remains to be done on this matter still before we can link micro-social processes to organization level outcomes in a valid way (Dalton & Dalton, 2011; Hambrick et al., 2008; Hillman et al., 2011).



Although the approach where multiple sources of data are employed helps to alleviate concerns about common source bias, the use of a survey instrument to collect independent and dependent measures may have introduced common method bias into these results (Podsakoff et al., 2003). The use of completely different measures based on board minutes or observations of board meetings would strengthen future research efforts. Particularly, as recently brought to the fore by Tuggle et al. (Tuggle et al., 2010a; Tuggle, Sirmon, Reutzel, & Bierman, 2010b) board minutes may be particularly informative for such a line of research. It will be difficult, however, for scholars to attain access to such board minutes. This poses a major challenge for governance scholars, if overcome, will provide a valuable source of information on the actual decisions that are being made by boards.

Additionally, although this may in part also be considered as an issue of access, scholars that have studied board processes have done so primarily in a single institutional context (for a recent notable exception see Minichilli, Zattoni, Nielsen, & Huse, 2012). The institutional structure is an important contextual element to take into consideration and I encourage researchers to further explore the effects of institutional contextual elements on board behavior. Specifically, I urge governance researchers to push the envelope when it comes to garnering access to boards of directors situated in different countries and different institutional context. A comparison of board processes operating within one-tier boards and within two-tier boards, for instance, would greatly aid scholars, regulators and practitioners to increase their understanding of the influence institutional factors and cultural differences on the functioning of boards. This is highly relevant for regulators and society as a whole in structuring governance arrangements. In this respect, although this was not the purpose of the current dissertation, building on social

psychological insights, interesting work can be done on the interactions between executive directors and non-executive directors.

Although governance scholars have focused on the influence of social networks of the corporate elite (e.g., Westphal & Khanna, 2003; Westphal & Stern, 2007), an interesting avenue for further research is to study how social networks and board interlocks influence the functioning of boards of directors in terms of micro social forces operating at different levels of analysis. It may also be worthwhile to investigate the characteristics of the organization itself with respect to organizational size, profit or not-for profit, financial or non-financial. Governance scholars have little information on the effects of firm heterogeneity on the dynamics operating within boards of directors (Adams et al., 2010). In this respect, it is surprising to note that, even though financial institutions play a prominent role in national economies, governance scholars have generally exclude financial institutions from their analysis. Interesting work can be done on financial institutions themselves.

Additionally, and interesting avenue for further research is tool look for ‘natural experiments’. For instance, if a new regulation is put in place what effect does this have on the behavioural dynamics operating between directors.

### **Concluding remarks**

This dissertation began with a quote from Adam Smith stating that negligence and profusion are most likely to prevail when managers do not bear the full wealth effects of their decisions. This view has provided the imputes for many governance arrangement designed to constrain managerial opportunism. The board of directors may be considered as an important governance mechanism in this respect. The results presented in this dissertation extend research on boards of directors and provide unique insights in director cognition and behavioral dynamics that underlie

the decision making in the boardroom at different levels of analysis. By integrating insights from governance research, research on social categorization and faultline theory, research on social identification, and research on status characteristics this was the first large-scale empirical analysis that studies boards as human decision making groups at different levels of analysis focusing specifically on director cognitions. Rather than a mechanical interpretation of boards of directors focusing solely on contractual obligations (Fama & Jensen, 1983), this dissertation has presented several studies in which boards are studied as human decision making groups, examining directors as individuals, to garner an understanding of board decision making processes. I believe that an understanding of micro-social processes is pertinent for research on boards of directors and board effectiveness to advance, ultimately allowing governance scholars to link micro-social processes to organization level outcomes.

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## **Samenvatting (Dutch Summary)**

Corporate governance, ook wel aangeduid als goed ondernemingsbestuur, heeft veel aandacht gekregen in academisch onderzoek en in de populaire pers. Raden van bestuur en raden van commissarissen spelen dan ook een belangrijke rol in hoe organisaties worden bestuurd. De raad van commissarissen is een belangrijk bestuurlijk mechanisme om ervoor te zorgen dat bestuurders de juiste besluiten nemen. Door de toezichhoudende rol van commissarissen op bestuurders spelen raden van commissarissen een centrale rol in de governance van organisaties. Ondanks dat er veel onderzoek is gedaan naar de invloed van raden bestuur en raden van commissarissen op de prestaties van organisaties, weten onderzoekers bijzonder weinig over het functioneren van raden van commissarissen. Deze beperkte kennis wordt mede veroorzaakt door de beperkte toegang van onderzoekers tot raden van bestuur en raden van commissarissen.

In deze dissertatie bestudeer ik raden van commissarissen en raden van bestuur (samen aangeduid als ‘boards of directors’) als menselijke besluitvormingsgroepen. Gebruik makende van sociaal psychologische theorieën en methodologische inzichten is het doel van deze dissertatie inzicht te verschaffen naar het functioneren van boards vanuit een gedragsmatige hoek. Om dit te bewerkstelligen bestudeer ik het functioneren van boards op verschillende niveaus. Te weten, op het niveau van de board als geheel, op het individuele niveau en op het interpersoonlijke niveau. De centrale onderzoeksvraag van deze dissertatie is hoe specifieke micro-sociale krachten binnen boards, welke opereren op verschillende niveaus van analyse, het functioneren van boards beïnvloeden. Op het niveau van de board als geheel wordt gebruik gemaakt van breuklijn theorie en sociale categorisatie theorie. Op het niveau van het individu wordt gebruik gemaakt van sociale identificatie theorie. Op het interpersoonlijke niveau wordt

gebruikt gemaakt status karakteristieken theorie. Dit proefschrift bestaat uit drie verschillende unieke empirische studies op deze verschillende niveaus van analyse.

In het tweede hoofdstuk van dit proefschrift wordt het functioneren van pensioenfondsbesturen op het groepsniveau geanalyseerd. Dit hoofdstuk is gebaseerd op gegevens van 313 pensioenfondsbesturen en is mede mogelijk gemaakt door Montae en De Nederlandsche Bank. Een groot deel van de literatuur over samenstelling van boards heeft als aanname dat demografische diversiteit een bron van informatie is en daardoor leidt tot betere besluitvormingsprocessen. Gebruik makende van sociale categorisatie theorie laat hoofdstuk 2 zien dat demografische diversiteit binnen pensioenfondsbesturen negatieve gevolgen kan hebben op het functioneren van pensioenfondsbesturen. In hoofdstuk 2 wordt gevonden dat de formatie van subgroepen en conflict hantering strategieën binnen pensioenfondsbesturen worden gedreven door sociale categorisatie processen. In het bijzonder laat hoofdstuk 2 zien dat demografische breuklijnen tussen verschillende belangengroepen binnen pensioenfondsbesturen leiden tot een sterkere perceptie van subgroepen en dat deze sterkere perceptie van subgroepen leidt tot meer competitieve en minder coöperatieve conflicthantering strategieën. Hoofdstuk twee laat tevens zien dat meer zelfreflectie door pensioenfondsbesturen, bijvoorbeeld in de vorm van zelfevaluaties, de tegenstellingen tussen de verschillende belangengroepen vermindert.

In het derde hoofdstuk van dit proefschrift wordt het functioneren van individuele commissarissen van woningcorporaties geanalyseerd. Het onderzoek gepresenteerd in hoofdstuk 3 is mede mogelijk gemaakt door de Vereniging van Toezichthouders in Woningcorporaties (VTW) en Proboards. Voor dit onderzoek hebben 154 commissarissen van 30 woningcorporaties elkaar beoordeeld op elkaars functioneren. Gebruik makende van sociale identiteitstheorie laat hoofdstuk 3 zien dat sociale identiteiten van commissarissen een belangrijke rol kunnen spelen

voor het functioneren van commissarissen. In tegenstelling tot de verwachting heeft identificatie met de organisatie en identificatie met het zijn van een commissaris geen direct effect op de taakprestaties van commissarissen. De resultaten in hoofdstuk 3 demonstreren echter dat identificatie met de organisatie voor commissarissen met een korte aanstellingsduur een positief effect heeft op taakprestaties. Echter voor commissarissen met een lange aanstellingsduur heeft identificatie met de organisatie een negatief effect. Met andere woorden de aanstellingsduur van commissarissen modereert het verband tussen identificatie met de organisatie en taakprestaties van commissarissen. Het hangt van de aanstellingsduur van een commissaris af of identificatie met de organisatie positief, danwel een negatief effect heeft op de taakprestaties van een commissaris. Identificatie met het zijn van een commissaris versterkt dit positieve of negatieve effect.

In het vierde hoofdstuk wordt ingegaan op het functioneren van commissarissen op individueel en interpersoonlijk niveau. Het onderzoek opgenomen in hoofdstuk 4 maakt gebruik van 341 interpersoonlijke beoordeling van commissarissen van 10 organisaties. In ruil voor medewerking aan dit onderzoek zijn evaluaties uitgevoerd op basis van data verkregen vragenlijsten en persoonlijke interviews met elk lid van de raad van commissarissen en raad van bestuur. Gebruik makende van status karakteristieken theorie gaat hoofdstuk 4 in op de simpele vraag welke factoren bepalend zijn op de onderlinge invloed van commissarissen. Er wordt hierbij in het bijzonder ingegaan op status verschillen tussen commissarissen. Zoals in elke sociale groep spelen statusverschillen een belangrijke rol in het functioneren van individuele commissarissen binnen de raad van commissarissen. Hoofdstuk 4 bevestigt dat ook binnen raden van commissarissen sociale status in grote mate bepaalt welke commissaris invloedrijk is en welke commissaris zich conformeert. De resultaten laten zien dat het aantal nevenfuncties en

financiële expertise van een commissaris belangrijke voorspellers zijn van de status van deze commissaris. In tegenstelling tot de verwachting heeft sector specifieke expertise van een commissaris geen invloed op de status van deze commissaris binnen de raad van commissarissen. De resultaten laten tevens zien dat prestatie-georiënteerde commissarissen het belang van hun expertise extra aanzetten. Voor financiële experts betekent dit een grotere invloed binnen de raad van commissarissen. Voor prestatie-georiënteerde sectorexperts betekent dit echter dat deze minder invloed hebben binnen de raad van commissarissen. Tot slot, laten analyses op interpersoonlijk niveau zien dat de eigen status van een commissaris bepaalt in hoeverre deze commissaris zich conformeert aan een commissaris met hoge status. Commissarissen met een relatief hoge status conformeren zich in mindere mate dan commissarissen met een lage status, terwijl commissarissen met een relatief lage status zich in grotere mate conformeren.

Het doel van dit proefschrift is het vergroten van het begrip naar het functioneren van boards. Om dit te kunnen bereiken is gekozen voor een eclectische benadering en heeft elke studie een uniek theoretisch uitgangspunt. In hoofdstuk 5 worden de bevindingen uit de verschillende studies samengebracht. Tevens wordt hier expliciet ingegaan op de praktische implicaties van de verschillende studies gepresenteerd in de voorgaande hoofdstukken en wordt nogmaals het belang van het bestuderen van boards als menselijke besluitvormingsgroepen benadrukt. Door het bestuderen van cognities en gedragsmatige dynamiek binnen de bestuurskamer levert dit proefschrift hopelijk een nuttige bijdrage aan kennisontwikkeling naar het functioneren van boards. Het is aan de lezer om dat te beoordelen.