

EFFECTIVE BOARDS OF DIRECTORS: AN EXAMINATION OF DIRECTOR BEHAVIORAL-TYPES

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Abstract

The study sought to explore the role that director behavioral-type might play in leading to board effectiveness. The study involved direct observation of twenty-one boards of directors or committee meetings, together with interviews of 194 respondents. The study suggests that board process may be an equal if not more important factor than board structure in determining board effectiveness. The study's data suggests that board processes, in turn, may be influenced by the behavioral-types of individual board members. Based on the three dimensions of dissent/consensus; individual/collective; and persuasiveness/non-persuasiveness, five director behavioral types leading to a functional board emerged from the study including: (i) change agents; (ii) consensus-builders; (iii) counsellors; (iv) challengers; and (v) conductors. Five director behavioral types leading to a dysfunctional board also emerged including: (vi) controllers; (vii) conformists; (viii) cheerleaders; (ix) critics; and (x) caretakers. The study concludes with its limitations.

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Introduction

Boards of directors have been receiving greater attention around the world by regulators, researchers, shareholders, and directors themselves. The major focus of this attention has been on whether boards have been effective in fulfilling their responsibilities. Although some differences of opinion exist, corporate governance theorists, relying primarily on agency theory, resource dependence theory, and stewardship theory (Nicholson and Kiel, 2004), propose two primary roles for directors: (1) control (i.e., supervision or monitoring), and (2) service (i.e., giving counsel, advice, guidance, or providing access to resources). For example, in terms of the first role, it has been proposed, that "effective boards independently monitor strategic challenges facing a firm and evaluate management's performance in addressing them" (Carpenter and Westphal, 2001: 639). Directors are legally obligated to perform this role on behalf of the shareholders and to act with "...sufficient loyalty and care" (Forbes and Milliken, 1999). In their secondary service role, boards "...serve as a strategic consultant to top managers,

rather than (or in addition to) exercising independent control" (Carpenter and Westphal, 2001: 639).

Despite all of the current attention on boards of directors and their responsibilities, there unfortunately exists a paucity of empirical evidence on their operations and inner workings (Daily, Dalton, and Cannella, 2003; Forbes and Milliken, 1999; Westphal and Bednar, 2005; Zahra and Pearce, 1989). The systematic studies that have been conducted on boards have, in large measure, been based on relating various dimensions of board structure (also sometimes referred to as board "characteristics," "attributes," "demography," "composition," "qualities," or "design", see Korac-Kakabadse, Kakabadse, and Kouzmin, 2001) to corporate financial performance. These structural dimensions, determined through accessing publicly available information, albeit limited, include primarily the following: (i) board size; (ii) board composition (i.e., the number and percentage of outside directors vs. inside directors); and (iii) board leadership structure (i.e., non-executive Chair vs. CEO-Chair). Despite the tremendous strides made in understanding board behavior, research to date has not yet demonstrated an unambiguous link

between board structure and corporate financial performance (Dalton et al., 1999: 674; Gillies and Morra, 1997: 75; Johnson, Daily, and Ellstrand, 1996: 431; Westphal, 2002: 6; Zahra and Pearce, 1989: 316). In other words, researchers have been unable to show that supposedly “good” boards contribute to a company’s bottom line (Dalton et al., 1998).

Although the link between boards and firm performance has not yet been firmly established, recent corporate scandals such as Enron, WorldCom, Global Crossing, Tyco International, the New York Stock Exchange, and Hollinger, continue to take place. A question often posed in relation to the scandals is “Where were the directors?” (Nofsinger and Kim, 2003: 89). This question is especially relevant in instances where companies facing scandals had high-profile or seemingly qualified directors sitting on their boards of directors, such as Enron (Director’s Report, 2002), WorldCom (Hilzenrath, 2003), or Hollinger (Leblanc, 2004).

Consequently, an apparent paradox in corporate governance research is that while academic research has been unable to persuasively demonstrate a relationship between boards of directors and financial performance, the problems of corporate failures nonetheless persist. Regulators, shareholders, the public, and the media continue to blame corporate boards (e.g., Enron, WorldCom, New York Stock Exchange) for failing to detect and prevent managerial misconduct, accounting irregularities, managerial incompetence, excessive managerial compensation, and poor corporate financial results. A disconnect therefore appears to exist between the contention that boards of directors have an impact on corporate performance, and what academic researchers have been able to establish, or in this case, have not been able to establish.

Theoretical Framework and Research Questions

A number of possible reasons may exist to help explain why researchers have been unable to establish a relationship between board structural variables and firm performance. The most obvious is that there are many internal and external contingencies and intervening and moderating variables that impact upon firm performance (Forbes and Milliken, 1999). As such, it is very difficult to demonstrate an associative or direct causal link between board structure and corporate financial performance. Complex regression equations may not succeed in resolving this issue because there may simply be too many other contributing factors to corporate financial performance. Second, there are difficulties in defining and measuring board structure or more specifically board composition as a variable (e.g., quantifying ‘insider’, ‘outsider’, ‘independent’ director, ‘interdependent’ director, or ‘affiliated’ director) which may have led to inconsistent results regarding firm performance (Rhoades, Rechner, and

Sundaramurthy, 2000). For example, one study found over twenty operationalizations in the literature that reflect board composition (Daily, Johnson, and Dalton, 1999). Third, there may exist a time lag between board structure as an independent variable and firm performance as a dependent variable, thus requiring longitudinal studies, which are difficult and time-consuming to undertake. Fourth, and perhaps most importantly, if indeed there does exist a relationship between corporate governance and firm performance, such a relationship may be able to be ascertained only once all the input variables leading to “board effectiveness” are fully defined and measured. In other words, board structure (as currently defined) may be one important input variable to be measured, but may be too restrictive a measure to give consistent findings.

In order to identify, define, and assess the contributing factors to a board being “effective” at accomplishing the tasks assigned to it, more needs to be known about board processes. Such knowledge is essential to inform our normative views on what tasks we think boards should be accomplishing. Gaining an understanding of the internal workings of boards may be the essential link to truly comprehending the role that boards of directors play in the performance of the corporation. An examination of board process would also presumably shed greater light on the various components of board structure and how they might relate either directly or indirectly to actual board decision-making. According to Westphal (1998: 513): “There has been remarkably little investigation into the behavioral processes that mediate relationships between board structure and effectiveness...” Nicholson and Kiel (2004: 5) echo this sentiment: “...if we are to understand how the board influences corporate performance, we must establish a new research direction (Hermalin and Weisback, 2000) and begin to understand the process(es) involved (Forbes and Milliken, 1999).” This dimension of corporate governance research, including how directors relate and interact with one another as a group, how the board as a whole or individual directors interact with management, and how decisions actually get made both inside and outside of the boardroom, is defined for the purposes of this study as “board process” (Korac-Kakabadse, Kakabadse, and Kouzmin, 2001; Pettigrew, 1992). Although board process can involve different levels of analysis (e.g., individual directors, the entire board, or the board-management interface) or aspects of process (e.g., communication, power contest, or decision-making), the focus of the study is on decision-making at the board level. Such processes may be the “black box” of boards of directors referred to by Leighton and Thain (1997: xv), consisting of the “who,” “what,” and “how” of board activity or what Daily, Dalton, and Cannella (2003: 379) refer to as the “black box” of “boardroom deliberations.”

Forbes and Milliken (1999) attempt to move corporate governance research in this direction by

proposing a new theoretical model for understanding boards of directors. They refer to Pettigrew (1992: 171) who observes that in numerous studies of boards: “Great inferential leaps are made from input variables such as board composition to output variables such as board performance with no direct evidence on the processes and mechanisms which presumably link the inputs to the outputs.” Pettigrew goes on to say that “...future research on boards should focus on the actual behavior of boards.” Forbes and Milliken (1999), building on Pettigrew’s observations, propose a model whereby board effectiveness is defined as including: (1) board task performance (i.e., the board’s ability to perform its control and service tasks effectively; and (2) cohesiveness (i.e., the board’s ability to continue to work together). They define board cohesiveness as the “...degree to which board members are attracted to each other and are motivated to stay on the board (1999: 493).” They suggest that in performing these two tasks an ‘effective’ board: “...cooperate[s] to exchange information, evaluate[s] the merits of competing alternatives and reach[es] well-reasoned decisions” (1999: 490).

It is our opinion that Forbes and Milliken are moving corporate governance theory in the right direction by shifting the focus from board structural variables to the processes by which boards undertake their decision-making. Daily, Dalton, and Cannella (2003: 376) in their assessment of decades of research in the corporate governance field, refer to Forbes and Milliken’s concerns: “The influence of board demography on firm performance may not be simple and direct, as many past studies presume, but rather, complex and indirect. To account for this possibility, researchers must begin to explore more precise ways of studying board demography that account for the role of intervening processes” (1999: 490). Daily, Dalton, and Cannella (2003: 376) go on to state that: “This criticism is certainly not unique to corporate governance studies; however, the strong reliance on proxies for processes and dispositions has undoubtedly resulted in limitations in researchers’ abilities to uncover optimal governance mechanisms and configurations.”

Responding to the call for a shift in direction in corporate governance research by Daily, Dalton, and Cannella (2003), and building on the theoretical framework proposed by Forbes and Milliken (1999), an alternative theoretical model is proposed, one that suggests that “board process,” in addition to “board structure,” is an intervening variable contributing to “board effectiveness” as a dependent variable. We rely primarily on Forbes and Milliken’s definition of “board effectiveness” as representing a board that in performing its control and service tasks it: “...cooperate[s] to exchange information, evaluate[s] the merits of competing alternatives and reach[es] well-reasoned decisions” (1999: 490). Figure 1 below depicts the new model depicting the proposed

relationship between board structure, board process, and board effectiveness:

INSERT Figure 1 about here

As noted, relatively limited empirical study on the inner workings of boards of directors and their behaviors has been conducted to contribute to the field’s theoretical development (Zahra and Pearce, 1989: 324). In order to address this gap in the literature, this study will focus on this relatively unexplored area of corporate governance research. Through direct observation of board decision-making processes, we attempt to initially ascertain whether there might be specific director behavioral-types that might lead to optimal decision-making by the board. One similar attempt to classify board personality types was conducted by Pitcher (1993). Her three personality types include: (1) artists; (2) craftsmen; and (3) technocrats. Based on her personal experience and observation of boards, she concludes that (1993: 56):

If you have an artist or a craftsman running the board as chairman and CEO or just chairman, there is ready access to information, healthy debate, diligence, dedication and serious involvement. Where there is a technocrat in charge, whether it be as chairman and CEO or just chairman, there is not. It is that simple. A technocrat is never described as open-minded. On the contrary, defensive and convinced that they alone know truth, they have precious little respect for anyone’s opinions but their own and their fellow travelers. The board, most often composed of senior, experienced craftsmen (having spent long years in business) will be viewed as a collection of interfering old fools.

She concludes that (1993: 57):

...the board *must be balanced*, not between men and women or between old people and young people...but among artists, craftsmen and technocrats...You need technocrats on the board to police the corporation’s control functions. You need craftsmen on the board to ask tough questions about stability, continuity and loyalty. You need artists on the board to challenge managerial stodginess [emphasis added].

Similar to Pitcher, we consider the personality or behavioral-types of board members, and whether an appropriate balance of different behavioral types might lead to a more effective board. In order to provide a theoretical foundation for our proposed director behavioral-type classification system, we consider three dimensions based on: (1) dissent/consensus; (2) individual/collective; and (3) persuasive/non-persuasive. The reason for focusing on these three dimensions is that each has been suggested as factors that might relate to effective group decision-making. First, theorists have proposed that dissent can be non-existent through ‘group-think’ (Janis, 1971), squashed by CEOs through cooptation (Westphal, 1999), or avoided due to the fear of being wrong and damaging one’s reputation or the desire to remain collegial (Pound, 1995: 2). Based on the views of several corporate governance “experts”,

Kristie (2004) suggests that dissent may be related to effective board decision-making if delivered with an appropriate rationale, in an appropriate manner, and at an appropriate level. Westphal and Bednar (2005) propose that “pluralistic ignorance” (i.e., rejecting group norms while believing that all other group members believe them) reduces the propensity for individual directors to express their concerns (i.e., dissent) regarding current corporate strategy in board meetings, particularly during times of low firm performance. We therefore examine the propensity of directors to express dissent in the boardroom, and how the expression of dissent might relate to board effectiveness. Second, we consider whether board members act as a collective unit in their decision-making or simply act as individuals. This relates to what Forbes and Milliken (1999) define as “cohesiveness” among board members (i.e., the ability of boards to work together), what Pound (1995: 95) refers to as being “part of a team” (as opposed to being a “distant referee”), or what we refer to as board “chemistry.” Third, we look at whether persuasive ability (or non-persuasiveness) plays a role in effective decision-making. Yukl and Tracey (1992: 527) define persuasiveness as the application of reason or logic to “...convince a target that the agent’s request or proposal is feasible and consistent with shared objectives.” Westphal (1998) begins to explore persuasiveness in relation to the ability of CEOs to persuade independent board members to support their position. We begin to examine whether persuasive ability among the directors might be a factor affecting whether board decisions are made in an effective manner. We propose that the behavior-type of directors (especially the chair) and the board’s ultimate composition of different behavioral-types of directors could be a factor in whether the board is effective or ineffective in fulfilling its responsibilities.

In addition to a possible inappropriate focus on merely board structure, corporate governance researchers may also not be studying boards using an appropriate research method. The quantitative research methodology, currently being employed by the vast majority of corporate governance researchers, may not be fully capturing the contributing dimensions of board process, which may ultimately be necessary to distill a relationship between corporate governance and firm performance. In the view of Gillies and Morra (1997: 76-77), the corporate governance field needs to utilize a more in-depth, qualitative approach involving the direct study of boards and contact with corporate directors, before further quantitative testing can or should occur. The problem is that boards empirically (and therefore theoretically) are difficult to study (Zald, 1969; Zahra and Pearce, 1989; Johnson, Daily, and Ellstrand, 1996: 433). As a class, they tend to be closed groups, bound by confidentiality, privilege, and custom, with significant access difficulties and other practical limitations as well (Leighton and Thain, 1997: xv). For instance, corporate directors tend to be fairly

homogeneous in terms of gender, race, and socioeconomic level (Leighton and Thain, 1993). In terms of absolute numbers, they are a relatively small, concentrated, and inter-related group of individuals, with behaviors, linkages and associations not commonly apparent nor accessible by most laypeople or academics. Directors might also fear that opening up boardroom activity to external scrutiny could lead to additional liability exposure (Daily, Dalton, and Cannella, 2003: 379). Daily, Dalton, and Cannella. (2003: 378) in their review of corporate governance research, highlight access to directors and board meetings as being “one of the more challenging barriers researchers face [in] gaining access to the types of process-oriented data that, we have suggested, will enhance our understanding of the effectiveness of governance mechanisms.” They go on to state that (2003: 379): “Access to these data, however, has proven extraordinarily difficult, for it requires the cooperation of corporate boards of directors. To date, boards have been largely unwilling to provide such access.” As a result, accessing and studying boards of directors empirically and effectively becomes a very difficult undertaking for researchers.

Despite the difficulties, a few researchers have been able to gain access to individual directors. Demb and Neubauer (1992) interviewed seventy-one board members in eight countries using structured questions, with interviews lasting between two and three hours. Mace (1971) also used a similar methodology in the United States; however his seventy-five interviews were conducted in the late 1960s. Lorsch and MacIver (1989) used a questionnaire and interviewed “nearly 100” directors. Unfortunately, these three sets of researchers, as part of their methodologies, neither attended, nor observed, nor reported on actual board meetings. The data from these studies appear insufficient to build theory and distill patterns and trends from the literature, as the research stands now.

Methods

To examine boards of directors more appropriately, and as the research was exploratory in nature, the study utilized qualitative methods (Glaser and Strauss, 1967; Ragin, 1994). The research took place over a four-year period between 1998 and 2002 and involved a total thirty-nine Canadian boards of directors. The investigation included attendance and observation of board or committee meetings of twenty-one boards of directors, observation of directors outside of board meetings as well as documentary analysis of eighteen additional boards of directors, together with interviews of 194 respondents, the majority of whom were Canadian directors.

In an attempt to establish a sample consisting of a broad range of firms, a mailing of 428 letters was sent to 354 Canadian and 74 American respondents in 1998. The background and academic purpose of the

endeavor was emphasized. Of the 428 letters sent out, 279 letters were sent to the chairs of the largest publicly-traded corporations in the “FP500” list (Canada’s 500 largest corporations) from 1998; 49 letters were sent to the chairs of the largest US corporations as ranked on the “S & P 500” list from 1998; 25 letters were sent out to the chairs of US companies on the “Worst boards of directors” list according to a 1998 *BusinessWeek* survey; and 75 letters were sent to the following: former Canadian government officials, managing partners of professional service firms (i.e., law, consulting, accounting, investment banking), academics known by the researchers to serve on boards, university presidents, deans of business schools, media publishers, institutional shareholders, and other corporate directors whom the researchers knew.

Of the individuals responding to these 428 letters sent out for the purpose of initiating access to a board of directors meeting, 290 did not respond, 103 sent rejection letters, while 35 respondents expressed initial interest in this project or a desire to participate. Of those 35 respondents who expressed an initial interest, 18 of these 35 resulted in in-person discussions and their board of directors eventually being studied, as part of the 39 boards of directors studied. The remaining 21 boards that were studied resulted from referrals from respondents to other boards that were not on the original mailing of 428 letters, or who were on the original mailing but either did not respond or responded negatively but then changed their mind (three boards).

The range of the 39 boards of directors that were studied included boards of for-profit companies (29), Crown (i.e., government owned) corporations (4), and not-for-profit organizations (6). The 29 private sector corporations whose boards were studied ranged in size from large companies, including some of the largest in Canada, to small and medium-sized enterprises. They also ranged across a variety of industries, including the following: communications/media; consumer products; environmental products; financial services; health care products and services; gold and precious metals; industrial products; metals and minerals; merchandising; oil and gas; pipelines, real estate; technology; transportation; and utilities. Company ownership ranged from widely-held, to being held by a number of major shareholders, to being controlled by a dominant shareholder, either in the form of an individual, a family or a foreign parent company, and to being held entirely by a single shareholder (e.g., Crown corporations, in the case of the public sector). The majority of the companies studied were publicly listed, primarily in Canada, the United States, or both. The range of boards of directors of for-profit companies included those experiencing various forms of strategic change, such as CEO succession, mergers, acquisitions, divestitures, unfriendly takeovers, financial distress, global expansion, and new government regulation.

The interviews with the 194 respondents included the following: directors; current and former government and regulatory officials serving as directors of companies (including former Canadian elected political leaders, cabinet ministers, deputy ministers, and heads of regulatory bodies); professional directors; active and retired CEOs, and other officers of the companies whose boards were being studied; shareholder representatives (i.e., institutional investors, retail shareholders and shareholder activists); professional advisors to boards (e.g., auditors, compensation experts, lawyers, recruiters, consultants); and academics (including corporate governance researchers, university presidents, and business school deans). For several respondents, an overlap existed among the categories above. The vast majority of the interviews tended to last approximately 30 - 40 minutes in length, with the shortest interview lasting eight minutes, and the longest interview lasting one and one half hours. The interviews took place in Canada, the United States, and Britain. Although the majority of the interviews took place in the respondents’ offices, interviews also took place in respondents’ homes, corporate dining rooms, public restaurants, at private clubs, and at an airport. Eighteen of the 194 interviews occurred by telephone, while the remainder were conducted in-person (176).

In terms of board observation, attendance at twenty-one boards took place, in the form of attendance at board and/or committee meetings. One board or committee meeting was attended for thirteen companies, two or three board and/or committee meetings were attended for seven companies, and four board and/or committee meetings were attended for one of the companies. Due to potential access difficulties, the selection of the companies was based on convenience as opposed to being random in nature, creating the distinct possibility that the sample companies’ boards are those that already believe in effective corporate governance.

For the remaining eighteen boards that were studied which did not involve board observation, other methods were used including observation of board members outside of board meetings (including their interaction with other directors or business associates), as well as documentary analysis. Public and private documents were analyzed including: annual and quarterly reports; annual information forms; management proxy circulars; shareholder communications; corporate governance guidelines; board and committee meeting agendas and material; internal communications such as board and individual director evaluations; copies of management presentations handed out during board meetings; and e-mail correspondence between the researcher and individual respondents.

The 194 respondents (i.e., those interviewed in-person or by telephone) were asked a series of semi-structured interview questions that related to the various areas under investigation. For example,

questions were asked that related to the board decision-making process, and how specific director's behaviors might relate to board effectiveness. The interviews and observations during board meetings were recorded primarily through detailed note taking in real time, which were then later transcribed. Tape recording was not possible due to resistance expressed by respondents. When short hand notes were taken, they were transcribed into complete notes following the interview or board meeting. Three classes of data were analyzed, including: (i) objective 'factual' data (e.g., board member sitting for an entire two hour meeting with his binder of materials remaining shut, not saying anything during meeting, etc.); (ii) 'socially-constructed' data offered by respondents (e.g., a director suggesting that another director "criticized all the time" or was a "control freak"); and (iii) the researchers' interpretations based on the first two classes of data (i) and (ii).

During the interviews and the observation of board meetings, the three dimensions of decision-making behavior were observed (and emerged) as follows: dissent/consensus (e.g., the extent to which individual directors agreed or disagreed with topics being discussed); individual/collective (e.g., the extent to which directors attempted to work together as a group and the attempt by directors to acknowledge and take into account the points of view of other directors); persuasiveness/non-persuasiveness (e.g., the extent to which directors were able to convince other directors of their points of view). Based on the data, and using the three decision-making dimensions as a structural framework, themes and patterns emerged which were later refined into ten metaphors representing the various director behavioral-types (see 'analysis' below). In this manner, the study attempted to generate categories, themes, and patterns which became grounded and validated by the data itself (Yin, 1994). As part of an iterative process, key informants were used to confirm, contradict, and re-frame the researchers' interpretations (Creswell, 1998).

Analysis

A review of the data suggests that boards and committees are made up of directors who have varying behaviors. This "new" classification of directors entails that boards made up in a new and different manner might lead to a better decision-making process (i.e., a functional board) and that boards that have not been put together in this way will more likely not lead to a sound decision-making process (i.e., a dysfunctional board).

Based on the boards of directors examined for this study and interviews conducted with individual directors, boards of directors appeared to have a more effective board process when there was a balance of behavioral "types" of directors who contributed in distinctly different ways. Similarly, boards did not

appear to work well together when certain types of directors sat on them.

In contributing to board process, how a director interacted with fellow directors did appear to depend on the three decision-making behavioral dimensions identified above: (i) whether the director more often dissented or consented; (ii) whether the director worked more individually or collectively; and (iii) whether the director was effective or ineffective at persuading others of his or her point of view. As a result, a three-dimensional model of director "types" emerged based on the data from this study. The conceptual model consists of three axes (x, y and z), corresponding to the behavioral dimensions, dividing a three dimensional space into eight regions, similar to a cube, with each axis running through the centre point. Each of the eight regions (quadrants) corresponds to one of ten different "types" of directors, with eight of the types corresponding to the eight quadrants of the cube and two of the types occupying the point where all three axes intersect, i.e., the center of the cube. These two types of directors at the center correspond to the chair of the board ("Conductor" for the effective board and "Caretaker" for the dysfunctional board). The ten director types and three behavioral dimensions are illustrated in Figures 2 and 3 below.

INSERT Figures 2 and 3 about here

In terms of the x axis, we would suggest that an effective board of directors has an appropriate balance of dissent and consensus embedded in its decision-making process, which we would refer to as "constructive dissent". At both extremes, some routine decisions are made with minimal if any disagreement and, conversely, some decisions are accompanied by vigorous debate. At its most extreme, dissent results in a fractured board (which was the case of a few of the boards examined).

For an effective board however, most board decisions appear to fall somewhere in the middle ground, as constructive dissent or as a type of "trusting" dialogue. This interaction is characterized by a balance of dissent and consensus at the beginning of the deliberations, followed by adjusting or amending the proposed course of action based on dissenting directors' views. Eventually general consensus is achieved, "ranks are closed," and the board as a whole supports the collective decision, regardless of the vote taken or the original positions.

An ineffective board would appear to lie at either extreme of this dissent-continuum axis, with either too much dissent (e.g., dysfunctional boards) or too much consensus (e.g., "rubber-stamp" boards) present on a fairly consistent basis.

The y-axis represents the individual/collective continuum. An effective board of directors appears to decide and speak as a unit, collectively. While there may be strong individuals who initiate questions and communicate positions, there are also others who

coordinate efforts and manage consensus. Ineffective boards, conversely, tend to be dominated by directors who speak as individuals or as part of factions and alliances rather than collectively and as a whole.

The z-axis represents the persuasive/non-persuasive continuum. This dimension refers to the ability of a director, through credibility, leadership, interpersonal, and/or communication skills, to persuade other directors and management of his or her point of view or a particular course of action, be it individually, collectively, and through dissent or consensus. There would appear to be various gradations of persuasive abilities and personal leadership styles that directors possess and employ, ranging from ineffective to effective, which are manifested in the different director types.

The ten director types correspond to two sets of five types as set forth by the three behavioral dimensions (x, y and z axes) in the three dimensional Figure 4 below. They are: (i) Change Agent; (ii) Consensus-Builder; (iii) Counselor; (iv) Challenger; (v) Conductor; (vi) Controller; (vii) Conformist; (viii) Cheerleader; (ix) Critic; and (x) Caretaker.

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The following provides a brief description of each of the ten director behavioral types (or metaphors) that emerged from the study. The first five of these director types, namely the Change Agent, the Consensus-Builder, the Counselor, the Challenger and the Conductor, seemed to most frequently populate the boards of directors that appeared to be “optimal” or “effective” in terms of their decision-making. The latter five of these director types, namely the Controller, the Conformist, the Cheerleader, the Critic, and the Caretaker, most frequently populated a board of directors that appeared to be more “dysfunctional” in nature.

i. **Change Agent:** The Change Agent is positioned towards “dissent” on the dissent–consensus axis, “collective” on the individual–collective axis, and “high” on the persuasiveness axis. The change agent is prepared to tackle tough decisions on behalf of dissenting directors by acting as a champion for a course of action, even when such decisions may be unpopular with management or other directors (e.g., firing a CEO). This director has wide-spread credibility and is respected by colleagues, handling dissent in a transparent and inclusive manner. The following is an example: “My fundamental belief is that I can run a better corporation with highly skilled directors, not yes men, who have a strong sense of obligation rather than a sense of cheerleading, agreeing with every goddamn thing management does. Too many boards define directors as stewards. I see them as

change managers, agents, ones who change the company.” (Chairman and CEO).

ii. **Consensus-Builder:** The Consensus-Builder is positioned towards “consensus” on the dissent–consensus axis, “collective” on the individual–collective axis, and “high” on the persuasiveness axis. The consensus builder acts as a conciliator and is invaluable in resolving conflict. This director gets along well with almost all board members, is often more senior, and can have a tasteful sense of humor to make colleagues feel at ease. He or she may however lack the analytical powers to recognize a problem, or the intestinal fortitude to push change. The following is an example of a consensus builder: “I don’t want to vote but we need consensus...Let’s walk a middle road...Do I have support?...Have we reached consensus, okay everybody?” (Chairman).

iii. **Counselor:** The Counselor is positioned towards “consensus” on the dissent–consensus axis, “individual” on the individual–collective axis, and “high” on the persuasiveness axis. The counselor tends to help others by working behind the scenes in meetings, lunches and telephone discussions. This director may not speak the most at meetings, but may interact well with the external environment, having connections, understanding policy changes, recognizing hot button issues and linking management with external contacts. The following is an example of a counselor: “There’s limited discussion as you said. It occurs before the meeting, mostly by telephone, where you find out where people’s heads are at...So a lot of work is done behind the scenes to make sure everybody is on board. I liken the board meetings to a Greek opera: ‘Everybody knows the outcome but it’s a tragedy along the way’” (Manager).

iv. **Challenger:** The Challenger is positioned towards “dissent” on the dissent–consensus axis, “individual” on the individual–collective axis, and “high” on the persuasiveness axis. The challenger, or devil’s advocate, is invaluable to a board and asks the tough questions. The questions are substantive, asked at the right time, and with the proper tone. Challengers have analytical skills and are quick studies, but risk becoming micromanagers. The also risk becoming critics if they do not control their tone and approach to questions. The following is an example of a challenger: “Be strong enough to put it on the table. Being the nice guy doesn’t work any more. The liquid lunches are over and you take a risk. If you can’t stand the heat, get out of the kitchen. But we’re still uncomfortable in Canada asking the tough questions” (Director).

v. **Conductor (Chair):** The Conductor is positioned towards both “dissent” and

“consensus” on the dissent–consensus axis, both “collective” and “individual” on the individual–collective axis, and “high” on the persuasiveness axis. The single most important contributor to overall board effectiveness is the competence and behavior type of the chairperson. A conductor chairperson works well with management, runs meetings efficiently, works toward consensus and manages dissent. They are skilled at calling on different director types depending on the situation to resolve issues and make good decisions. The following is an example of a conductor: “A skillful Chair therefore is a referee, moderator and smoothly slips in his own views. They bring a sense of discipline to the discussion. They cut people off nicely and set a time limit to the agenda. They’ve been the best” (Manager).

The following are the five behavioral types that emerged from the data that appeared to represent members of a dysfunctional board.

- vi. **Controller:** The Controller is positioned towards “dissent” on the dissent–consensus axis, “collective” on the individual–collective axis, and “low” on the persuasiveness axis. A controller lacks the positive personality traits and credibility of a change agent, and contributes negatively to a board. A controller often claims to welcome dissent, but instead seeks to suppress it. Some controllers have formal power as a significant shareholder, and use their power to intimidate. This makes them dangerous, especially if a board is composed of conformists and cheerleaders who cannot act as a countervailing force. The following is an example of a controller: “We have a dominant chair. He controls the agenda and information... The vice chair presents committee reports and the chair jumps in...Where it goes on the agenda is his decision...These issues need to come out of the committee and put on the top of the board agenda because they require discussion and thought...They should be discussed by the board and not committees. But they’ve never seen it so how could they speak to it? It’s a humungous mistake” (CEO).
- vii. **Conformist:** The Conformist is positioned towards “consensus” on the dissent–consensus axis, “collective” on the individual–collective axis, and “low” on the persuasiveness axis. The conformist is a non-performing, cooperative director. Conformists often repeat the same comments from meeting to meeting, and rarely rock the boat. They are always compliant, voting with the majority. The conformist participates little during meetings, but has adept political skills to form alliances with power brokers on the board, thus explaining his or her longevity. The following is an example of a conformist: “So like geniuses in a room, they sit there like Moses, nodding their head, and I can describe a couple of them, when they don’t know what they’re looking at, especially lately” (CEO).
- viii. **Cheerleader:** The Cheerleader is positioned towards “consensus” on the dissent–consensus axis, “individual” on the individual–collective axis, and “low” on the persuasiveness axis. The cheerleader is an underperforming director with limited credibility in the eyes of fellow directors. Attendance is less than stellar. These directors are rarely prepared at meetings, and when their binder is open, it is typically at the wrong tab. The only noteworthy quality is that he or she is predictable and almost never dissents, raising a hand on cue to vote with colleagues. The following is an example of a cheerleader: “Don’t rock the boat. Play the game” (Director).
- ix. **Critic:** The Critic is positioned towards “dissent” on the dissent–consensus axis, “individual” on the individual–collective axis, and “low” on the persuasiveness axis. The Critic, as a complainer, is frequently critical of management. This director criticizes board processes or fellow directors, and often operates behind the scenes in a manipulative way. This director lacks the “constructive” component of criticism, and the style tends to be abrasive and confrontational. The following is an example of a critic: “There’s a fine line between dissent and assholes...I met more assholes in the last four years than in the previous thirty...Yes, you want dissent on your board but you don’t need an official opposition” (Director).
- x. **Caretaker (Chair):** The Caretaker is positioned towards both “dissent” and “consensus” on the dissent–consensus axis, both “collective” and “individual” on the individual–collective axis, and “low” on the persuasive axis. The caretaker is an ineffective, underperforming chairperson. A caretaker lacks leadership and is undercontrolling. They say little at meetings, and do not manage interpersonal conflict and dissent. They do not run an effective meeting, and exhibit characteristics of the conformist or cheerleader. If a caretaker does not recognize deficiencies, this will result in entrenched and ineffective board leadership. The following is an example of a caretaker: “We went out of our way to hire him [a non-executive chairman] because of his credibility. He’s well paid but completely useless...He’s disgusting, greedy and outrageous and other board members agreed...He’s on eighteen boards” (Director).

In two respects, these director types are not mutually exclusive. First, directors may simultaneously or at different times occupy more than one type, including within the same board and across different boards on which they sit. However, although certain directors may migrate from one role to another, for the most part, based on the multiple board meetings that were observed, directors do tend

to be the same director behavioral-type across time and different circumstances. Second, while director types are intended to be separate conceptually, the boundaries among them may tend to blur on occasion as different types do share behavioral similarities, particularly those sharing the same behavioral dimension (e.g., dissent, consensus, etc.). Finally, no one director ever fits a “type” perfectly and therefore in this respect a director behavioral-type may be more properly viewed as an ideal or archetype.

Discussion

The study sought to explore the role that director behavioral-type might play in leading to board effectiveness. The focus of the study was on how this variable might relate to board process, as opposed to merely board structure. We propose, based on the initial findings of the study, that board process may be an important factor in determining board effectiveness. The study suggested that board processes, in turn, may be greatly influenced by the behavioral characteristics of individual board members. These findings extend corporate governance literature beyond the current focus on the influence of board structure in relation to board effectiveness and firm performance.

Based on the data, a new classification scheme is proposed for director behaviors that went beyond the traditional classification based on board structure. The following director behavioral-types, if balanced among the board members, appears to be associated with a potentially more effective board of directors (i.e., with superior decision-making processes): Change Agents, Consensus-Builders, Counselors, Challengers and Conductors. The following director behavioral-types appeared more common to dysfunctional boards of directors: Controllers, Conformists, Cheerleaders, Critics and Caretakers. It may be the case that director behavioral-type (and especially chair behavioral-type) should be added to the list of components of board structure that might affect board effectiveness.

Each of the three dimensions may be affected by other variables. For example, one’s ability to express dissent (e.g., as a ‘change agent’) may be affected by one’s level of independence and/or competence. Where a director falls on the individual-collective spectrum may also be affected by one’s level of independence and/or competence. What is of note however is that one of the three dimensions, persuasiveness, appears to be the key dimension that can transform a dysfunctional board member to an effective board member. What this might imply is that factors that enhance an individual director’s ability to be persuasive in a group decision-making context, such as one’s level of competence and ability to communicate one’s concerns, may be important antecedents to effective decision-making at the board level.

While it is indicated above that it initially appeared (based on limited evidence) that directors maintain their behavioral-type across different situations and circumstances, whether this is in fact the case could have important practical implications for the board recruitment process. If director behavioral-type is inherent to the individual and does not tend to change from situation to situation, then the major concern in board design would be to select the “right” individuals with the desirable psychological profiles. For example, it is not only the separation of Chair and CEO that matters (independence), but also the “selection” of the Chair – an individual who has the appropriate behaviors to be effective (i.e., a “Conductor-Chair”, vs. a “Caretaker-Chair”). Similarly, an outside director is not “effective” simply by virtue of being, or being thought to be, independent. On the other hand, if director behavioral-types are dependent on the group context or climate (e.g., as a result of “cohesiveness” or “group-think”) as opposed to being inherent to the individual director, then the major concern would be to apply appropriate group intervention mechanisms in order to create a desirable group atmosphere for the board. Future longitudinal research of boards (i.e., observation of multiple board meetings) is necessary to better investigate this potentially important issue.

The study suggests that certain behavioral types may also be important for board effectiveness, a dimension which is quite difficult to assess from outside of boardrooms. This proposition may help to explain how some boards may have failed in their decision-making, yet supposedly had qualified directors sitting on them. Aside from whether such directors were truly independent and possessed the competencies aligned with the board’s needs and company’s strategy, so far as behavior was concerned, a board with primarily Consensus-Builders or Counselors (e.g., too much consensus) may not be as effective. A board without a Conductor-Chair may not be as effective. A board with Challengers and Critics (e.g., too much dissent) may similarly be more ineffective. A board with a Controller (e.g., CEO, shareholder or another director) that does not have sufficient Challengers (e.g., too many Cheerleaders and Conformists) may be more ineffective as the Controller may have a greater potential to dominate and remain unchecked by the other directors. In terms of outcomes, an effective board appears to be one that is comfortable with change, has an ability to resolve conflict and reach a consensus, and is comfortable in the role as devil’s advocate with respect to managements’ major strategic decisions.

The potential practical implications of the study might be observed in many of the current corporate governance scandals. WorldCom’s Bernie Ebbers would appear to be an example of a Controller Chair/CEO lacking sufficient Challengers. Ebbers appeared to show complete disrespect in terms of listening to the views of his co-directors: “Ebbers was autocratic in his dealings with the Board” (Directors’

Report, 2003: 32). According to the Bankruptcy Examiner's Report, the board appeared to "rubber stamp" management's decisions, in one case spending only 35 minutes during a telephone meeting reviewing the take-over of a company worth \$6 billion that ultimately cost WorldCom billions in losses. No documents were provided to the board (*Business Times*, 2002). Hollinger's Lord Conrad Black may also be an example of a Controller Chair/CEO who stacked his board with Conformists as opposed to Challengers. According to allegations contained in the Breeden report: "It is difficult to imagine a more flagrant abdication of duty than a director rubber-stamping transactions that directly benefit a controlling shareholder without any thought, comprehension or analysis" (Leblanc, 2004: 1). Kenneth Lay, former CEO and Chairman of Enron, may have been an example of a Caretaker Chairman by failing to deliver internal whistleblower Sherron Watkin's concerns over the company 'imploding' to the rest of the board. Many of the other Enron directors, despite their claims of lacking sufficient information, appeared to act as Conformists or Cheerleaders. According to Bryce (2002: 161): "The meeting [of the Board of Directors] started twenty minutes late. That wasn't really unusual. By October 11, 1999, the Enron Board of Directors had become more like an exclusive men's club than a deliberative body charged with steering a \$40 billion global energy business. Whenever the board met, a good part of the time prior to the meeting was spent with members catching up on each other's children, spouses, and, of course, the latest gossip." It appears that some sort of balance of the five functional director behavioral-types may be required for a well-functioning board process.

Limitations and Conclusion

As the study is preliminary in nature, it possesses several important limitations. With respect to the research methodology, due to nature of the convenience sample involved, only Canadian and U.S. firms were used as opposed to firms from other countries. There was a serious limitation in terms of the actual sample used, due to the high rejection rate (only 18 boards initially agreed to participate out of 428 initially contacted), which required the use of snowballing sampling technique to identify additional boards. This may have led to issues of bias with respect to the participating boards. As a qualitative study, the observations were potentially influenced by the biases of the researchers. While a large number of board meetings were observed, including several boards' meetings that were observed more than once, only eleven (of twenty-one) boards involved multiple board meetings. In terms of examining board process it would have been more desirable if fewer boards could have been observed involving a greater number of multiple board meetings over a longer period of time. In addition, due to the preliminary nature of the

qualitative study and its sample, mere propositions regarding the role of director behavioral-types can only be suggested, as opposed to any sort of actual generalized findings or conclusions. Additional demographic information (e.g., age, gender, etc.) should also be collected on research participants in future research to examine whether such factors might relate to behavioral-type. The analysis might also be refined to examine the importance of directors' behavioral-type in relation to the specific functions performed by various board committees (e.g., nomination, compensation, audit) as opposed to the board as a whole.

Gillies and Morra (1997: 77) state: "As many active directors have pointed out, it is individuals, not corporations, who make decisions." They go on to say that research into how individual decisions are made involves: "in-depth personal interviews with directors and executives about specific situations...determining the dynamics of board operations; and examining the role of individual directors in certain situations. It is not easy research and is useless if done in a superficial manner" (Gillies and Morra, 1997: 77). Forbes and Milliken (1999: 502), as referred to by Daily, Dalton, and Cannella (2003: 378), note that process-oriented governance research "...will enable researchers to better explain inconsistencies in past research on boards, to disentangle the contributions that multiple theoretical perspectives have to offer in explaining board dynamics, and to clarify the tradeoffs inherent in board design."

This study has attempted to respond to callings by Gillies and Morra (1997), Forbes and Milliken (1999), and Daily, Dalton, and Cannella (2003). In short, a board of directors is a decision-making group, albeit a different type of group, and behavioral types of its members affect the quality of a board's decision-making. The field of corporate governance would be well-served to move beyond board structure (e.g., Chair/CEO separation, a majority of independent directors, and board size) when attempting to demonstrate a relationship between corporate governance and firm performance. Directors for this study overwhelmingly believed that better boards make for better companies. That researchers have been unable to demonstrate this means that a change in approach may be needed. Scholars have not been able to prove what practitioners, the media, and the public believe to be the case.

However, in fairness, given the state of research in corporate governance, researchers may never know or be able to establish whether corporate governance enhances firm performance. The investigations for this study at the very least suggest that "board processes," something that this study has demonstrated might be studied more directly, may well be the long-sought-after variable to which previous researchers have referred. This study attempts to contribute to our understanding of how and why certain decisions happen, or not happen,

because of the mix of behavioral-types and group dynamics within the board room.

To verify this conclusion requires much more qualitative research on board processes, of the type conducted for this study. As outlined above, such research is not easy to do. It requires conducting confidential in-depth interviews with directors, observing how board and committee meetings operate in real time and an examination of how decisions get made, within and outside of board rooms. It may well be that with the findings from more qualitative studies, when combined with additional quantitative hypothesis testing of corporate activities, theories may be developed that explain the complex dynamics of the corporate governance landscape.

The data from this study indicate that more research is needed into the individual decision-making processes of directors. For this to happen, a researcher needs to be trusted by the directors whom he or she interviews and needs to take great care when assessing the performance of directors at specific board meetings. In order to understand decision-making success and failure, it is essential that a broad range of boards and individual directors be observed and interviewed, including effective boards, dysfunctional boards, effective directors and non-performing directors. This is yet another reason why studying the process of board decision-making is so difficult.

It is important to note that the study was not addressing the successful operation of boards, but rather the decision-making process in a closed system. Claims are not being made concerning the actual effectiveness of individual boards that have been studied or the financial performance of the firms involved, for that would require a different type of study. Instead, what we are proposing is the “ideal” or “optimal” (or sub-optimal or dysfunctional) prototype board in the proposed model of board effectiveness, and not to any one board in particular. How one might establish a research instrument that preliminarily assesses potential optimal or dysfunctional director behavioral-types is left to future research.

This study demonstrates what scholars in the field have long denied, that it may be possible to analyze through direct observation the processes by which boards of directors operate. Through actual observation of the activities of boards in real time, the study suggested that board effectiveness may be a product of not only board structure but board process as well. Moreover, the data suggest that the impact of each may be somewhat different than suggested in the literature. Board structure may not as important a factor in determining board effectiveness as is normally believed; the behavioral characteristics of individual directors may be just as important to overall board effectiveness. These conclusions in turn lead to a new and different analysis of the optimum composition of directors required to assure effective board decision-making as well as the necessary characteristics to be an effective director.

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Appendices

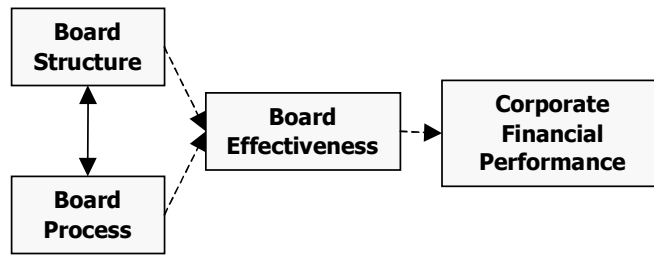


Figure 1. Board Structure, Process and Effectiveness

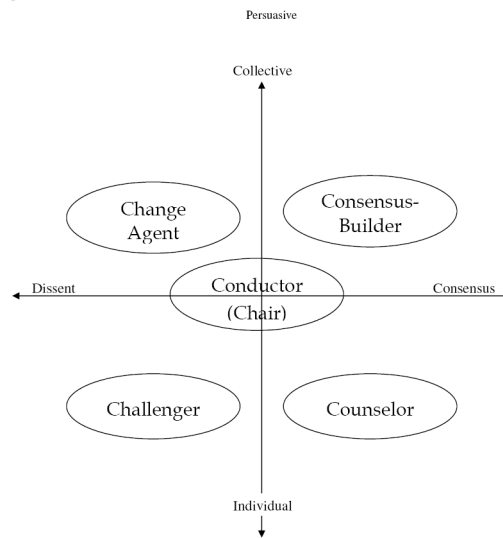


Figure 2. Five Effective Director “Types” and Behavioral Dimensions

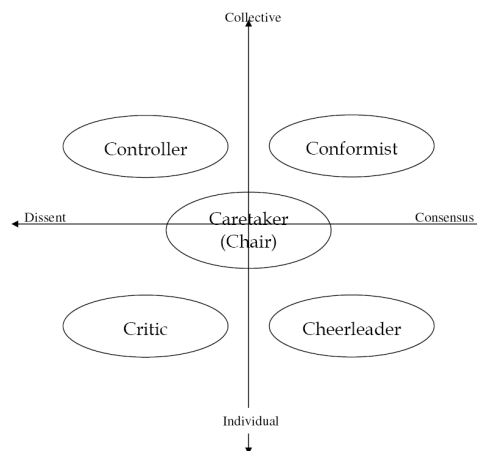


Figure 3. Five Dysfunctional Director “Types” and Behavioral Dimensions

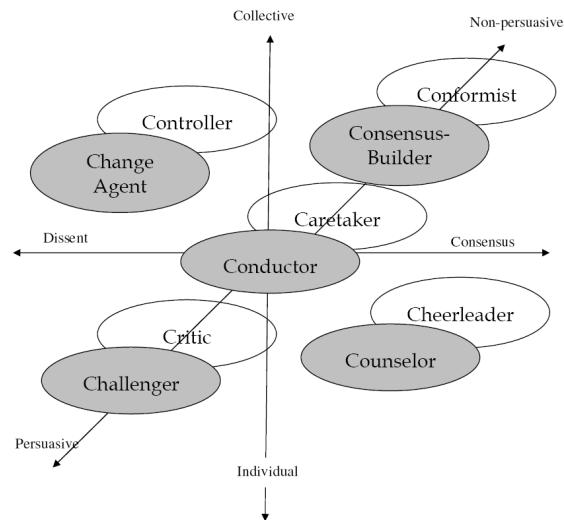


Figure 4. The Five Effective and Five Dysfunctional Director “Types”