

STRATEGIC ORIENTATION AND CORPORATE GOVERNANCE: THE ROLE OF OWNERSHIP

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Abstract

Challenging universal perspectives that directed previous mainstream research, this theoretical paper addresses the potential influence of contextual variables on corporate governance. The main purpose is to contribute to the development of recent perspectives investigating the corporate governance effectiveness in terms of fitting into the firm's strategic orientation. This paper points out how different arrangements may support the enterprise or the accountability function and how differently they work, according to their specific context. Potential influences stemming from ownership structure are then considered, addressing relationships between the firm's strategic dynamics and corporate governance effectiveness. Understanding the association between the strategic orientation and corporate governance functions and their consistent changes along the firm's life cycle is a useful premise to a dynamic view of corporate governance effectiveness and its contribution to value creation.

Key words: corporate governance effectiveness – strategic orientation – ownership – value creation and value protection

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Introduction

A growing body of literature and research is devoted to understanding corporate governance. Following Jensen and Meckling (1976), agency relationships within the firm and costs associated with them have been extensively investigated in the corporate governance research. The prevalence of the agency perspective has significantly contributed to the development of research, practices and reforms in many different countries (Fama, 1980; Jensen, 1993; Dalton *et al.*, 1998; Dalton *et al.*, 2003).

The main focus of this approach has been the impact of the agency costs on the performance of firms. The agency perspective assumes that, in inefficient capital markets, costs stemming from conflicts between principal and agent, basically shareholders and managers, exist and the value of a firm decreases if there are market expectations that these costs will be realised. Furthermore, it considers a range of internal and external mechanisms to reduce the magnitude of these costs and to avoid their negative effect on firm value.

Despite many valuable insights provided by this strand of the research, however, the agency perspective has recently been subjected to increasing criticism for the ambiguity of both its theoretical assumptions and empirical findings. It addresses relationships between corporate governance and outcomes on the foundation of a universal approach which underestimates the potential effects of contextual variables. As a consequence, it hardly

helps to understand corporate governance differences across organizations, nations or, in a broader view, across different social, institutional and competitive environment (Filatotchev, 2007).

Interdependencies among established devices may influence corporate governance practices resulting as a whole, showing how the different arrangements may be alternatively or complementarily developed so as to obtain a suitable result. The firm's interaction with its context, both internal and external, is moderated by the corporate governance structure and processes which may contribute to wealth creation or wealth protection.

Considering contextual variables and their relationships with changes over time in the corporate governance structure may help overcome static perspectives towards a deeper understanding of the dynamic balance between wealth creation and protection. Previous studies have mainly been concentrated on the monitoring role of corporate governance mechanisms, but the entrepreneurial function has been hardly explored, despite its relevance to resources and competencies acquisition. Furthermore, substantial efforts have been directed to examine public companies, mainly consistent with the U.S. experience, but less attention given to firms with different ownership structures and typologies, even if they are widely represented around the world (Hart, 1995; La Porta, *et al.*, 1999).

This paper deals with the contextual influences on corporate governance from a contingency perspective, in order to investigate how the different

mechanisms may be arranged to determine an effective outcome which may help in implementing the firm's strategic orientation. It refers to the questions of which design of the corporate governance structures and mechanisms may be appropriate to support the firm's strategic dynamics and which conditioning may be exerted by the owners on the corporate governance structures and processes and on the firm's strategic dynamics. The relevance of wealth creation and protection may change over time, according to the differing needs emerging from the firm's strategic orientation. Taking this into consideration, the effectiveness of corporate governance practices depends on their adaptation to the firm's strategic orientation, which requires a dynamic balance of the outcome resulting from the developed mechanisms and their mutual relationships. Furthermore, the strategic orientation may be a contextual variable and it represents a synthesis of decision making at a corporate and competitive level, addressing the firm's objectives and the ways to obtain them.

The strategic orientation addresses the firm's resources and the range of stakeholders with whom the firm interacts. The ownership structure and typology influences the strategic orientation even if well established perspectives, based on the hypothesis of separation between ownership and control, have been used to closely examine the board functioning as the central governance mechanism.

Contextual influences and the effectiveness of corporate governance practices

Corporate governance involves the structures and processes which direct an organization's activities and resources (Hambrick, *et al.*, 2008), by shaping a range of mechanisms both to reduce managerial opportunism and to increase the wealth of the business (Filatotchev, 2007). It aims to increase the value provided to the various stakeholders in the firm and ensure their accountability for acting responsibly with regard to the wealth invested in the firm.

Corporate governance is therefore concerned with accountability and enterprise dimensions, pursuing monitoring and control of managerial discretion and influencing managers to improve the business (Keasey and Wright, 1993). Previous studies have mainly been concentrated on exploring the wealth protection role of corporate governance practices, on the basis of the agency perspective which addresses managerial opportunism as the main obstacle to a firm's efficiency. Accountability is considered as a subset of governance which involves monitoring, evaluation and control of the organizational agents to ensure they behave in the interests of shareholders and other stakeholders (Keasey and Wright, 1993). As a result, reducing agency costs by developing a variety of incentives will improve the firm's efficiency and, consequently, performance will

increase. Among the devices employed, the board represents the most thoroughly explored in the shareholders' interests, especially when observing large well-established companies with dispersed ownership (Jensen and Meckling, 1976).

The agency theory argues the existence of the public corporation by the assuming of self-interested managers with delegated authority for decision making without bearing, if not partially, the wealth effects of their decisions (Daily *et al.*, 2003). The critical issue is concerned with the extent to which managers act in the interests of the firm's shareholders.

Efficiency and performance depend on the management of the principal-agent relationships between shareholders and managers to avoid opportunistic behaviour not consistent with the shareholders' maximization principle (Eisenhardt, 1989). The agency perspective considers internal and external mechanisms to govern organizations, such as the monitoring role of the board (Fama and Jensen, 1983), incentives to align the interests of agent and principal, basically the managers and the shareholders (Jensen and Murphy, 1990), monitoring by large outside shareholders (Demsetz and Lehn, 1985), the market for corporate control (Shleifer and Vishny, 1997), product competition (Jensen, 1993) and managerial labour market (Fama, 1980).

Despite the agency theory being well established in mainstream research, its findings are still equivocal and the causal relation between agency costs and firm's performance is increasingly challenged in recent research.

A major criticism concerns the 'closed system' logic drawing to universal relations between corporate governance practices and a firm's performance. The agency perspective neglects the influences arising from the context, and then fails to explain the differences in corporate governance either at an institutional or organizational level (Filatotchev, 2007). The shareholder's primacy has been questioned as a criterion of technical efficiency, founded on the market power to appreciate the value of a firm's policies. Shareholder-oriented approaches to corporate governance practices arose at the end of the 1980's as a reaction to the "retain and reinvest" logic which in the previous decades characterized the huge growth of the manufacturing industries in the U.S. context, consistently increasing managerial discretion in resources allocation. When such a model of economic growth entered in a state of crisis, the managerial power was challenged and a shareholder-centred approach to corporate governance became established (Lazonick and O'Sullivan, 2000). Changes involved the prevailing beliefs on corporate governance, shifting towards the agency perspective which shaped basic assumptions about the ultimate aims of corporate governance and influenced interpretations of specific mechanisms and practices (Zajac and Westphal, 2004).

Corporate governance models are normative beliefs structures about the allocation of power in the firm (Fiss and Zajac, 2004) and the agency perspective spread as a contingent outcome of the struggle between competing ideologies which replaced earlier ideas or systems of meaning. (Huse, 2003:217). The distinctive values, beliefs and social expectations which differentiate one country from another gives rise to conditioning stakeholders' behaviour. Moreover, they shape the character of the institutional context, such as the legal and financial system. In every environment a specific range of corporate governance arrangements is originated with specific conformation and reciprocal interactions that could only become efficient if they act in their own context (Lubatkin *et al.*, 2005). Any changes in the set of resources and activities coordinated and/or of the stakeholders involved, may give rise to different corporate governance structures that become efficient solutions in their specific context (Grandori, 2004).

Agency theory deals with the firm as a nexus of contracts among atomized principals and agents such as shareholders and managers, as well as employees, debtholders, and other stakeholders, characterized by conflicting interests over how the proceeds from the firm's endeavours should be allocated (Jensen and Meckling, 1976). To whom corporations should be accountable is questionable when referring to risk bearers or to the relevancy of their interests. The shareholders' primacy should be contended when they are oriented towards short term benefits, while considering a long term perspective other stakeholders such as employees, customers and communities may be considered as residual risk bearers, holding interest not less relevant than that of the investors (Child and Rodrigues, 2003). Furthermore, because of its unilateral focus on the conflict of interests matter, the agency perspective neglects the knowledge and competences dimension of corporate governance, even though it could be critical in explaining the contingent direction of the principal-agent relationship in multiple-principal governance (Grandori, 2004).

In a contingency perspective there is no single way of designing a corporate governance system, but not all ways are equally good. The characteristics of the stakeholders involved in the process of creation and distribution of wealth, as well as contextual variables, should assume high importance in the design of a corporate governance system (Huse, 2007). Stakeholders hold potentially conflicting interests and they exert their own prerogatives coherently with the pursuit of their objectives. Corporate governance, therefore, refers to determining criteria for resources allocation and for conflict resolution among the various internal and external stakeholders of the firm involved in the business (Daily *et al.*, 2003a). Both the context and the conformation of the variety of governance mechanisms affect the stakeholders' behaviour when they exercise their power and responsibilities and,

therefore, the structures of the corporate governance as a whole. Moreover, the effectiveness of the corporate governance requires an appropriate balance between contextual variables and the stakeholders' system (Huse, 2007).

The mechanisms established may be different, or they may be differently shaped, but prevailing approaches have focused the analysis on one type of governance practice, such as the board or compensations, exploring effects on a firm's performance while excluding others (Zahra and Pearce, 1989).

Even when a variety of mechanisms has been examined, relationships among them and influences arising from the system as a whole have often been ignored. Criticisms to research findings, even within the agency framework, suggest the expansion of investigation regarding connections and mutual conditioning among the corporate governance arrangements as a significant direction to develop the fundamentals of knowledge (Rediker and Seth, 1995). In addition, research on corporate governance often does not consider the full range of coordination and control arrangements recognized by organization studies (Grandori, 2001), thus giving up useful tools for interpreting the observed phenomena.

Rejecting universal perspectives, influences emerging from the context may be examined in terms of relationships and complementarities among the mechanisms which make up a corporate governance system and contextual variables. Complementarities are here intended as the mutual adaptation of the established mechanisms to make the resulting structure of the corporate governance system effective as a whole (Filatotchev, 2007:1043).

In a contingency perspective, the context exerts a significant influence on corporate governance whose effectiveness depends on the adaptation between organizational and environmental elements interacting with each other. The contingency perspective was developed as a challenge to the universal single pattern of structure of organizations. According to this view, a firm's survival requires efficient and effective performance that may be achieved by the appropriate conformation to environmental demands. An appropriate response is the one that fits structural characteristics with situational factors (Lawrence and Lorsch, 1967). Researchers have identified a wide variety of situational variables, both internal and external and hardly any comprehensive list could be proposed. Topics most often considered are represented by national, cultural and geographical differences, industry and, more widely, the environment, the degree of fragmentation and the types of ownership, the firm's size, the variation in life cycle, including the importance of crisis, the conformation of corporate resources and, finally, the role of CEO, its characteristics and background (Huse, 2005:S68; Huse, 2007; Zahra and Pearce, 1989). The influences on the effectiveness of corporate governance, arising from the

interdependencies between the firm and its environment, represent a significant field of investigation that so far has not yet been sufficiently explored (Aguilera and Jackson, 2003). The diversity of contextual variables could lead to a plurality of suitable mechanisms or bundles to achieve efficiency, rather than suggesting a superior shape of the range of mechanisms of governance, if deeming both an existing prevailing model or hybrid solutions (Gedajlovic and Shapiro, 1998; Grandori, 2004).

Strategic orientation and effectiveness of the corporate governance practices

Attempting to overcome previous limitations recognized in universal perspectives, the debate on corporate governance has recently recognized a growing interest in exploring relationships between the firm's strategic orientation and the corporate governance practices. Even if the agency perspective has predominantly focused the monitoring and control functions in large listed companies, the value creation dimension may also provide useful insight to understanding corporate governance practices (Taylor, 2001). In view of this, corporate governance has been defined as the interactions between internal and external actors and the board members in directing a corporation for value creation (Huse, 2007:7).

Resources and knowledge role of corporate governance may contribute to the firm's efforts in pursuing growth opportunities requiring different conformations of the established structures and processes to influence managers to undertake suitable courses of action. For example, differences in knowledge and experience characterizing the key actors in the governance system may affect managerial decision making (Conner and Prahalad, 1996). Going through different life cycle stages, firms face changes in strategic challenges and in internal or external contingencies, suggesting consistent variation in the board's composition in order to influence their degree of innovation and therefore financial performance (Zahra and Hayton, 2005).

Exploring the link with strategic issues may better highlight the range of corporate governance functions and how they can suitably uphold the pursuit of the firm's objectives (Filatotchev, Toms and Wright, 2006). Changes recurring over time in the firm's strategic orientation together with contextual issues, may give rise to differing needs requiring sound variations in the corporate governance established practices to improve its effectiveness as a whole, suggesting consistent corporate governance forms (Filatotchev and Wright, 2005). The balance between accountability and enterprise is given by the conformation of the various established mechanisms and by their mutual interaction, producing a combination which aims to work as an effective system. In addition to a monitoring function, outside board members may have a prevailing role in value

creation in the growth of high tech start-ups. They may support the firm's development by establishing stable relationships with client, suppliers, creditors or other stakeholders, then overcoming the lack of financial resources or managerial weaknesses. Over time, variations in the firm's strategic orientation may then require consistent changes in the range of the established corporate governance mechanisms and/or in the ways they work, according to contextual issues, to ensure a suitable adaptation. For example, variations in product-service are critical decisions affecting the boundaries of the organizations, as well as the allocation of resources within them. Therefore, variations in corporate governance structures and processes may exert a relevant effect on the magnitude of major changes in products and services (Goodstein and Boeker, 1991). A major concern dealing with the relationships between corporate governance and the strategic orientation is thus exploring how to develop the firm's ability to modify strategies according to variations in environmental conditions and internal resources and capabilities (Filatotchev, Toms & Wright, 2006).

The firm's strategic orientation may be influenced by different contingencies, arising from both its internal or external environment, but the established distribution of power may influence the ability to change its strategic direction. Aiming to perpetuate their power, individuals or groups may resist changes requiring a different allocation of power and resources, narrowing the organizational flexibility needed to cope with new environmental contingencies (Pfeffer and Salancik, 1978).

In a dynamic view, deepening changes in the corporate governance arrangements due to changes in the firm's strategic orientation may increase knowledge of the enterprise dimension of corporate governance and of its balance with the accountability role. Going through a life cycle stage, from this point of view, may be considered a contingent strategic orientation (Hambrick and Lei, 1985) useful in understanding the wealth creation and wealth protection roles of corporate governance and how effectively their balance works (Filatotchev and Wright, 2005). Corporate governance does not have a direct influence on the firm's efficiency, but it may support or hinder strategic orientation, depending on how its structures and processes are established (Yin and Zajac, 2004) and in this way conditioning the results (Van den Berghe and Levrau, 2003).

The adaptation of corporate governance practices towards the strategic orientation depends on the conformation of the range of arrangements that may be established and on their mutual interactions. In other words, the corporate governance mechanisms may be shaped, in alternative or complementary ways, producing outcomes which reveal greater or lesser effectiveness in supporting the firm's strategic orientation. In any given time, strategic orientation arises from decisions taken by the dominant coalition and by the context in which the firm operates and

constitutes the meeting point between the internal processes and the outside environment (Miles and Snow, 1978). Once in place, strategies tend to be perpetuated until a revision of the targets and/or in the ways to achieve them is thought appropriate. In such circumstances, a strategic revision process begins, culminating in the re-establishment of a new alignment between the firm and the external environment and the reconfiguration of internal processes (Miller and Friesen, 1980; Kimberly and Miles, 1980; Miller and Friesen, 1984).

Research contextualization, addressing both differences in the strategic orientation along the firm's life cycle stages and changes that can be recognized passing from one stage to another, may favour dynamic perspectives required for a deeper understanding of the wealth creation dimension of corporate governance. The balance between the accountability and the entrepreneurial functions changes from time to time depending on life cycle stages and by consistently adjusting the established mechanisms or how they work (Filatotchev and Toms, 2003). As an example, in case of increasing pressures of competition or crisis, the board's capacity to redefine its role and tasks may significantly help to promote changes that allow overcoming business fluctuations. The adjustment may occur with the passage of the role of the board from a prevailing orientation to control short term financial results and the executives' behaviour, in favour of an active involvement in the strategic reassessment and its implementation (Zahra and Pearce, 1989), or focusing control of the medium-long term results (Baysinger and Hoskisson, 1990). The firm's strategic orientation addresses the running of the business and has interdependencies with the corporate governance system which regulates power allocation and the relationships with the various internal and external stakeholders involved in the business. The allocation of power and responsibilities concerns the contribution of each stakeholder to the business and the rewards obtained. Thus, corporate governance affects the value generation and distribution and consequently, the incentives allocation among the stakeholders (Alchian and Demsetz, 1972; Jensen and Meckling, 1976). Designing an incentives allocation consistent with the stakeholder's interests, even if they are potentially conflicting, allows resource acquisition to a successfully running of the business. The set of resources required varies in time, depending on the context and strategic orientation. In view of this, the corporate governance system may favour or obstruct the pursuit of strategic choices according to the established arrangements which give rise to an incentives allocation consistent with the requirements of resources or competencies needed.

Moreover, power allocation affects the appointment of the members of the structures involved in strategic decision making which may be different depending on the interests they hold or

represent, their previous experience, their degree of risk aversion and other personal characteristics.

Since each strategic orientation has different needs in terms of resources and capabilities, the shape of corporate governance structures and processes may be more or less suitable to obtain them (Zahra and Filatotchev, 2004). A sound design of corporate governance, effectively fitting the strategic orientation can allow firms both to conveniently manage available resources and to obtain those facilitating the acquisition of a competitive advantage by arranging mechanisms to control or encouraging the board engaging in the more consistent behaviours.

Strategic orientation is the outcome of a variety of choices relating to the environment and it is highly interdependent of the qualitative and quantitative level of available resources (Barney, 1991). As a consequence, there are major implications for corporate governance including, for example, the degree of suitability of the ownership structure and typology, board composition and tasks, board members' competences, independent directors' role to ensure resources and the knowledge needed for implementing strategic choices (Gedajlovic, *et al.*, 2004). The variety of actors involved in strategic decision making may also be influenced by the ownership structure and typology and by other contextual variables (Harris, 2008).

Given a set of existing resources, an effective shape of the corporate governance arrangements could prevent opportunistic behaviour of executives, exerting a protective function of the wealth invested in the firm (Filatotchev and Toms, 2003). The strategic orientation evolves along different stages and its changes are linked to changes in corporate governance structures, processes and functions such as the ownership structure, the board role, the capital structure, management professionalization or, within family firms, the founder involvement in the business (Dalton *et al.*, 2005). Designing corporate governance mechanisms according to a correct balance between enterprise and accountability may be useful, for example, to develop expansion strategies increasing a firm's permeability to the environment, compared to the start up stage or to family firms characterized by closed ownership within one or a small number of families. At the maturity stage firms are often professionally managed firms and there is a lower ownership concentration, requiring an increasing level of monitoring and control tasks, as suggested by the agency perspective. Independent directors, in this case, may be engaged in resource acquisition or in promoting network relationships in growth stages, but changing their role going through a maturity stage, focusing on efficiency in resources allocation and on disclosure as a wealth protection mechanism. Each mechanism needs to be designed as a part of the corporate governance system as a whole, considering both the range of arrangements established, their relationships and the context where it works to fully

evaluate the arising outcome and its effectiveness.

Strategic orientation and corporate governance adaptation: the ownership relevance

Even if many studies have focused relationships between individual governance mechanisms and performance, they often neglect that corporate governance practices work as a whole system and, furthermore, they establish conditions for the action by which power and influence are exerted, before conditioning performance (Rediker and Seth, 1995). The link between ownership and firm performance is still ambiguous, but it is critical in order to understand how to design corporate governance practices that will influence managerial decisions and actions that may increase performance. Research efforts have been predominantly devoted to the board but neglecting other mechanisms, then exploring its relationships with performance. Although not all corporate governance structures and processes refer to the board activities, they have sometimes been interpreted as replaceable (Forbes and Milliken, 1999). Not only the board is involved in corporate governance functions, but various internal and external stakeholders exert their power and influence, then contributing with a different degree of intensity to establish the appropriate forms of governance structures and mechanisms and their changes over time (Huse, 2005). Among them, the owners may have a critical role due to their potential influence directly on the governance functions or indirectly such as influencing the board. In this view, ownership exerts its role in terms of potential contribution to the effectiveness of the corporate governance system as a whole, together with other contingencies. Differences in ownership structures and typologies are recognized across nations and industries (Thomsen and Pedersen, 2000) with substantial influences on the firm's goal. Their differing objective functions need to be considered to understand the nature of the relationship between ownership structure and firm processes and outcomes (Daily *et al.*, 2003b:153). Furthermore, within the same ownership typology, a various degree of involvement in the corporate governance structures and processes may be observed, then showing a differing contribution to address the firm's strategic orientation by a direct representation on board or by addressing its role (Gedajlovic and Shapiro, 1998).

Different theoretical approaches addressed the topic of designing corporate governance structures consistent with a pursued strategy or with other contextual variables. Recently, an increasing development has been to investigate the relationship between the firm's strategic orientation and changes in the corporate governance system (Filatotchev and Wright, 2005; Filatotchev, 2007).

The inquiry is extended to explore functions supporting strategies and resources acquisition and development, going over previous limitations to a

deeper understanding of corporate governance, arising from an exclusive focus on the monitoring and control function.

Furthermore, it highlights the potential support coming from a consistent conformation of the corporate governance practices to the overcoming of stages of strategic transition in the firm's life cycle. As an example, board role expectations may vary across the firm's life cycle and the board composition would reflect the relative power of the various internal and external stakeholders at the time of board appointment (Lynall *et al.*, 2003).

Ownership may be considered a contextual variable or a corporate governance mechanism influencing the system as a whole. Ownership structure shapes the board, but sometimes the board may seek to modify it to make it more consistent with the pursuit of the strategy. Ownership, therefore, may be a constraint as well an outcome of designing corporate governance (Huse, 2007). Moreover, the ownership structure, when is highly concentrated and the owners do not intend to open the capital to new partners or shareholders, as often happens in family owned firms, it may condition the strategic orientation, requiring alternative mechanisms to resources acquisition, such as the formation of pyramidal groups or increasing the level of debt. Ownership gives the power to condition the firm's strategic orientation by addressing the board mission and, moreover, by hiring or firing the board members who have a fiduciary duty to manage in the owners' interests (Eisenhardt, 1989). Even if in the public company model the delegation of power from the owners to the board or to the managers may be associated with a lack of control on its exercise, basing on free riding problems, different ownership structures and typologies provide incentives to a fuller exercise of the ownership rights. In example, external equity stakeholders may condition the appointment of outside board members because of their role in providing critical resources to the development of the venture (Clarysse *et al.*, 2007).

Ownership related matters influence the firm's strategic decision making, according to the effectiveness of the representation arrangements and the relative weight, for each owner, of the value of the firm's shares respect the total amount of his investments portfolio. Agency theory points out that ownership, as well other governance arrangements, influences the extent of involvement in risky activities (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983) suggesting that managers become risk averse in their decisions as they increase their ownership in the firm. According to this view, concentrated ownership, such as family business may have disadvantages in risk taking propensity, leading to risk avoiding strategies (Filatotchev *et al.*, 2006).

In any given time, the firm's corporate governance, as the outcome of contextual and stakeholders pressures and relationships, is influenced by its ownership which has the authority for

delegating power to the board and giving it directives to address the strategic orientation. A consistent allocation of power and incentives may favour efficiency, supporting resources and knowledge acquisition as required by the firm's strategic orientation. Therefore, changes in ownership structure and typology, as well as in the board or in other mechanisms and contingencies, altering the context within strategic decisions are taken, may represent a critical condition to favour strategic change and going through one stage to another along firm's life cycle.

Based on its structure and typology, the ownership may be able, with a different degree of effectiveness, to address and to monitor the board decision making. Due to the delegation of authority by the owners, the board holds its power acting autonomously but in the ownership's interests as its fiduciary duty requires. When corporate governance does not allow the owners having a strong influence on the board members or the owners are little interested in the firm's results, because of their fragmentation, then the ownership influence becomes weaker on the board which is then able to expropriate its power, discretionally managing the business and therefore, addressing the firm's strategic orientation. In other cases such as entrepreneurial firms, family owned firms and sometimes institutional investors, owners want to contribute to value creation through acting in the boards, having a strategic involvement not restricted to earnings or dividends (Huse, 2007). As an example, in family owned firms the ownership has often a strong influence on strategic orientation, also appointing family members to governance or managerial roles, while various degrees of conditioning may be observed in public companies. Similarly, when ownership is concentrated among a small number of large investors, but for each of them shareholding in the firm is a small fraction of their investment portfolio (Mallin, 1997). Again, a free riding problem may emerge, since the institutional investors are little motivated to devote resources to monitoring the board's behaviour. As a consequence, they tend to implement collusion with board members or managers, who maintain a wide autonomy in decision making (Pozen, 1994; Short and Keasey, 1997).

Achieving strategic goals may, sometimes, be favoured by changes in ownership structure and, in this perspective, the design of ownership more consistent with the pursuit of strategies is among the most critical tasks of the board (Huse, 2007). For example, in the process of privatization of public enterprises, the board's task is to design a firm's new stakeholder system to increase efficiency, facing competitive pressures. This often matters for changes in the ownership structure to achieve a new corporate governance shape considered more suitable to support the implementation of strategies. Furthermore, when new resources are required to increase growth rates the decision to go public brings variations in

ownership and therefore in the corporate governance system as a whole (Filatotchev *et al.*, 2006).

Conclusions

The growing debate on corporate governance in recent years has highlighted existing limitations in knowledge addressing directions still requiring further development.

Exploring corporate governance within its context favours a wider understanding of the existing differences around the world, overcoming universal perspectives searching for a prevailing model. The corporate governance effectiveness may be considered in terms of adaptation respect to the firm's strategic orientation, seeking a suitable balance between its wealth creation and wealth protection roles. Both the dimensions are the outcome of established mechanisms and how they work and interact in their specific context. Therefore, focusing on the effects of a single mechanism leads to partial information and moving to wider perspectives considering the combination of arrangements may be a useful direction to develop knowledge of corporate governance. Among contextual variables, ownership may hold a strong influence in addressing the firm's strategic orientation. Although often neglected in favour of a wider emphasis of the board strategic role, a variety of existing corporate governance structures shows, in many countries, a direct influence of the ownership on strategic decision making. In this perspective, the development of a theoretical framework addressing corporate governance in a contextual perspective may lead to new insights fostering the advancement of research. Furthermore, it could provide useful suggestions to develop effectiveness in corporate governance design, practices and regulation reforms.

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