THE BOARDS FUNCTIONAL EMPHASIS - A CONTINGENCY APPROACH

Sven-Olof Collin*

Abstract

The understanding of the board of a corporation and its behavior is limited, despite the board's societal importance. We present a contingency approach to the board's functional emphasis, considering a fourth function in addition to monitoring, decision making, and service or resource provision. The additional function is conflict resolution (or principal identification). The approach contrasts with mainstream research by assuming that the firm is a nexus of investments, avoiding the empirical assumption that the shareholder is the sole principal. We derive propositions that are not restricted to any empirical category of a corporation, and address praxis implications for managing functional disharmony.

Keywords: The Board, Functional Emphasis, Conflict Resolution Function, Functional disharmony

*School of Business and Engineering, Halmstad University, Box 823, SE-301 18 Halmstad, Sweden
Tel: + 46 35 16 78 59, Fax: +46 35 167564
E-mail: Sven-Olof.Collin@hh.se
The project is financed by The Bank of Sweden Tercentenary Foundation. An earlier version was presented at the Academy of Management Conference, Atlanta. Georgia, August 11-16, 2006. The paper has benefited from comments by Elin Smith and Timurs Umans, Kristianstad University. David Harrison at Proper English AB contributed with language editing.

Introduction

The board of the corporation is a very frequently occurring phenomenon, considering all the corporations on the globe. It is a very popular research object as well. Yet, one has to admit that the knowledge about boards is rather rhapsodic and scant. Several reviewers of board research have made similar observations (Daily, Dalton and Cannella Jr, 2003; Dalton, Daily, Ellstrand and Johnson, 1998; Huse, 1998; Pettigrew, 1992; Zald, 1969). This might have been surprising, given the board's widespread presence and importance in society today. But it is perhaps not that surprising when one considers that one reason for the low level of knowledge about boards is the hardship of getting high quality data of the phenomena in question (Pettigrew, 1992). Access to boards through direct observation or documents is often limited, obliging board researchers to collect data through surveys and official documents, thus reducing the possibility of studying actual board behavior (Forbes and Milliken, 1999). As Pfeffer (1997) has argued concerning the structural perspective of demographics, lack of high quality data cannot be the overriding excuse since the possibility of "black-boxing" the board's processes and focusing on the structural conditions are available as an alternative research strategy. Or, from a more pessimistic view on the capacity of science to deal with the complexities of the board: "…the processes themselves are sometimes most effectively described by novelists" (Zald, 1969:110).

Another reason for the limited knowledge could be that of bad theory, either due to a theory of low abstraction, i.e., no theory in any serious sense, or a theory of bad conception. The dominant theory of today is agency theory. It is the aim of the present paper to show that agency theory is a credible and adequate theory for board research. The theory, though, has to be revisited with regard to some of its specific conceptions. One is the empirically grounded conception of the corporation as usually being a Fortune 500 corporation, i.e., a huge corporation located in one single country (Lubatkin, Lane, Collin and Very, 2005). The other conception is more ideologically based, that is, the unproblematic interpretation of shareholders as the principals in the theory. Since there is nothing inherent in agency theory that dooms it to empirical, exotic restrictions or to promoting the ideology of shareholder primacy, an ordinary agency theory can be used to explain board behavior.

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

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

The theoretical contribution of the paper is modest. We offer a set of factors that we try to argue as being influential on a board's functional emphasis. But our ambition is much further-reaching: It is to open the eyes of corporate governance researchers in general and board researchers in particular, and allow them to sincerely ask the question, Who is the principal of the corporation? It would enable them to deal with all corporations, not only the large, listed corporations, and to consider all parties that have incentives to be part of the board and the struggle for control going on there. The "fourth function"—identifying the principal and regulating the principal's influence—is the instrument introduced in this paper as the essential eye-opener.

With the objective of drawing some conclusions about the board's functional emphasis, the paper begins by defining the concept of a board, clearly pinpointing that the assumption of one version of agency theory, that shareholders are the principals of the corporation, is too narrow-minded. We continue by systemizing and defining the functions of the board, introducing the concept of conflict resolution, or principal identification. The ground being laid, the paper then tries to fulfill its theoretical aim by deriving a set of factors that influence the functional emphasis of the board. The paper ends with a discussion of the resulting set of hypotheses from the contingency approach, and the implications for theory and empirical research. In concluding, we suggest a new concept, that of functional harmony, which could explain part of the empirical difficulty in finding the reasons for board efficiency.

Exploring The Agency Theory Views of The Board

The board is an instrument for the shareholders to govern the corporation. This statement seems apparent—even natural today. It is supported by both academic texts and the popular press. Stated as a matter of fact, treated in an unproblematic way, as if it were as obvious as the existence of the sun, a textbook of corporate governance states that "*…the shareholders have limited liability and limited involvement in the company's affairs. That involvement includes, at least in theory, the right to elect directors and the fiduciary obligation of directors and management to protect their interests*" (Monks and Minow, 1995:8). The newly formulated and implemented code of corporate governance in Sweden declares the role of the board of directors as follows: "*The board, based on what is in the best interest of the company and its shareholders, is to set objectives for the company's business operations and make sure that the company has an appropriate strategy, organization and operational management for achieving these objectives*" (SOU 2004:46, 2004:30f).

The board of directors as an obedient instrument in the hands of the shareholders is, however, neither a good description of the legal point of view, nor a valid empirical description of the board. To state that the shareholders are the one and only principals of the corporation is more of an ideological statement than a theoretical statement or empirical fact. This conception disregards the fact that boards exist in organizational forms without shareholders, and that even in corporations with shareholders, the shareholder is not by logic the only principal.

The ideological dependency view of the board of directors stands in contrast to the legal view of the board, which emphasizes the independence of the board. Scanning the world of organizational forms, we realize that a board of directors exists in organizations that are recognized as juridical persons, i.e., those organizations that are corporations, including joint stock companies, co-operative firms, and associations. Typically those that are regarded as the major principals of the organization through being termed as owners, such as shareholders in the joint stock company, or members in the co-operative or association, enjoy limited liability for the business of the corporation. The corporation is a juridical subject in its own right, which implies that the firm cannot be reduced to an extension of the owner, as is the case in the single proprietorship or the partnership. But since someone has to govern the firm, there is an institution equipped with the rights to govern the firm. This institution is the board of directors.

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

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

In the academic literature of the board one can find two major streams, those assuming the independence view, represented by the stewardship view (Davis, Schoorman, and Donaldson, 1997), and those that assume the shareholder dependency view, typically adhering to the less abstract agency theory (Jensen and Meckling, 1976), where the shareholder is made the principal of the firm, without any consideration or theoretical argument (e.g., Baysinger and Hoskisson, 1990). In this view, the board is mainly a monitoring device for the shareholders. In between these two perspectives is the semi-independent view, represented by the more abstract agency theory, adopting the view of the corporation as a nexus of contracts where "…ownership of the firm is an irrelevant concept" (Fama, 1980:290), and where dependency is created by transaction-specific investments (Williamson, 1985). In this view, the board is a mediator between the firm and those that are residual claimants in a broad sense, i.e., those that have made firm-specific investments (Blair and Stout, 2001).

We adopt the more abstract view of agency theory, which is that ownership does not define the principal of the corporation, that the board is responsible for the governance of the corporation, and that the board is the mediator between the residual claimants, termed the principals, and the agents. Since we do not make an empirical determination of the principal, such as being the shareholder, we have to define the principal before trying to distinguish the different functions of the board.

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

We avoid considering the principal as equal to a stakeholder. A stakeholder is a party that is affected by the firm, or at least, considered to be affected by the firm, and therefore has incentives to influence the firm. A principal of a firm is not only affected by the firm, but makes investments in the operations through having access to the firm's resources (Rajan and Zingales, 1998) and takes part in the value-creating activities of the firm, ultimately through receiving part of the cash flow or the products or services produced. By this distinction we can separate political influence from economic influence. For example, we identify as a stakeholder the individual who is fighting for a firm's responsibility to only buy products from firms not using child labor. The stakeholder is making an investment, but not for the realization of the corporate goal and adding to the value of the firm, thus not taking part of the firm's cash flow or any other value created by the firm, but for the realization of a political goal. Thus, while the principal is a stakeholder of the corporation, a stakeholder does not have to be a principal of the corporation. The promotion of a stakeholder to the category of principal is made through the individual making investments in the firm, taking part in the value-creating process of the firm, and being directly influenced by the outcome of the firm's operations. To make the conceptual hierarchy very clear, a shareholder belongs to the set of principals that belongs to the set of stakeholders, but a stakeholder is not by definition a principal, and a principal is not by definition a shareholder.

Additionally, a small note about delegation originating from the property rights view of the corporation has to be made. The board being viewed as a mediator implies that the board performs functions on behalf of the principals. It does not imply, however, that something is delegated from the principal to the board. To claim that the principal has some property rights that are delegated to the board is an ancient conception of property rights, inherited from the old view of the single owner of a property, based on the view of natural rights (Collin, 1995). In the cases we are discussing here, there are no private property rights that can be delegated. This is indeed indicated by the legal view, where the rights of the board cannot be transferred to the owners, be it to them individually or to them in the collective of the shareholder meeting.

Thus, to recapitulate, the aim of the paper is explore the functions of the board. If assuming the less abstract and more ideologically penetrated agency theory where the shareholder is taken for granted as the sole principal, the functional emphasis would be on monitoring, and the aim would be fulfilled with ease. The view taken here, however, accords with the more abstract view of the board, where we assume that the board exists in many organizational forms, not only in a joint stock company where the empirical fact is that the shareholder is the dominant principal. On the contrary, we assume that the board is a device for the governance of the corporation, and populated by individuals who are, or who represent, principals of the corporation, who have made investments in the corporation and who depend on the corporation for its own well-being. By taking a more abstract view of the corporation and the board, we are able to perceive a more complex pattern of functions. Thus, we now turn to explicate the functions of the board of the corporation.

The Functions of The Board

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

Insert Figure 1 about there

The conception contains four functions: (1) *Monitoring*: The board monitors, on behalf of the principal, the agent and the agent's actions; (2) *Decision making*: On behalf of the principal, the board makes decisions influencing the direction of the corporation which it is the responsibility of the agent to implement; (3) *Resource provision*: The board supplies the agent and the organization with resources, such as links to networks, financial expertise; (4) *Conflict resolution*: The board identifies the legitimate principals and their legitimate goals concerning the corporation through processing the different goals of the different principals. We now turn to the detailed description of the four functions.

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

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

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

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

This ignorance of the conflict resolution function could be caused by the agency theory's occupation with the conflict between the principal and the agent, thus neglecting the formation of the principal, thereby disregarding the possibility of diversity of interest within the group of principals. It can very well be the case that in a well-financed private corporation, with one single dominant owner who dominates the board through selecting the directors, the conflict resolution function will probably not be a dominant function.

But in a large, listed corporation, with dispersed ownership structure, with a variety of owners with different preferences (Aguilera and Jackson, 2003; Baysinger, Kosnik and Turk, 1991), the identification of the relevant goals of the corporation is probably an issue on the agenda of the board. And in small corporations, organized as democratic associations where members populate the board through democratic elections, i.e., one member–one vote, coalitions are formed in order to realize the separate interests of different member categories. The function of conflict resolution is close to the balancing view of the board, stating that the board could fulfill the function of being an agent balancing the interests of various groups (Daily, Dalton and Cannella, 2003; Kostant, 1999). The idea of balancing is, however, the return of the Berle and Means hope regarding the large corporations: "It is conceivable … that the 'control' of the great corporations should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community …" (Berle and Means, 1947:356). While being close to the conflict resolution function, it differs in the important contrast of conflict against balance. There is neither a theoretical reason, nor any empirical indication that the board will turn into a neutral technocracy. The idea of conflict resolution is closer to Cyert and March's (1965) conception of an organization consisting of participants that form coalitions and through the goal process bargaining about the organization's relevant goals. This view is echoed in Mintzberg's (1983) arena view of the board, i.e., the board is an arena for fights, struggles, and power manifestations, where different groups and individuals are striving for power to manifest their view of the corporation and its goals as the objectives of the corporation.

Thus, through inspecting the three commonly identified functions of the board, the functions of monitoring, decision making, and resource provision, we find that at least the two first functions need an interpretation of the legitimate goals in order to be efficient. Goal identification and the preceding identification of the legitimate principals therefore become a fourth function of the board. This function of identification of the principals is intimately related to the basic conception of the principal put forward earlier. The relevant principals cannot be defined a priori, but will arise from those that have made firm-specific investments or have open contracts.

A Contingency Approach to Functional Emphasis

A board can fulfill four functions: monitoring, resource provision, decision making, and conflict resolution. All functions cannot be expected to be performed every second the board is active. In an association where all the members have managed to reach a consensus about the aims, strategy, and means of implementation, the function of conflict resolution can be put aside for the moment, and the board can spend more time and energy to help the management of the association, i.e., the board will put an emphasis on the resource provision function. Thus, it can be assumed that the functional emphasis of the board may change, implying that a theory should have an approach dealing with the contingencies of board functions.

A contingency approach towards the functions of the board implies an identification of those factors that can influence the functional emphasis of the board. With scant empirical studies, relying mainly on attitude data (e.g. Cornforth, 2001; Jonnergård and Kärreman, 2004; Pearce and Zahra, 1991) and theories mainly limited to a few factors—and in the worst cases, having a constrained conception of the principal, as explained previously—we have to rely on the systematic order illustrated in Figure 1, i.e., in a simple sense, a typology. This order brings into focus: (1) The principal, through an analysis of the functional emphasis that can be influenced by the legal organizational form, which ultimately defines the principal; (2) The board, where it is assumed that the composition of the board will influence the functional emphasis; (3) The agent, in which the characteristics of the CEO, especially length of tenure can be expected to influence board functional emphasis; (4) The organization that the agent is managing, especially the influence of strategy and structure on functional emphasis; and (5) The environment, which creates most of the uncertainty facing the organization, and thereby influences the functional emphasis of the board.

This contingency view of functional emphasis contrasts with a more normative version of agency theory. For example, Baysinger and Hoskisson (1990) claim: "Decision management is naturally the responsibility of senior management, whereas decision control becomes the responsibility of the board of directors" (p.76). The distribution of functions is in this view governed by nature. With a contingency view of functional emphasis, the researcher's eye is less concerned with nature than with social forces, such as organizational structure. As we shall restate later, we would expect a board governing a functionally organized firm to engage in decision management.

In this paper we try to avoid deriving propositions that are restricted to any empirical category of a corporation. A theory of the board has no legitimate reason to be based on implicit conceptions of the corporation as being one of those belonging to the "Fortune 500" corporations (e.g., Morck, Shleifer and Vishny, 1989; Pearce and Zahra, 1991; Westphal and Zajac, 1995, 1997; and Zajac and Westphal, 1996). A theory limiting itself to these corporations should be properly labeled as theories of BBB, i.e., Big Business Boards. Although being hard to fully implement, we claim that the goal of a corporate board theory should be one that includes all corporate boards. This implies that the theory has to include considerations of corporate boards engaged, for instance, in the hospital industry (Pfeffer, 1973), or in the leisure industry — in which there exist riding school associations with 50 horses and 900 members (Collin and Smith, 2007). Empirical restrictions in theoretical reasoning are legitimate, but not if they are unreflected and implicit. Here the abstract level should be the appropriate one, i.e., focusing on the board of the corporation. Thus, the propositions we shall put forward in this paper, if not made specific to any organizational form, such as the joint stock company or the association, are intended to cover all boards of any corporation.

The different functions are not influenced by one single logic, which would simplify our derivation and make it less eclectic in appearance. Indeed, to have a set of logics is an indication of a less developed theory, but this is the status of knowledge today. The different logics influencing the functional emphasis and creating relationships with the contingency factors will shortly be introduced, and will be further developed in the analysis of the different contingency factors.

Monitoring is considered to be the supervision of the performance of the corporation and of the managers' actions on behalf of the principal. Principal engagement will de-emphasize monitoring since the principal directs the managers through a certain number of interventions, thereby influencing performance. In contrast, a passive or absent principal will induce the board to focus on monitoring in order to ensure performance. Similarly, a board comprising many directors with focused industry competence will tend to be more operationally engaged in the corporation, which will de-emphasize monitoring. Directors with less industry experience will, on the contrary, focus on monitoring. Monitoring could also be a way to stress the autonomy of the organizational units, where the simple supervision of performance, without any operational initiative from the board, will leave the units with free hands to be entrepreneurial.

The **decision-making** function, as indicated in Figure 1, is the principal influencing the agent's action through the board, thus representing a reverse relationship to monitoring. In many cases, a greater emphasis on decision making reduces both the capacity for and the interest in monitoring. In the extreme case, a present and active principal does not need monitoring since the principal's engagement and involvement almost converts the principal into an agent. What can be added with regard to decision making, which is not apparent in the monitoring function, is the existence of routines. If, due to long and stable development of the organization, strong and well-respected routines about the conduct of business have evolved, then it is the routines that make the decisions, not the board, thus de-emphasizing decision making.

The **resource provision** function is the board supplying the agent and the organization with various resources. It therefore varies in emphasis according to the needs of the organization. A small, poor organization will try to extract more resources from the board than the wealthy organization. But the resource provision could also be an effect of the power distribution in the corporation since a strong CEO can reduce the board's role to that of a simple advisor, whereas strong principals populate the board according to their power interest, reducing the board's capacity to offer resources. Thus, in this case, the resource provision function is contrary to the conflict resolution emphasis.

The **conflict resolution** function is the identification of the legitimate principals and their goals. Obviously, with an increasing number of strong principals, the function will be more important. But even the composition of the board by directors with different competencies will influence the function since it has been found that a high variety of functional experience will induce conflicts. Since the function is about identifying the principal, in cases of highly ambiguous principals, the function will be emphasized, in contrast to the case where there is one obvious, strong principal. But even if the conflict resolution function is focused on the relationship between the principal and the board, one cannot ignore the board's relationship with other stakeholders that have the capacity of a principal, especially the government and the mass media. The board has to deal with these often conflicting demands through actions such as lobbying. Even the organization can influence the conflict resolution function, pushing conflicts in the organization to the level of the board when there are strong tensions among interdependent organizational units.

Having set out these basic views on how functional emphasis can be influenced, we now turn to an analysis of the contingency factors and the derivations of propositions.

The Principal

The legitimate principal and the principals' rights and obligations are institutionally determined, and of these the legal organizational form is decisive. The distribution of property rights creates differences in an organization's incentive structure and power structure. The members of a not-for-profit association with a democratic power structure have different power and incentive to engage in the governance of the association than has the single shareholder in a public corporation with a highly dispersed ownership structure. These differences are reflected at the board, creating rather different functional emphases. Thus, a theory of board behavior needs to consider the distribution of power and incentives in organizations.

We will consider three different types of legal organizational forms: the democratic association, the private corporation, and the public corporation. They differ in the sense that the democratic association and the public corporation have dispersed principals, while the private corporation has but a few, easily detected principals. The difference between the democratic association and the public corporation is that the members of the association all have one vote, they do not invest in the corporation, and their interest in the association is as a consumer of the association's services. The public corporation has shareholders that are presumably only interested in the profit, and whose voting power is distributed according to the shareholders' investments.

We start by considering the **democratic not-for-profit association**, where every member has one vote at the general meeting; they make no capital investments, but are consumers of the association's services. The members of the association have presumably divergent interests in the services provided, and will therefore have incentives to elect and to be represented by a member that shares the same service interest. Since it is a democratic organization, such interest has the opportunity to be represented at the board. Thus, the composition of the board will reflect the different groupings among the members of the association (Pfeffer, 1973, cf. Forbes and Milliken, 1999). This will make the board first and foremost an arena where the dominant groups are identified and the conflicts among the members and their different interests are mediated and managed. The major functional emphasis of an association's board will therefore be conflict resolution.

The members of the board have strong interest in the products and services of the association, since the members are the consumers of these products. This feature of an association will make the board members prone to engage in the decision making of the organization, even to try to influence the implementation of decisions. A similar attitude has been found in Australian not-for-profit organizations (Steane and Christie, 2001). Thus, a second emphasis will be on decision making. The members of the board cannot be assumed to be capable of providing resources for the firm and the top management since they are elected by virtue of being representatives of the members and not because of their competence; thus there will be low emphasis on resource provision. Finally, the monitoring activities will be conducted through the members' consumption of the products and services, not through the board, thereby making the board less prone to engage in monitoring. This leads to our first proposition regarding the board of an association:

Proposition 1: A democratic, not-for-profit association board tends to de-emphasize monitoring, emphasize decision making, de-emphasize resource provision, and emphasize conflict resolution.

The private corporation is owned and governed by one single owner or only a few owners. Although the board could be a mediator of the will of the owners, it could very well be the case that the owner(s) influence(s) the corporation in a direct way, through direct interaction with the CEO or the organization. Thereby, the board will be circumvented in its capacity to make decisions and thus relieved of its decision-making function. An owner, strong in engagement and competence of the corporation, will not be inclined to use the board as a monitoring device. Instead, a strong owner, with a large capacity to govern the corporation, will use the board only as a device for systematic and frequent advice, i.e., the board will be the owners' *consigliere*. Since the private corporation has discernable principals, the conflict resolution function is dormant. Thus, the board in a private corporation can be reduced to being but a supportive group of people. If, however, the board would orient itself towards more engagement in the monitoring and decision-making functions, it would probably experience turnover, since the owner would reduce the board's ambitions. Thus, we make the following proposition regarding the board of the private corporation:

Proposition 2: A private corporation board tends to de-emphasize monitoring, de-emphasize decision making, emphasize resource provision, and de-emphasize conflict resolution.

The public corporation, with an abundance of shareholders, i.e., with a dispersed ownership structure, where the shareholders enjoy limited liability and are hoping for capital rent to be paid as pension payments, will have a board that delivers profit to the shareholders. The board will therefore be occupied with monitoring performance, assuring the distribution of value to the shareholders. These corporations are heavily dependent upon the market for corporate directors since no principal is strong enough to collect votes. Not much, however, is known about this market (cf. Zajac and Westphal, 1996). It consists presumably of former CEOs who have retired from active duty, but with an understanding of a CEO's need of autonomy, thus avoiding engagement in operational business decision making. They bring, however, their former network to the board and provide assistance through networking resource capabilities, i.e., resource provision. Finally, the persons in the market for director positions have but their competence to offer, and their market value is dependent on their reputation. They sell a certain way of acting and an attitude towards directorship and enterprise. To act in a stable and coherent way will create a credible commitment, and will reduce uncertainty about behavior. This will make the director a trustworthy mediator between different stakeholders. The board can therefore credibly engage in mediating conflicts. It can also be assumed that the level of conflict will be high in public corporations due to its abundance of shareholders and its public character, which induce stronger stakeholder engagement and increase the corporation's political visibility (Watts and Zimmerman, 1986). Thus, we make the following proposition:

Proposition 3: A public corporation's board tends to emphasize monitoring, de-emphasize decision making, emphasize resource provision, and emphasize conflict resolution.

The Board

Turning attention to the board, we realize that the composition of the board will influence the functional emphasis because of the individual directors and the group process they create. Board composition and its influence on different corporate factors, such as strategy (Goodstein and Boeker, 1991), resource acquisition (Hillman, Canella Jr and Paetzold, 2000; Ingley and van der Walt, 2003), and performance (Hillman and Dalziel, 2003; Muth and Donaldson, 1998), has been a popular research focus. One distinction among directors that has been made is between insiders, who are those employed by the corporation, and outsiders. The aim is to find those directors who are independent of the corporation and its top managers, and thus able to act on behalf of the principal. Westphal and Zajac (1995; 1997) and Zajac and Westphal (1996), using almost similar data sets—the Forbes and Fortune 500 list of the largest US corporations from years 1982, 1986, and 1987—have found that dependence can exist even if there is no employment contract between the director and the firm. This is indeed obvious for European researchers on board composition, mainly because Europe has many networks of corporate owners, sometimes even organized in socially, though not legally recognized constellations of corporations termed business groups (Collin, 1998). They use interlocking directors to a large extent, creating a second class of dependent directors, those dependent on the dominant owner. Thus, we assert that it can be useful in board research to distinguish between directors dependent on the corporation and the top management because of employment contract, directors who have strong liaisons with the dominant constellation of principals, and directors who are solely dependent on the market for corporate directors. Applying these distinctions, we find three typical boards: those dominated by insiders, those dominated by principal directors, and those dominated by independent directors.

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

Proposition 4: An insider-dominated board tends to de-emphasize monitoring, emphasize decision making, de-emphasize resource provision, and emphasize conflict resolution.

Principal-dominated boards can be expected to behave as an extension of the principal. A principal is engaged in implementing the strategy, thus emphasizing decision making, especially about organizational structure. The principal will first and foremost use the board as an arena for collecting information and gaining resources. The corporation can be used for these matters, but sometimes legislation makes it harder to use the corporate resources and nevertheless, the board is closer to the principal. Monitoring will be performed through personal means, of which intense interaction with the CEO is the most important. Thus, the dominating principal does not need a board to conduct monitoring activities, implying that the monitoring function of the board is de-emphasized. Due to the strong hierarchical character of this type of board, the principal being clear and obvious and any power struggle being impossible to create, conflict resolution will not be regarded as important. The proposition relating to principal-dominated boards would thus be:

Proposition 5: A principal-dominated board tends to de-emphasize monitoring, emphasize decision making, emphasize resource provision and de-emphasize conflict resolution.

A board dominated by **independent directors** exists presumably in corporations with a highly dispersed ownership structure. The literature of boards tends to hypothesize that these boards are the most effective boards (Dalton, Daily, Ellstrand and Johnson, 1998), but empirical research tends to reject the hypothesis (Dulewicz and Herbert, 2004: Johnson, Daily and Ellstrand, 1996; Muth and Donaldson, 1998). Independence of a director can be defined in various ways. It can be defined as a director having no present or previous employment contract with the firm, having no business relationship (including ownership) with the firm, and having no social ties with the insiders of the firm (e.g., Anderson & Reeb, 2004; Luan and Tang, 2007; McCabe and Nowak, 2008). The conception used here is that independent directors lack any social or contractual relationship with the firm or its owners (Clifford and Evans, 1997), and they compete on the market for corporate directors. Since they are independent, they are probably not from the same industry as the corporation, thus lacking industry competence, which make them less prone to engage in operational decisions. The low emphasis on decision making is amplified by the information asymmetry between the independent director and the management of the firm (Nowak and McCabe, 2003). The overall knowledge about business makes the independent director more prone to emphasize monitoring, especially financial control (Baysinger and Hoskisson, 1990). Their independence makes it highly probable that the directors are from a diverse background and diverse experience, which makes it possible for them to bring a wide set of network connections to the board (Carpenter and Westphal, 2001; Dalton, Daily, Ellstrand and Johnson, 1998), thus emphasizing the resource provision function. On the other hand, not representing any important stakeholder will reduce their interest and capacity to engage in conflict resolution. The proposition of independent-director-dominated boards would thus be:

Proposition 6: An independent-director-dominated board tends to emphasize monitoring, de-emphasize decision making, emphasize resource provision, and de-emphasize conflict resolution.

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

Proposition 7: With increase in board size, the board tends to de-emphasize monitoring, de-emphasize decision making, emphasize resource provision, and emphasize conflict resolution.

The Agent

The CEO or the top manager of the organization is an important counterpart and fellow player with the board. The identity and characteristics of the top manger will therefore influence the functions of the board. One important CEO characteristic that will influence his or her way of acting and behavior is the CEO's tenure. Shen (2003) argues that a board will put more emphasis on control and less emphasis on leadership development as tenure of the CEO increases. Translated to our categories, it implies that with increasing tenure of the CEO, the board will put more emphasis on monitoring. With increasing experience, the board does not have to back up the inexperienced CEO with decision making, thus de-emphasizing the decision making function. At the beginning there could be a need to protect the CEO from all facets of the business, which will induce the board to assume conflict resolution functions. With growing tenure, this function can be left to the CEO. Finally, with increasing tenure of the CEO, the board will devolve more into a device for information and advice to the CEO. Thus, the following proposition is suggested:

Proposition 8: With increase in CEO tenure, the board tends to emphasize monitoring, de-emphasize decision making, emphasize resource provision, and de-emphasize conflict resolution.

Organizational Strategy

The strategy of an organization will influence the demands put on the board and its functional duties. The strategy of a firm is not solely a subject for rational decision making, since strategies can emerge by action (Mintzberg and Waters, 1985). Therefore the strategy of the firm can govern the board, though especially normative authors claim that strategy initiation and decision is the hallmark of the board's activities (Fama and Jensen, 1983). In this paper we make the less controversial statement that the board has the possibility of influencing the strategy of the firm. To what extent it will do so depends on many factors, some of which are discussed in this paper.

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

In simple business firms it is hard to find reasons for the board to engage in any function with any emphasis. The simple nature of the business simplifies the monitoring activities; in fact, it could be argued that the principal could prefer a single business strategy because it does not consume as much of the costs connected with monitoring, i.e., the strategy has low agency costs. Decision making will probably be directed towards market dominance and volume of production, eventually with a low cost strategy that could increase the level of conflict with the employees. Resource provision is probably of no concern due to the low complexity of the business. Thus we expect low levels on every functional orientation. It should be noted here, however, that very often the simple business firms tend to be small firms with a strong and identifiable principal, thus resembling the functional emphasis as derived in the factors of firm size and principal director dominated board. But the issue here is not to create propositions for an empirical firm, but for a simple business strategy firm *ceteris paribus*, i.e., without any consideration of firm size or principal identity. Thus, we propose:

Proposition 9: A board governing a firm with simple business strategy tends to de-emphasize monitoring, de-emphasize decision making, de-emphasize resource provision, and de-emphasize conflict resolution

The related strategy, on the other hand, creates tensions within the firm, due to all the dependencies between the different units. Therefore, there will be a high level of conflict within the organization, which the board has to manage. In order to deal with the interdependencies among the units, the operational decision making and monitoring will be given higher priority than with a simple strategy. Perhaps this is especially emphasized in the monitoring function due to the hardship of evaluating organizational entities with many interdependencies. The resource provision will be emphasized since the complexity is larger than in the simple business, but not to the same extent as in the unrelated business, that makes every possible resource contribution by the directors subject to simple coincidence. In between is the related strategy where the focus on a few resources that create competitive advantage will make it possible for directors to be used as advisors. Thus, we make the following proposition:

Proposition 10: A board governing a firm with related business strategy tends to slightly emphasize monitoring and decision making, and strongly emphasize resource provision and conflict resolution.

The unrelated strategy turns the board into a portfolio manager. The board has a strong emphasis on evaluating the business units and making decisions about the optimal composition of units. Thus, there is an emphasis on monitoring and even on decision making, but in this case, not intervening in the units, only in the set of units. Due to the diverse set of businesses, the board cannot bring any competence to the firm, except how to evaluate units and how to compose the portfolio. Resource provision will therefore be low. Finally, unrelated businesses have the intention of reducing the variance of cash flows, but another effect of the diversification is that the stakeholder interest will also become reduced, diluting their influence because of the highly diverse set of industries the corporation is engaged in (Judge and Zeithaml, 1992). Should the level of conflict increase and become troublesome, the corporation would have always the alternative to change the composition of the portfolio, i.e., to sell off the unit that induced the conflicts. In other cases, increasing the number of units has been connected with an increase in conflict resolution emphasis. This, as argued, is not the case in the unrelated strategy, because of the low specificity of each unit. The conflict resolution function will therefore be reduced. Thus, we offer the following proposition:

Proposition 11: A board governing a firm with unrelated business strategy tends to highly emphasize monitoring and decision making, and de-emphasize resource provision and conflict resolution.

Another facet of corporate strategy is **the age of the firm**. Corporations have life-phases in which different demands are put on the organizational parts (Zald, 1969). There is a huge difference in managing a newly created business, directed towards a market of uncertain demands, compared to the business of a 600-year-old corporation, where strong routines have been developed how to deal with different situations and disturbances. Routines, knowledge and competence are developed during the lifetime of the corporation. At the beginning of the firm's life they have to be built, which puts a demand on the board to contribute with resources and experience transformed to decisions (Goodstein and Boeker, 1991). As time passes, the board can withdraw from active duty and watch the development of the firm, thus emphasize the monitoring function (Lynall, Golden, and Hillman, 2003) and de-emphasizing the decision-making function (Judge and Zeithaml, 1992). With increasingly stable routines, the corporation creates a stable impression among stakeholders, especially the principals, who realize the high costs involved in changing these routines. Thus, we expect that the conflict resolution function will be de-emphasized when the corporation is aging. Consequently, the proposition of the aging organization's board would be:

Proposition 12: An aging organization's board tends to emphasize monitoring, de-emphasize decision making, de-emphasize resource provision, and de-emphasize conflict resolution.

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

Proposition 13: With growing size of the firm, the organization's board tends to emphasize monitoring, de-emphasize decision making, de-emphasize resource provision, and emphasize conflict resolution.

Organizational Structure

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

The demands on the board originate from the organizational structure's capacity to deal with different operations. It has been claimed (Chandler, 1984; Williamson, 1975) that the **functional form** (**F-form**) of organization has a tendency to force decisions up the ladder, putting a strong load of tactical decision making on the TMT. This tendency will therefore continue to the board, forcing strategic issues on the board, thus emphasizing the decision-making capacity of the board, at the expense of its monitoring capacity. The strong focus on decision making will give directors incentives to engage in resource acquisition, in order to improve the operations of the firm, in which the board is heavily engaged, thus emphasizing the function of resource provision. This inward-looking tendency of the F-form, being occupied with operations within the firm will, on the other hand, make the board less prone to deal with stakeholder considerations, thus reducing its focus on conflict resolution. We therefore propose the following:

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

The **multidivisional form (M-form)**, in contrast, has a strong capacity to encapsulate decisions within the different divisions, and to focus strategic issues on the level of the TMT. The board will then be left with the rather simple financial control mode of monitoring. It can offer but scant environmental scanning, especially when the divisions differ highly due to diversification, thus reducing the importance of resource provision. On the other hand, containing many divisions within the corporation, a problem of communication with the principals could evolve, due to the complexity created by the organizational structure. The communication activity could therefore put a slight emphasis on conflict resolution. Thus, the following proposition is suggested:

Proposition 15: In an M-form organized firm, the board will tend to emphasize monitoring, de-emphasize decision making, de-emphasize resource provision, and emphasize conflict resolution.

One characteristic of an organizational structure that can be expected to influence the functional emphasis of the board is **structural complexity**, i.e., the quantity and quality of interrelationships among different structural entities. An organization with increasing numbers of interrelationships with qualitative characteristics that are hard to observe in a simple, abstract fashion will be harder to manage. The causal relationships are difficult to identify and ambiguous, which makes it hard to intervene since the outcome will be unpredictable. Due to causal ambiguity in highly complex organizations, management has to be highly decentralized. This characteristic therefore withdraws the board's possibility of conducting decision making (Zald, 1969), leaving the board with the function of monitoring (Carpenter and Westphal, 2001), presumably entirely focused on rather simple output controls, such as financial control.

In this manner, it resembles the M-form board functions. There are, however, huge and important differences between complex organizations and M-form organized firms. It should be noticed that in the M-form organized firm, the delegation is made because of the need to reduce the tactical decision making at the TMT-level, but the delegation in the complex organization is a prerequisite for the functioning of the entire organization. The complex organization needs to acquire information and to attain competencies in an unpredictable way. The board can assist the organization through connecting the organization with the directors' networks. Thus, a complex organization's board will perform the function of resource provision (Carpenter and Westphal, 2001). Finally, a complex organization will not only have to communicate the complexity to the principals, but have probably complex relationships in terms of dependencies with stakeholders in the environment. Thus, the management of stakeholder relationships will be an important issue for the board. Consequently, we advance the proposition for the complex organization's board:

Proposition 16: A complex organization's board tends to emphasize monitoring, de-emphasize decision making, emphasize resource provision, and emphasize conflict resolution.

Environmental Uncertainty

Environmental uncertainty, such as technology change, market risk, and political risk, face a corporation to different degrees, and will influence the board and its emphasis on different functions. In general, an increase in the pace of change will put pressure on the organization to be prepared to act and react very fast. A board, which typically has infrequent meetings (compared to the employees, who meet regularly in the coffee-rooms or elsewhere in the organization) will not have the opportunity to react fast. Lack of speed will reduce the board's capacity to engage fully in decision making. Concerning the monitoring function, the board is in a conflictual situation. On one hand, not being engaged in decision making makes the board prone to secure the corporation through monitoring. On the other hand, in an environment characterized by high speed of change, the managers have to be open to fast new actions, thus stressing the entrepreneurial capacity. But too much emphasis on monitoring will have the risk of alienating the CEOs (Randøy and Jenssen, 2004), thereby reducing their capacity and interest in entrepreneurial action. The formula appears to have no solution. But if adding the notion that a highly dynamic environment present opportunities of monopoly rents, i.e., no sharp, on-the-edge competition, the board cannot rest with the simple monitoring of competitive capacity, but has to engage in more advanced monitoring, fully realizing that it will go with the risk of reducing entrepreneurial spirit. Thus, there is an emphasis on monitoring and a de-emphasis on decision making.

A firm facing high environmental change is, however, in need of diverse information, even information flow that cannot be predicted beforehand. The firm will profit from a board's capacity to offer channels to a diverse set of resources contained in the environment (Carpenter and Westphal, 2001). Thus, the directors will perform the function of resource provision. Finally, if the environment is in flux, a stable set of stakeholders will be hard to identify, which will emphasize the function of conflict resolution, since part of the function is the labor of identifying the legitimate principal. Thus, the following proposition is suggested:

Proposition 17: With environmental uncertainty increasing, the board tends to emphasize monitoring, de-emphasize decision making, emphasize resource provision, and emphasize conflict resolution.

The general tendency cannot be assumed to be applicable to every aspect of environmental uncertainty. We have to qualify our general prediction by focusing on one exemption, the political risk. Political risk consists of changes in the institutional and legal set-up of the firm. According to positive accounting theory (Watts and Zimmerman, 1986) certain firms can attract the attention of politicians, such as large firms or firms that are of special national interest. In order to avoid the attention, and thus induce politicians to create changes in laws or regulations, politically sensitive firms will have boards that do not settle by monitoring, but engage in decision making concerning those aspects of the firm that can draw attention to the firm. Indirectly it has been showed that in regulated industries, where the political risk can be assumed to be high, boards tend to be composed of insiders (Hillman, Canella Jr. and Paetzold, 2000), who put an emphasis on the decision making functions of the board. The board facing high political risk will therefore resemble much of the insider-board emphasis. The conflict resolution function will probably be even more exaggerated since a high political risk implies that there are many actors surrounding the corporation that are stakeholders or make claims of being principals. Thus, we make an exemption from the general tendencies created by environmental uncertainty when it concerns political risk:

Proposition 18: With an increase in political risk, the board tends to de-emphasize monitoring, emphasize decision making, de-emphasize resource provision, and emphasize conflict resolution.

Summarising and Discussing The Contingency Approach of Board Functional Emphasis

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

Insert Table 1 about here

Inspecting the columns of the two traditional functions in Table 1, monitoring and resource provision, and counting the occurrence of functional emphasis and de-emphasis, it can be found that both functions show a rather equal distribution. Of course, this algebraic operation appears to be rather arbitrary since the distribution is dependent on the factors chosen. Inspecting the column of the decision-making function shows that de-emphasis of the function is slightly more frequent. This result seems intuitively correct and attuned with the popular belief that decision making is not the most prominent function of a board. The fourth function added in this paper, the conflict resolution function, did receive a slight higher occurrence on emphasis than de-emphasis, which indicates that it is a viable function. Overall, the distribution of functional emphasis varies between 6 for the decision making function to 10 for conflict resolution and resource provision. This low variance overall we interpret as an indication of the relevance of all four functions.

A second analysis of the collected propositions in Table 1 can be performed through correlating the set of signs for different factors. There appears to be a negative relationship between monitoring and decision making, which is in accordance with our assumptions. A very slight but similar negative relationship could exist between resource provision and decision making. This could be interpreted as a sign of a board being engaged in either directing the corporation through decisions, or influencing it through resource provision. Conflict resolution does not appear to be related to the other functions. One reason could be that monitoring, decision making, and resource provision are all related to the agent and the organization, as expressed in Figure 1, but the conflict resolution function is mainly directed towards the principals and in some cases towards the other stakeholders.

The conflict resolution function has been added in this paper, based on a view of the board as being oriented not only towards the corporation, but also being directed towards the principal and representing an instrument of identifying and managing the principals. The intermediary role of the board is thereby stressed, which is a more complex role than the one given in agency theories where the board is an obedient servant of clearly identifiable principals. Thus, the main contribution is the more complex view of the board.

The derivation of the set of hypotheses have been made with the intention not to implicitly assume a specific empirical subject, but to offer a theory that is more abstract and less bound to an empirical category. Even if this is hard to accomplish, since all derivations have to partly rely on existing knowledge, which has had the tendency to be less abstract, a theory of *the board* must have this abstract intention.

Whether the intention has been implemented can be judged by theoretical criticism, but in the end the best way of judging a theory or a set of hypotheses is to confront them with empirical material and let the empirical validity be the judge. The ultimate test would be a data set of archival data and data from a survey covering both attitudes and actions that could be used in an application of the four models, including all the independent factors and including each one of the four dependent variables, monitoring, decision making, resource provision and conflict resolution. Such a design, however, runs into the same difficulties as a majority of board research, that it is hard to get information from the board. This difficulty, however, has been overcome by some researchers, which introduces the next problem, that of operationalizing. It is mainly the dependent variables that constitute the problem. To measure monitoring activities can at the surface appear to be rather simple. Some questions about the frequency of budget evaluations, monthly reports on sales, and other main variables could be indicators of monitoring. But the production of these numbers does not in itself represent monitoring, since monitoring has to include the production of the numbers, the interpretation of the numbers, the decision how to act, and the very action itself. This complexity of the monitoring function indicates the empirical difficulty. After that problem, the measuring of emphasis is introduced. Is emphasis an absolute value or a relative value? Is it the distribution of activities in a board, i.e., a relative value, or is it the distribution between the boards? The underlying idea in this paper is that boards are economic entities that have to economize on resources. If that were not the case, then every board would engage in most of the functions at full power. But facing the economics of the board, the board has to focus on different activities, thereby stressing certain functions at the expense of the other functions. Thus, emphasis has mainly to be a relative value.

Considering the difficulty in the operationalization of the dependent variables, a rational step has to be the use of the case study technique as expressed by Yin (2003), in order to find the relevant empirical dimensions of the different functions and the relevant scales to measure.

Finally, the idea that the functions vary due to contingency factors has a theoretical implication with interesting praxis implications. The concept that can be introduced is *functional harmony*. We have claimed the view that the board is positioned in between the principals and the agent and the organization, thus experiencing many diverse influences. The set of hypotheses in the paper is a representation of these influences, showing that the board is subject to many factors simultaneously, and every factor will stimulate an emphasis or a de-emphasis of the different functions. If the factors stimulate the same direction of functional emphasis, for example insider-dominated boards have the same set of predictions about functional emphasis as does the association, then an insider-dominated board of an association will experience functional harmony. On the other hand, as the association's CEO tenure increases, the board experiences opposite influence on each function. The board of an association with a CEO with very long tenure will therefore experience functional disharmony.

Functional harmony could presumably influence the efficiency of a board due to its effect on focus and unproductive conflicts. With growing functional disharmony, the board would tend to lose focus and become confused in orientation. Functional disharmony would presumably foster conflict since different board members and subgroups of the board will be representatives of different functional emphasis. The conflicts caused by functional disharmony cannot be assumed to be productive. Conflicts of a productive nature, those that promote innovation, are substantive conflicts (Pelled, 1996) that are caused by different views on the same topic. Functional disharmony could be assumed to produce emphasis on different topics, dependent on which functional emphasis is being emphasized or de-emphasized. The loss of focus and the conflicts will make the board an arena of many fights and long discussions, but without being able to produce any outcome other than long board meetings. If this reasoning carries some truth, the devotion towards investigating the efficiency of a board dependent on its number of independent directors, could be refocused and the mixed results found could partly be explained by ignorance of functional harmony.

In a functionally disharmonized board much of the resources, such as the directors' time, will be consumed, yet produce nothing more than an image of an introverted and paralyzed board. Hence, the contingency approach of a board's functional emphasis could have praxis implications. As in the foregoing example, the association and its long-tenured CEO can be helped in their understanding of their presumably conflictual relationship between the board and the CEO, and the loss of legitimacy an inefficient board presumably experiences. Understanding the forces directing the functional emphasis will not reduce their influence, but perhaps their impact on the board's activities through the board's conscious management of functional emphasis. Every board will presumably experience some level of functional disharmony. The overriding responsibility of the chair of the board would therefore be to manage the functional emphasis of the board. To a certain extent it is given by the factors we have found influence the functional emphasis. In the case they are deterministic, the chair has to subordinate the board and the organization and adapt to the factors. For example, if the CEO tenure factor is deterministic, then one method of reducing functional disharmony would be to recruit a new CEO. In the case where the influence of the factors can be managed, the chair can manage the board's functional emphasis through the agenda and the process in the boardroom.

Conclusions

The understanding of the board and its behavior is restricted, in spite of the board's tremendous societal importance. We have claimed that the conception of the board can be more accurate if it (1) reduces the ideological interpretation of a board's responsibilities, which can be achieved through regarding the firm as a nexus of investments; (2) acknowledges the fourth function of the board, conflict resolution or principal identification; and (3) considers the whole range of boards existing worldwide, thus making the theory of the board less empirically bound. In this paper we have indicated one implication of this change in conception by producing a rudimentary contingency approach to a board's functional emphasis.

References

1. Anderson, R. C. and Reeb, D. M. Reeb (2004) Board Composition: Balancing Family Influence in S&P 500 Firms Source, *Administrative Science Quarterly*, 49, 209-237.
2. Aguilera, R. V. and Jackson, G. (2003) The cross-national diversity of corporate governance: Dimensions and determinants, *Academy of Management Review*, 28, 447-465.
3. Baysinger, B. and Hoskisson, R. E. (1990) The composition of boards of directors and strategic control: Effects on corporate strategy, *Academy of Management Review*, 15, 72-87.
4. Baysinger, B. D., Kosnik, R. D. and Turk, T. (1991) Effects of board and ownership structure on corporate R&D strategy, *Academy of Management Journal*.
5. Berle, Jr., A. A. and Means, G. C. [1932] (1947) *The modern corporation and private property*, New York: MacMillan.
6. Blair, M. M. and Stout, L. A. (2001) Director accountability and the mediating role of the corporate board, *Washington University Law Quarterly*, 79.
7. Boeker, W. and Goodstein, J. (1993) Performance and successor choice: The moderating effects of governance and ownership, *Academy of Management Journal*, 36, 172-186.
8. Campbell, T. S. and Kracaw, W. A. (1985) The market for managerial labor service and capital market equilibrium, *Journal of Financial and Quantitative Analysis*, 20, 277-297.
9. Carpenter, M. A. and Westphal, J. D. (2001) The strategic context of external network ties: Examining the impact of director appointments on board involvement in strategic decision making, *Academy of Management Journal*, 44, 639-660.
10. Certo, S. T. (2003) Influencing initial public offering investors with prestige: Signaling with board structures, *Academy of Management Review*, 28.
11. Chandler Jr, A. D. [1962] (1984) *Strategy and Structure: Chapters in the history of the American industrial enterprise*. Cambridge, USA: The M.I.T. Press.
12. Clifford, P. and Evans, R. (1997) Non-executive directors: A question of independence, *Corporate Governance: An International Review*, 5, 224-231.
13. Collin, S.-O. (1995) The institutional control of the corporation - extending the debate on the separation of ownership from control, *Corporate Governance: An international review*, 3, 118-127.
14. Collin, S.-O. (1998) Why are there these islands of conscious power found in the ocean of ownership? Institutional and governance hypotheses explaining the existence of business groups in Sweden, *Journal of Management Studies*, 35, 719-746.
15. Collin, S.-O. and Smith, E. (2007) Window of entrepreneurship – Explaining the influence of corporate governance mechanisms on corporate entrepreneurship in two riding schools, *The International Journal of Entrepreneurship and Small Business*, 4, 122-137.
16. Cornforth, C. (2001) What makes boards effective? An examination of the relationships between board inputs, structures, processes and effectiveness in non-profit organizations, *Corporate Governance: An International Review*, 9, 217-227.
17. Cyert, R. M. and March, J. G. (1965) *A behavioral theory of the firm*. Englewood Cliffs, N.J. (USA): Prentice-Hall.
18. Daily, C. M., Dalton, D. R. and Cannella Jr, A. A. (2003) Corporate governance: Decades of dialogue and data, *Academy of Management Review*, 28:371-382.

19. Daily, C. M., McDougall, P. P., Covin, J. G. and Dalton, D. R. (2002) Governance and strategic leadership in entrepreneurial firms, *Journal of Management*, 28, 387-412.
20. Dalton, D. R., Daily, C. M., Ellstrand, A. E. and Johnson, J. L. (1998) Meta-analytical reviews of board composition, leadership structure, and financial performance, *Strategic Management Journal*, 19.
21. Davis, J. H., Schoorman, F. D. and Donaldson, L., (1997) Toward a stewardship theory of management, *Academy of Management Review*, 22, 20-47.
22. Dulewicz, V. and Herbert, P. (2004) Does the composition and practice of boards of directors bear any relationship to the performance of their companies? *Corporate Governance: An International Review*, 12, 263-280.
23. Fama, E. (1980) Agency problems and the theory of the firm, *Journal of Political Economy*, 88, 288-307.
24. Fama, E. F., Jensen, M. C. (1983) Agency Problems and Residual Claims, *Journal of Law and Economics*, XXVI, 327- 349.
25. Forbes, D. P. and Milliken, F. J. (1999), Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups, *Academy of Management Review*, 24, 489-506.
26. Hillman, A. J. and Dalziel, T. (2003) Boards of directors and firm performance: Integrating agency and resource dependency perspectives, *Academy of Management Review*, 28, 383-396.
27. Hillman, A. J., Canella Jr., A. A. and Paetzold, R. L. (2000). The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change, Journal of Management Studies, 37, 235-255.
28. Hung, H. (1998) A typology of the theories of the roles of governing boards. *Corporate Governance – An International Review*, 6, 101-111.
29. Huse, M. (1998) Researching the dynamics of board–stakeholder relations, *Long Range Planning*, 31.
30. Ingley, C. B. and van der Walt, N. T. (2003) Board configuration: building better boards. *Corporate Governance*, 3, 5-17.
31. Jensen, M. and Meckling, W. H. (1976) Theory of the firm: Managerial behavior, agency costs, and ownership structure, *Journal of Financial Economics*, 3, 305-360.
32. Johnson, J. L., Daily, C. M. and Ellstrand, A. E. (1996) Boards of directors: A review and research agenda, *Journal of Management*, 22, 409-438
33. Jonnergård, K. and Kärreman, M. (2004). Board Activities and the Denationalization of Ownership - The Case of Sweden, *Journal of Management and Governance*, 8, 229-254.
34. Judge Jr., W. Q. and Zeithaml, C. P. (1992) Institutional and strategic choice perspectives on board involvement in the strategic decision process, *Academy of Management Journal*, 35, 766-794.
35. Kostant, P. C. (1999) Exit, voice and loyalty in the course of corporate governance and counsel's changing role, *Journal of Socio-economics*, 3, 203-246.
36. Lane, P. J., Cannella, A. A. and Lubatkin, M., (1998) Agency problems as antecedents to unrelated mergers and diversification: Amihud and Lev reconsidered, *Strategic Management Journal*, 19, 555-578.
37. Luan, C-J and Tang, M-J (2007) Where is independent director efficacy? Corporate Governance – An International Review, 15, 636-643.
38. Lubatkin, M. H., Lane, P. J., Collin, S.-O. and Very, P. (2005). Origins of Corporate Governance in the USA, Sweden and France, *Organization Studies*, 26.
39. Lynall, M. D., Golden, B. R. and Hillman, A. J. (2003) Board composition from adolescence to maturity: A multitheoretical view, *Academy of Management Review*, 28, 416-413.
40. McCabe, M. and Nowak, M. (2008) The independent director on the board of company directors, *Managerial Auditing Journal*, 23, 545-566.
41. Mintzberg, H. and Waters, J. A. (1985) Of strategies, deliberate and emergent, *Strategic Management Journal*, 6, 257-272.
42. Mintzberg, H. (1983) *Power in and around organizations*. Englewood Cliffs, NJ: Prentice-Hall.
43. Monks, R. A. G. and Minow, N. (1995) *Corporate Governance*. Cambridge, USA :Basil Blackwell.
44. Morck, R., Shleifer, A. and Vishny, R. W. (1989) Alternative mechanisms for corporate control. *The American Economic Review*, 79, 842-852.
45. Muth, M. M. and Donaldson, L. (1998) Stewardship theory and board structure: A contingency approach. *Corporate Governance – An International Review*, 6.
46. Myrdal, G. (1990) *The political element in the development of economic theory*. New Brunswick: Transaction Publishers (1930)
47. Nowak, M. J. and McCabe, M. (2003) Information costs and the role of the independent corporate director. *Corporate Governance – An International Review*, 11, 300-307.
48. O'Donoghue, E. J. (2003) The construction of a firm's governance structure in a setting of uncertainty, *Managerial and Decision Economics*, 25, 221-229.
49. Pearce II, J. A. and Zahra, S. A. (1991) The relative power of CEOs and boards of directors: Associations with corporate performance, *Strategic Management Journal*, 12, 135-153.
50. Pelled, L. H. (1996) Demographic diversity, conflict, and work group outcomes: An intervening process theory, *Organization Science*, 7, 615-631.
51. Pettigrew, A. (1992) On studying managerial elites, *Strategic Management Journal*, 13, 163-182.
52. Pfeffer, J. (1997) *New Directions for Organization Theory*. Oxford: Oxford University Press.
53. Rajan, R. G. and Zingales, L. (1998) Power in a theory of the firm. *Quarterly Journal of Economics*, 113.
54. Randøy, T. and Jenssen, J. I. (2004) Board independence and product market competition in Swedish firms. *Corporate Governance – An International Review*, 12, 281-289.
55. Rumelt, R. P. (1974) *Strategy, Structure and Economic Performance.* Boston: Harvard University Press.
56. Shen, W. (2003) The dynamics of the CEO-board relationship: An evolutionary perspective, *Academy of Management Review*, 28, 466-476.
57. SOU 2004:46. (2004) *Swedish Code of Corporate Governance – A Proposal by the Code Group*. Stockholm: Fritzes.
58. Steane, P. D. and Christie, M. (2001) Nonprofit boards in Australia: a distinctive governance approach, *Corporate Governance – An International Review*, 9, 48-58.
59. Swanson, D. L. (1995) Addressing a theoretical problem by reorienting the corporate social performance model, *Academy of Management Review*, 20, 43-65.

60. Watts, R. L. and Zimmerman, J. L. (1986) *Positive Accounting Theory*. Englewood Cliffs, New Jersey: Prentice-Hall.
61. Westphal, J. D. and Zajac, J. (1995) Who shall govern? CEO/board power, demographic similarity, and new director selection, *Administrative Science Quarterly*, 40, 60-83.
62. Westphal, J. D. and Zajac, J. (1997) Defections from the inner circle: Social exchange, reciprocity, and the diffusion of board independent in U.S. corporations, *Administrative Science Quarterly*, 42, 161-183
63. Williamson, O.E. (1985) *Economic institutions of capitalism*. New York: Free Press.
64. Yin, R. K. [1993] (2003) *Case study research: design and methods*, 3rd. ed. Thousand Oaks, Calif.: Sage Publications.
65. Zahra, S. A., Neubaum, D. O. and Huse, M. (2000) Entrepreneurship in medium-size companies: Exploring the effects of ownership and governance systems. *Journal of Management*, 26, 947-976.
66. Zajac, J. and Westphal, J. D. (1996) Director reputation, CEO-board power, and the dynamics of board interlocks, *Administrative Science Quarterly*, 41, 507-529.
67. Zald, M. N. (1969) The power and functions of board of directors. *American Journal of Sociology*, 75.

Appendices

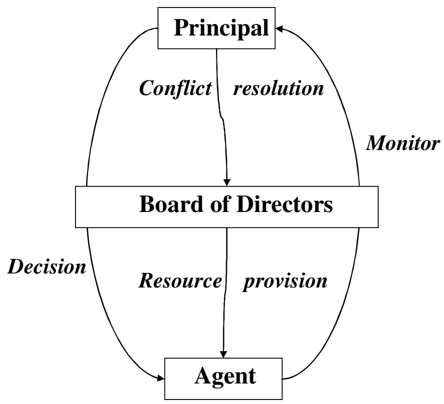

Figure 1. An agency theory conception of four board functions

Table 1. Summary of propositions about the board's functional emphasis

	Monitoring	Decision Making	Resource Provision	Conflict Resolution
The Principal				
P.1 Not-for-profit democratic association	-	+	-	+
P.2 Private corporation	-	-	+	-
P.3 Public corporation	+	-	+	+
The Board				
P.4 Insider-dominated	-	+	-	+
P.5 Principal-dominated	-	+	+	-
P.6 Independent-dominated	+	-	+	-
P.7 Board size	-	-	+	+
The Agent				
P.8 Tenure	+	-	+	-
Corporate strategy				
P.9 Simple business	-	-	-	-
P.10 Related businesses	-	-	+	+
P.11 Unrelated businesses	+	+	-	-
P.12 Age of the corporation	+	-	-	-
P.13 Size of the corporation	+	-	-	+
Corporate structure				
P.14 Functional form	-	+	+	-
P.15 Multidivisional form	+	-	-	+
P.16 Complexity	+	-	+	+
Environment				
P. 17 Market and technology uncertainty	+	-	+	+
P. 18 Political risk	-	+	-	+