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What makes for a value-creating corporate board?
A literature synthesis and suggestions for research.

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Abstract

In this literature review, we propose a synthesising view on what constitutes a value-creating corporate board. The review scopes ten academic journals in a 31 year period and is thematic/analytical rather than quantitative. Our judgement of profundity and quality of ideational content is the guiding principle for electing what scholarly work to highlight and include in the synthesis. We end up by proposing a route for future research on value-creating boards.

Keywords: corporate governance: boards of directors: value creating boards: literature review

Introduction: what do we know about the value creating corporate board?

The appearance of corporate governance as an academic field of inquiry is to a large extent contemporaneous with academic, policy and broad-based public interest in the role of corporate boards. As is the case of corporate governance in general, corporate boards tend do be intensely debated in times of corporate ’trouble’. Academic research, however in our opinion does tend to be slightly less ”short-termist” in its interests, and hence, we recognize a long-standing, and growing interest in corporate boards. The literature on the subject is of course immense, and we do not pretend to be able to claim anything but a partial grasp of some of it. Nevertheless, the purpose here is to present a review of substantial academic literature on corporate boards, and interjecting that review into the particular scholarly traditions that we represent.

Our review was guided by the *empirical* questions about corporate boards that we perceive as foundational both to practitioners, the broader public, to policymakers, and researchers alike. These are:

What do corporate boards do?
How do they do whatever they do?
Who are on the boards of corporations?

The answers to these three empirically oriented questions must subsequently be subjected to theoretical argument in order for any answers to be provided to the perhaps more important explanatory or normatively oriented questions many of us may have. Here, we focus on the overall ‘functioning’ of corporate boards, and therefore ask:

How can corporate boards contribute to the sustained creation of value?

The vast bulk of research responding to such a question comes in the form of distanced survey-based data on a range of board input variables, firm output variables, and a quest to find correlation, and perhaps causation, between them. Based on the typical formulation of the typical problems related to a historically unique (and partially outmoded) kind of organization - the largest listed US corporations with dispersed shareholdings and Delaware corporate legislation – academics from many countries study the supposed connection between the number of board members, CEO/chairman duality, insider/outsider ratios, or board member stockholdings, and various measures of firm performance. Results from such studies vary and are generally very weak in explanatory power (Daily, Dalton, & Jr, 2003). Hermalin & Weisbach (2001) concluded that general economics' and financial economics' studies of corporate boards had found significant negative correlation between board size and firm profitability. Gabrielsson & Huse (2004, pp. 11-12) even speculated that this one-sided focus on a particular kind of study in the filed might be explained by the relative accessibility of this type of data, perhaps in particular in the US, along with academic career concerns on the part of researchers. We have studied articles published from 1980-2011 in ten academic journals and a number of books that seem to have been influential as 'read' from the articles. The journals surveyed were:

Academy of Management Review
Academy of Management Journal
Administrative Science Quarterly
British Journal of Management
Corporate Governance: An International Review
Corporate Governance: The International Journal of Business in Society
Governance: An International Journal of Policy, Administration and Institutions
Journal of Management and Governance
Journal of Management Studies
Review of Financial Studies

Our overall finding is that academic research to an increasing extent acknowledges that it is the *qualities* of the corporate board that explain its contribution to corporate output. These qualities may in turn be analysed as the 'wise' integration of 'wise' practices about who, what and how. Such a view seems also to be in line with what corporate directors report when given the opportunity to discuss their tasks with academic researchers (Roberts, McNulty, & Stiles, 2005; Stiles, 2001; Van den Berghe & Levrau, 2004). However, self-reporting from a particular elite social category cannot be regarded as unproblematic data reflective of practice, but subject to the general phenomenon of rationalizing "displays of moral adequacy" (Silverman, 1985, p. 176). Combining anonymous interviewing and observation, and/or drawing from journalistic investigation or legal proceedings are probably fruitful methods to get closer to board practice and its qualities. To a large extent, however, much research remains preoccupied with quantitative measurement of board characteristics, and the substantial and unsubstantiated inferential leaps (cf. Pettigrew & McNulty, 1995) from these to the output variable of board (or even firm) performance, still remain to be interpreted by the readers of the published research. Hermalin & Weisbach (2001) raised a number of concerns regarding such interpretation under the notion of endogeneity. Their entire work aimed at procuring a view of corporate boards as an "endogenously determined institution".

Consistent with such an ontological grasp of the phenomenon (corporate boards), there is a minor but growing literature specifically addressing the qualities of corporate board practice (Pugliese et al., 2009); this literature is here treated as foundational, rather than as a "case-based" appendix to supposedly more "scientific" theory and empirical investigation.

A central question in the board research is that about what boards actually do? And, is there one best way of doing what they do? When some researchers call for conceptual coherence regarding the board's role, practices, and relationships, they also suggest that this should be done by studying attention to the irreducible minimum elements of accountability among varied governance venues as well as the concepts and principles that would enable those universal characteristics to be optimized (Carver, 2010). The results should make it possible to isolate the relatively few (according to Carver) essential components of responsible governance and thereby construct a foundation that enables all other elements to vary based on cultural, legal, and idiosyncratic variables for each board. We believe that such "few essential components" will be of very general character, carrying the risk of not bringing much substantial knowledge or explanation to the theory. However, we suggest that a synthesizing approach may still be worthwhile and it is such an approach we pursue here, acknowledging that there probably is no one best way either of understanding, nor of doing corporate board work.

Whatever boards do, many people seem to think they should do it better. There are pressures on boards to improve corporate performance that have lead to reports advocating governance reform (Nicholson & Kiel, 2004). These reports reflect a particular theoretical perspective (agency theory) that may be argued to underestimate the complexity of how boards work. In subsequent research, Nicholson & Kiel (2007) pose the question of whether directors can in fact impact on corporate performance. When testing three theories of corporate governance; agency theory, stewardship theory and resource dependence theory, they found that although each theory could explain a particular case, no single theory explained the general pattern of results. These authors therefore call for a more process-oriented approach to both theory and empirical analysis if our ambition is to understand how corporate boards add value. Others, such as Stiles (2001), call for more research on how directors perceive themselves as to their role and influence in the running of organizations, in contrast to the vast amount of correlation studies on demographics of boards and financial performance.

Van Ees, Gabrielsson, & Huse (2009) advocate a behavioural theory of boards and corporate governance with focus on: 1) interactions and processes inside and outside the board room, 2) the fact that decision making is made by coalitions of actors and objectives are results of political bargaining, and 3) the notion that not only conflicting, but also cooperating, interests are part of the boards' decision making and control over firm resources. The suggested approach favours actual instead of stylized descriptions of board behaviour involving coordination, exploration, and knowledge creation as much as problems of conflict of interest, exploitation, and the distribution of value.

Guided by the existing literature, the most general way to answer all our questions about who, what and how is that it all depends; the answers to the various empirical and theoretical questions depend on each other. For instance, following e.g. Coffee (1999), let us establish that "law matters" in corporate governance generally and in corporate board practice specifically. Corporate boards are *not* the same "thing" in different legal jurisdictions (nation states, or unions). These will most certainly impact on what they do, how they do it, who is on the board, and most importantly how all this contributes to value creation or destruction. A review of legal conditions impacting on corporate board practices is beyond the scope of this paper. (Mallin (2010) provides some comparative materials.) For illustrative purposes, we only mention that in UK corporate governance, major shareholders are not directly represented on the board, whereas they routinely are in e.g. Germany or Norway. In Sweden, the unions appoint a minority of directors in most major corporate boards, a procedure virtually unheard of in the US. Clearly, legal regulations impact on board composition.

It seems appropriate to make clear at the outset here that a vast literature on corporate governance starts off with the arbitrary choice of a supposed maximization-of-monetary-wealth interest on the part of a shareholder/investor, and only then asks how corporate boards and/or other corporate governance mechanisms (ownership structure, dividend policies, accounting requirements, remuneration policies, interlocking directorships or whatever) contribute to or hinder the realization of such an interest. Whence, as in the case of Germany, such an interest is against the basic tenets of corporate law (or even the constitution of the nation-state in question) the definition of corporate governance as "the ways in which suppliers of finance assure themselves of getting a return on their investment" (Shleifer & Vishny, 1997, p. 737) is simply inappropriate. The goal of corporate activity does not have to be the maximization of investors' monetary return on investment. Indeed, many corporate charters state objectives quite different from it and many others might do so in the future with current US legislation (Lan & Heracleous, 2010). Differently put, corporate value does not have to equal stock market capitalization ("shareholder value").

Morten Huse (2007) provides a typology of corporate boards that is generic in the sense that it is 'agnostic' on the matter of corporate purpose. Ideally, the board contributes to corporate value creation, hence the concept of the value creating board. Huse's concept of the value creating board springs from the contrast between agency theory and resource dependency theory and/or resource-base theory as applied to the phenomenon of corporate boards. For the two latter theoretical schools, corporate boards should be understood as contributors of resources to the corporation, theorised as "team production" (Alchian & Demsetz, 1972; Aoki, 2001), not omitting but pivotally complementing the agency theory view of boards as providers of monitoring and control (Fama & Jensen, 1983). On the basis of the inclusion or exclusion of the resource-contributory role of the corporate board, Huse (2007, Ch. 11) distinguished between the 'barbarian' (control only) and the 'value-creating' (service *and* control) board. The value-creating board enjoys both integrity- and competence-based trust from management and strikes a balance of independence and interdependence, whereas the barbarian board maintains distance, and excels in financial control competence rather than operational or strategic matters. These two forms of powerful boards may be contrasted with the two other ideal types formulated by Huse as the 'aunt' and 'clan' boards. An 'aunt' board is passive and dependent on management. It provides neither control nor service to the corporation. The 'clan' board is put together on the basis of social relationships in groups of kinship, friendship or collegiality, is trusted by management, and provides services to management to the benefit of the corporations. The lack of independence, however, inhibits control task performance.

We shall pursue this imagery of the value-creating board. For our purpose here, this implies constructing the *fictive* character of the "average value creating corporate board" as if there were such a "thing". In line with the basic tenets of philosophical hermeneutics (Ricœur, 1985/1988) it is ultimately the reader who decides whether such a character comes across as interesting, inspiring, truthful or whatever, a verdict that will imply a meeting of the "world of the (our) text" and the "world of the reader". We shall then craft an agenda for how to research board practices in light of this sough-after ideal.

The value creating board

In summary, our fictive character may be summarized as follows:

A value-creating corporate board is a decision-making group that functions as mediating hierarchs, balancing the emerging interests of stakeholders, by ratifying strategy (not to be confused with determining strategy), by surveying and supporting management in pursuing it, and by and adding value to certain managerial tasks. A value-creating board impacts on and ratifies corporate strategy on the basis of its individual knowledge, cognitive and emotional capabilities as well as its interactive qualities as a work-group. It acts primarily by hiring, rewarding and firing executive officers, by receiving and requesting information from management, and by interacting with stakeholders and other outside constituencies.

Our presentation of some of the relevant literature below is structured according to this summary.

Value-creating corporate boards are decision-making groups….

Speaking out on US corporate reality, Useem (2003) claimed that ”investors need all the help they can get” in appraising company governance because so much of it occurs behind closed doors – and because it is what the directors do behind those doors that so determines the company's future performance. Investors cannot directly control those decisions, nor should they want to do so. After all, they have elected the directors to do precisely that. But investors must therefore know when companies have the right composition and right policies to assure that the right decisions are made when the boardroom doors are locked. Corporate governance is about directors making decisions and this has intensified the demands by investors for better outward foundations of governance. According to this author companies should increasingly focus on two foundations of good governance in the years (then) ahead: board composition and board policies. The size of the board and the identity of the directors would arguably pre-determine much of the quality and timeliness of the decisions. Using the case of the Enron bankruptcy to enlighten the role played by the board of directors, Useem claimed that several foundations were overlooked in the case; the composition of the board, and the policies of the board. Companies should have audit, compensation and nominations/governance committees comprised of independent directors. Companies should conduct annual performance evaluations of the board and each committee. Companies should adopt a code of conduct and disclose any waiver of the code for directors and officers.

The point to make here is that nowadays, most US corporations do have all that, and yet corporate scandals are an ever-present feature of reality; one-size fits all structural regulations does not seem to be an easy way to secure good-quality decision-making. At the centre of this matter is the difficult and multiple tasks or functions ascribed to corporate boards. Forbes & Milliken (1999) were among those who clearly describe the board's tasks to perform as bipartite: *control* of management and *service* to management and the corporation. Total control would easily end the corporation, as would no control. These tasks are then to be fulfilled by a particular kind of work group, typically consisting of a quite large number of people with elite credentials, meeting and interacting episodically, predominantly dealing with complex issues with the purpose of making decisions of strategic importance, and not primarily with implementing them. Furthermore, the work of a (value-creating) corporate board goes on in semi-routinized manner with formal meetings following a rhythm determined by reporting practices and interrupted by major expected or unexpected events (such as corporate crimes, natural disasters, mergers & acquisitions, managerial deaths et c, e.g. Johanson, 2008).

… that function as mediating hierarchs, balancing the emerging interests of stakeholders …

The corporation appears as a legal fiction with very real consequences – a nexus of contracts - between a range of stakeholders (employees, customers, suppliers, government authorities, investors et c). Following e.g. Aoki (2001), we argue the most reasonable stylized way of depicting these contracts is that they are endemically incomplete, and subject to continuous ex post negotiation as much as ex ante bargaining of explicit contractual obligations. Huse, Hoskisson, Zattoni, & Viganò (2011) in their overview of previous theoretical treatment of corporate boards argue that the primary output of board work is a continuous enacting of objective(s) of corporate activity, what they refer to as “goal formation” (p. 13). The corporate board is typically instilled with the loosely defined task of guarding the corporation, functioning as “mediating hierarchs” (Blair, 1995) between the range of stakeholders and the corporation itself.

Huse & Rindova (2001) argue that stakeholder expectations are essential in understanding board activities. Their point of departure is the questions about “who, and what really count” to the firm. For example, in the later decades there has been a change in the role set of boards, in the appearance of environmental specialists. “This change in the composition of some corporate boards contradicts the conventional theoretical view of corporate directors as pawns of powerful mangers” (p. 154). Huse & Rindova studied stakeholder expectations on subsidiary boards and concluded that at least five different theories have conceptualised the role of boards in relation to stakeholders: legalistic, resource dependence, class hegemony, agency and resource based perspectives. These various streams of theory vary in stakeholder emphasis and on different board roles. These various perspectives rest on different assumptions about the nature of corporate boards as a governance mechanism. Various assumptions lead to various emphasis on different board roles: advice (resource based perspective), influence (legalistic perspective), information (resource based perspective), initiation (legalistic perspective), legitimation (resource dependence and class hegemony perspectives), lobby (resource dependence perspective), monitoring (agency perspective), ratifying (legalistic and agency perspective), supporting (class hegemony perspective). A synthesizing approach should take all five roles of boards in relation to corporate stakeholders into consideration.

Ravasi & Zattoni (2006) show that the corporate board may well be understood as a forum for negotiation between stakeholders (such as groups of shareholders). In the case of nine Italian corporations with at least two important shareholders and no one in majority control, the focus on the "political" function of consensus building through the medium of the corporate board is highlighted. In any case, on both theoretical and empirical grounds, they argue that "understanding the process and the outcome of strategic decisions requires a careful analysis of the set of interests that have the power to influence the focal decision" (p. 1675). They go on to identify three possible antecendents of corporate board involvement in strategy: heterogenity among shareholders, director's firm-relevant competence, and existance of ex-ante conflic resolution mechanisms. Kallifatides et al (2010) provide a detailed empirical account of such processes of deliberating between directors informally representing heterogeneous shareholder interests on the issue of the goal(s) of one particular corporation; showing the wide range of actors that may be involved *within* and *around* corporate boards, and the complexity of the processes. On this particular occasion, there was very little of consensus building, probably related to the degree of divergence of interests among directors.

In line with organization theory classics such as Crozier & Friedberg (1977/1980), Pfeffer & Salancik (1978) and Perrow (1986), all these authors maintain we should uphold the view of organisations, including corporations, as recalcitrant "tools" (Perrow, 1986, Ch 1.) in the hands of their master(s) and we must therefore identify the complexities of the master(s) (such as shareholders) in order to grasp corporate governance and corporate board practice.

… by ratifying strategy (not to be confused with determining strategy)…

Some particular board tasks generate heavy attention in the academic field, such as the issue of board involvement in corporate strategy. Ravasi & Zattoni (2006) build on a primarily British tradition of scholarship emphasizing the more active roles of corporate boards. From McNulty & Pettigrew (1999), Rindova (1999) and Stiles (2001) to Roberts et al (2005) the idea is maintained that non-executive (outside) directors do shape and take decision on strategy as well as impact on the continuous process of realizing a strategic intent. The role of ratifying strategy was highlighted in Fama & Jensen (1983) as an appropriate task for a (shareholder) value-creating board, but in the British tradition – and perhaps much related to British corporate practice being different from US corporate practice – ratification is complemented by shaping and screening of proposals from management (or other constituencies) and partaking in the continuous process of strategizing. In recent studies balancing of power between the corporate board and executive management is highlighted as an important explanatory factor in corporate economic performance. Dominant CEOs (and weak boards) seems to engender heightened risk (Tang, Crossan, & Rowe, 2011).

On the other side of the Atlantic, the impact of boards on corporate strategy is also acknowledged in research. The primary vehicle for this impact in the American setting seems to be the hiring and firing of CEOs. According to Westphal & Fredrickson (2001) there seems to have been something of a shift in corporate America, or perhaps has corporate life in earlier times been inadequately grasped for instance by Mace's (1971) oft-cited work describing boards as rather passive and inconsequential governance bodies. In fact, the strategic performance of boards may have been concealed and (mis)understood for management influence. It appears that director background(s) do impact on strategy, most often in such a way that directors seem to promulgate strategy choices that have been made in their companies of origin (i.e. where they have been or are executive officers. There seems to form an influential set of ideas regarding strategy among directors in a board, and this impacts of the hiring and firing of CEOs. Such ideas are promulgated and reinforced through interlocking directorates across corporations. The hiring of an ”outsider” CEO is a clear signal that the board has decided to promote strategic change in the corporation. In this context, it is worth reiterating that boards are different. In the Italian and Swedish cases referred to above, major shareholders are directly represented on the board in a routine manner and deeply involved in corporate strategy, whereas many US corporations do not have any such major shareholders.

In order to actually influence the strategy process, Stiles (2001) argues that the board of directors should be in charge of three fundamental roles in strategic work, ”gate keeping”, ”selection of directors” and ”confidence building”. In realizing these three roles, Stiles states that board could influence the boundaries of strategic action. It is the board's task to make sure that the management stays on the strategic focus and do not stray too far away from what Stiles refers to as the strategic framework. Here Stiles points to a potential problem regarding the gate-keeping role. If management remains ”too” focused according to board instructions there will be no room for entrepreneurial and challenging ideas. If they drift ”too” far away from the strategic framework, the strategy might lose relevance. On the issue of recruiting directors, Stiles found that in the case where everything was running fine, the heir to the CEO was normally informally appointed by the current CEO.

Stiles also points to the important fact that strategic work is performed in multiple levels in the firm. It is the responsibility of the board to define what business the company is in, what constitutes the competencies of the firm. Being gate-keeper in relation to strategic proposals and the confidence-building role are important in shaping the domain of discretion for managers. They are “crucial strategic mechanisms for the company, for at least three reasons. First, the board is the ultimate arbiter of what constitutes the focus of the company (`what business are we in?' what areas should we go into?') Second, through selective screening and confidence building, the capacity for innovation and entrepreneurship can be regulated. Third, through constant examination of the business definition and corporate strategy, the commitment to certain strategies or business sectors may be questioned and so boards may be instrumental in breaking organizational habits and forcing change.” (p. 646)

Pugliese et al (2009) concludes that during the last decades there has been a lot of research on the relationship between boards of directors and strategy, yet there is little theoretical and empirical agreement regarding the question on how boards of directors contribute to strategy. The study illustrates how the research on the subject has evolved from normative and structural approaches to behavioural and cognitive approaches. The authors encourage future studies to examine the impact of institutional and context specific factors and to apply alternative methods to fully capture the impact of board processes and dynamics on strategy making.

… and surveying and supporting management in pursuing it…

Much in line with Stiles's analysis of board strategy involvement, the overall *imagery* of the value creating corporate board work professed by Sundaramurthy & Lewis (2003) is one of a balancing act; finding an adequate *paradoxical* balance between the two main tasks of the board: control and service. Incorporating stewardship theory's assumptions of pro-social human motivation also among corporate managers, these authors assume *variable or dynamic* human action patterns and interest formation, formulated in explicit contrast to agency theory's assumptions of egotistic opportunism on the part of agent-managers (Fama & Jensen, 1983). Sundaramurthy & Lewis theorise the process content of this balancing act, and the spiral effects that may be expected from emphasis on either of the two roles on the one hand and managerial action on the other. Knapp, Dalziel, & Lewis (2011) theorize how that balance might be handled through the twin processes of "individualization" of managers and "social recategorization".

…and adding value to certain managerial tasks…

Classification of board tasks, and the theorizing behind it, is a vivid topic in the corporate governance literature (Huse & Rindiva, 2001; Hillman & Dalziel, 2003, Jonnergård & Stafsudd, 2011). Recurrent theme classification includes monitoring management on behalf of shareholders and and providing resources. The involvement of boards in strategy can be regarded as a separate third role (Zahra and Pearce, 1989).

Jonnergård and Stafsudd (2011) prefer to divide the activities carried out by boards, according to what range or type of activity is carried out and, secondly, according to the point in the decision-making process where the board gets involved. Jonnergård & Kärreman (2004) developed the categories and add to monitoring and supervision, including budget follow-up, decisions about measures as a consequence of budget follow-up, discussion with the auditors of the firm, visits to different firm sites, evaluation of the performance of the CEO they list policy and strategy as two task of board activities. Policy involves approval of the budget, review of the company's information policy, review the CEO's reward system, review of reward schemes for the top management group, review of recruitment policy, review of the company's personnel policy. Strategy includes such activities such as discussions about the general direction of the firm's activities, evaluation of strategies, initiation and formulation of strategies, discussions about the firm's image, goal-setting discussions.

Jonnergård and Kärreman furthermore investigated the relationship between change in ownership of listed Swedish corporations (more international shareholders) and board activities. In a longitudinal study (1994-2004), the found that the range of board activities and board involvement have increased dramatically during this period, which indicates a change in the "logic of appropriateness" of Swedish board behaviour. In their follow-up study of changes in board activities since 1994 Jonnergård & Stafsudd (2011) found that boards seem to focus the most on strategy. The find increasing support for the notion that there has been established a modified logic for appropriate board behaviour in the case of Sweden. This would be especially true regarding board involvement in the decision-process, but the issues covered by the board also seems to have expanded and nowadays include policy-making issues and activities aimed at providing accountability. According to these authors both board composition and director network characteristics explain the change in board activities. However, the variables seem to have a larger explanatory value regarding board involvement than range in board activities.

The pivotal role of monitoring highlighted in the agency theory or the firm as applied to corporate boards, is problematized by Deakin & Konzelmann (2004). Elaborating on the case of Enron, they argue that it was not the failure of monitoring but rather the failing “to take responsibility for the risks which were inherent in the company’s business plan” (p. 134). On the level of language this constitutes a slightly confusing argument, as this would seem to be a perfect example of lax ”monitoring” as defined by agency theory. Unknowingly or, as these particular authors argue, knowingly the Enron directors sent the corporation on a quest for share price maximization via all sorts of ”intelligent” accounting. For our purposes here, this particular case – the prototypical ‘barbarian’ board - highlights the importance of the cognitive and emotional capabilities of directors, and the ideas about corporate purpose and strategy they bring to the board room table.

Corporate boards ratify strategy on the basis of its individual knowledge and cognitive and emotional capabilities…

Hillman & Dalziel (2003) introduce the concept of ”board capital ” to express directors’ aggregated competence, experience, and ties to strategically relevant organizations. Nicholson & Kiel (2004) stress the importance of avoiding the mistake of ignoring the complexity of how boards work, and therefore develop a holistic board framework based upon the concept of ”board intellectual capital”. Depending on the input of e.g. company history, company constitution, legal environment, there will be particular mixes of board intellectual capital used in performing board roles. Different intellectual capital will affect board behaviour. As the authors put it; ”thus the governance outputs of organizational performance, board effectiveness and director effectiveness will depend on the match between the board’s intellectual capital and the roles required of it” (p. 442). They further conclude that this framework can also be used as a diagnostic tool to evaluate board capabilities in relation to the different components of the framework.

Nutt (2002) underscores that board decision-making is heavily determined by individual board member “savvy” and “experience”. Decisions of strategic importance are riddled with emotional reactions, vested interests, and personal animosities. At the centre of these processes we find the “speech act”: performative storytelling and interpretation, establishing frames of reference that yield power relations and decision content (Ng & Cock, 2002). Nutt further describes a strong tendency to avoid formal analysis, as such an analysis might generate unwanted implications for those involved, even in cases where analysis would be called for from a rationalistic point of view. For our purposes here, it is important to emphasise that corporate boards are decision-making bodies that to a large extent deal with the situation of unknown goals and/or unknown means to achieve goals, which makes "judgement" and "inspiration" expected and appropriate formats for decision-making. From this Nutt/Thompson strain of literature we may infer that a value-creating board appropriately modifies its decision-making style to the decisions at hand. This obviously hinges on the cognitive and emotional capabilities of individual directors, the subject of a vast literature in itself that cannot be covered here, but also on the interactive qualities of the board as a work-group.

In the mix of individuals taking place at the board the category of non-executives are often expected to contribute with additional experience to the strategic decision-making. They bring links to influential stakeholders of the corporation that can be potentially relevant in for instance mergers and acquisitions (Pye & Camm, 2003). Roberts et al (2005) examine board effectiveness through an examination of the work and relationships of non-executive directors. They stress that it is the actual conduct of the non-executive vis-à-vis the executive that determines board effectiveness, not board structure, composition or independence condition.

… its interactive qualities as a work-group…

A foundational notion for a substantial literature is the notion that close social ties between board members is conducive to a proneness to 'group think' and therefore linked to a substantial number of high-profile corporate scandals (Caprio, 2008; Useem, 2003; Westphal & Bednar, 2005). Suggestions abound on how to avoid the traps of 'loyalty bias' or 'pluralistic ignorance'. One measure that has been pursued in practice is more diversity in boards, and larger boards, to little effect (Larmou & Vafeas, 2010; Westphal & Bednar, 2005), although there is some evidence that 'socially responsible firms' do come with slightly more independent boards (Webb, 2004). The conclusion that stands out from the literature is that 'independence' is not a quantitative fact, but rather a quality. This is a point of principle taken to its general implications by Long (2006) who argues the difference between compliance (to governance codes) and qualitative evaluation of board practice.

The route from quantitative measurement of board characteristics to board qualities went through the application of more generic theory on human work groups, applied to corporate boards. The imagery of the balancing act is repeated in explicit treatments of corporate boards as work groups. Forbes & Milliken (1999) summarized much of US research on corporate boards, highlighting the lack of attention to the link between "demographic" variables such as formal education, age, of the corporate board and its "task performance". Building on the extensive literature on work group dynamics they theorised the link in terms of effort norms, the managing of cognitive conflicts, and the use of competences. We may, they argue, expect high task performance from boards in which significant effort is the group norm, expressed as active participation in meetings along with preparatory work between them. We may also expect high task performance from boards where members feel comfortable in stating their opinions and sharing information and where personal and emotionally charged conflict is not overwhelming. Lastly, we may expect high task performance from boards where members do have adequate company-specific as well as general competencies, and where group processes enable the use of individual competencies and capacities of directors.

Payne, Benson, & Finegold (2009) tested a set of predictions about board effectiveness stemming from the work of on Forbes and Miliken and many others on a sample of 210 IS Fortune 1000 firms for the year 1996-1998. They were able to find correlations between their proxies for the board qualities of 'knowledge', 'information', 'power' and opportunity/time and firm performance. They were unable to find significant correlation on the fifth hypothesised aspect of board effectiveness: incentives. The proxy used for 'incentives' was director shareholdings. This, however, seems to be a limited operationalization of the concept of incentive, as it does not even take into account the market for directorships.

The role of a chairman is probably important in many instances to the development of these group qualities. The qualities of processes in meetings and between them will be impacted by the kind of chairman in place in terms of ownership, personal characteristics, track record and expertise (McNulty et al, 2011). The importance of the chair is emphasised in practitioners' stated views, and again, the theme of balancing recurs, this time between sought after "control" of the processes without "dominating" them (Van den Berghe & Levrau, 2004).

McNulty et al (2011) depict the heterogeneity that characterises the role of board chair and demonstrate the potential variability in how chairs operate boards and exercise power and influence on strategy, control and resource related tasks at board level. On the basis of a study based on survey responses from 160 chairs and 59 CEOs, and by linking board structure, board process and the exercise of influence, they reveal both differences amongst chairs in how they lead the board, and that chairs' differ in the influence they exert on its tasks. Unsurprisingly, the results show that full-time executive chairs exert their most influence in strategy and resource dependency tasks whereas part-time, non-executive chairs commit most to monitoring tasks.

The chair often seems to be in a unique role at the board, something that might be reflected in the board's evaluation and perception of the group's work performance. Sponbergs (2007) evaluated board work in 15 companies headquartered in Sweden. The directors and chairs answered questions on what tasks they considered important to the work, and also to what degree these tasks were being performed. They made judgements about the other directors' contribution as well as their own. The results show that the chairs consistently gave themselves a higher grade than the other directors did. Sponbergs concludes that self-assessment of the chair gave the largest gap between importance and actual performance on answers regarding board leadership. He also found that the directors had a good understanding of their duties but there was a considerable gap with respect to their performance. In fact several basic tasks and behaviours worked poorly, for example only some directors took active part in the discussion, there was poor follow up on references and the practice of committee work was not established.

Huse (2007) claims that three important factors for group work quality are attendance at board meetings, degree of preparations, and degree of company-specific knowledge among directors. One of these factors is easily quantifiable (and is also reported in many Annual Reports. The two other factors remain much harder for anyone to judge – and difficult to quantify in such a way as to obtain construct validity – and this goes for both practitioners and academic investigators. Proxies will inevitably be used by both categories – and here "gut feeling" is an important proxy used in much of practice – recruiting of directors remains informal and personal with elaborate use of personal networks and word-of-mouth materials (Sjöstrand & Petrelius, 2002), For some, that may sound as a critique or even as satire. Such implications are purely unintended; there are forceful arguments to be made in defence of informal and personal recruitment practices when it comes to directorships. Corporate boards are vehicles of power. In a situation of incomplete contracting, it may be highly rational to attempt securing cooperation via 'trust', something that in turn hinges on sustained personal relationships, or kinship (e.g. Sjöstrand, 1992).

… by hiring, rewarding and firing executive officers…

The view that senior management matter to corporate performance is promulgated by the "upper echelons theory" (Hambrick & Mason, 1984; Hambrick, 2007), specifying what characteristics of managers may be linked to strategic choices and performance. In line with the overall thrust of that argument, Mason & Westphal (2001) showed the links between directors and senior management experience in explaining corporate strategy, and Wallace, Carol et al (2002) evidenced differences in choice of CEO (as well as strategy) depending on the degree of "independence" of directors.

Boeker and Goodstein (1993) interviewing respondents in 231 successions in Californian companies, found that when a company showed poor performance it was more likely that the board recruited an outsider for successor. In companies with high ratio of insiders on the board, and high ratio of ownership in the hands of management, the board was less likely to recruit an outsider. The authors conclude that company performance, as well as board composition and owner structure plays a part in CEO recruitment.

Studies of the processes of hiring CEOs and other senior managers are difficult to find. As we have stated above, this goes for board monitoring processes as well.

The literature on executive compensation, however, is immense. Noe & Rebello (2011) present a valuable overview of it, while also engaging in mathematical modelling geared towards explaining stylized facts regarding current executive compensation practices in terms of rational boards and powerless managers that is, in stark contrast to arguments that, particularly in the US, powerful managers have attained irrationally generous, and indeed overall irrational, monetary compensation (Bebchuk, Cohen, & Spamann, 2010; Bebchuk & Fried, 2004; Hermalin & Weisbach, 2001).

In an oft-cited work Beatty & Zajac (1994) investigated the issue of managerial incentives, monitoring and risk bearing in executive compensation. They illustrate and explain theoretically the implications of the idea that control in risky business could be exercised through compensation systems. According to these authors, theoretical models must take into account the goals of both the individual and the organization, but much of recent literature on compensation neglects the goals of the individual. In summary, the authors point to implications/problems of motivating and monitoring managers through variable monetary incentives, explained by the fact that managers tend to be risk averse when it comes to their own remuneration.

The ousting of CEOs is rarely studied in the literature. Fredrickson, Hambrick & Baumrin (1988) presented a model for explaining and predicting CEO dismissal, including the board of directors' expectations, attributions, allegiances and values among the explanatory variables, along with incumbent CEO power and availability of alternatives.

For our purposes, the value-creating board is expected to conduct hiring, firing and rewarding of executive management with care, aligning both senior management characteristics and incentive structures to corporate goal(s). Whether that is done or not, on average, in current practice, will probably remain a contested issue.

… by receiving and requesting information from management..

The archival material from the activities of one Swedish corporate board was closely studied by Johanson (2008). The study shows that there was a routine provision of a bulk of quantitative data or information before each board meeting (financial and management accounting numbers), complemented with more irregular provision of qualitative data or information. The archival materials, including notes from the board meetings clearly indicate the many times pivotal importance to decision-making of these qualitative information, sometimes provided spontaneously by management to the board, sometimes at the request from directors.

Johansson's study gives support to the view that Swedish corporate boards tend to be active (Jonnergård & Stafsudd, 2011). Such an active board 'manages' the information asymmetry between part-time directors and full-time managers by attending carefully to the routine board materials (financial and management accounts, other 'board accounts') to make multiple uses of it, among other things asking management to provide additional accounts and judgments based on these.

This could be partly explained by what Johanson found in his case study. While use of the board accounts in the case study company changes considerably over time, the content of the board accounts remains largely unchanged. Board accounts are defined as the information formally supplied to the board by management. Johansson concludes that this situation is due to the information-process taking place between the board and the manager, in Johanson's word "the interface between board and management", which is a topic that has been surprisingly little investigated in academia. The study shed light on the weak relationship between content and use of board accounts; findings were that changes in board functions and the use of the board accounts were not accompanied by significant changes in the content of the board accounts. Secondly, there were occasions where the board took important decisions on the basis of almost zero information. Thirdly, some decisions were accompanied by a lot of information, but the subsequent decision was not consistent with the content of the information. Johansson lists several explanations to this such as alternative sources of information and communication, unreliability of the management accounts, and multiple uses of information. We suggest that there might also be other, substantial explanations of the link between the content and use of board accounts, namely that there are limitations of what conclusions that can be drawn and to what a board of directors can foresee.

… by interacting with stakeholders…

Huse & Rindova (2001) highlighted the different roles that boards can have, and the importance to understand the stakeholders' perspective when the role of the board is defined. Various stakeholders have different expectations on board roles and they also have different relations to the board.

With the point of departure that social interaction is of importance for the work in boards, Westphal & Bednar (2008) concludes that the relationship between CEO and fund managers among shareholders is important for the actions and influence of board activities and strategy. CEOs use ”persuasion” and ”ingratiation” predominantly to “pacify” institutional investors. The authors find, not surprisingly, that these interpersonal behaviours are generally effective in influencing institutional investors on the US market. The study, however, is based on CEO responses, which arguably says more about CEO behaviour than the actual outcome of this behaviour.

Roberts et al (2005) examine board effectiveness through an examination of the work and relationships of non-executive directors. Research on corporate governance lack understanding of the behavioural processes and effects of boards of directors. According to the authors it is not board structure, composition or independence condition that determine board effectiveness; the actual conduct of the non-executive vis-à-vis the executive determines board effectiveness. Westphal (1988) based on archival data tested and found evidence of the dynamic interplay between management and directors in US corporations, with managers as a category responding to more “independence” on the part of directors as a category, i. e. when board activities shift, so do management activities.

In the particular case of Sweden, board activities in terms of range of activities and engagement in the decision process increased during the 1990s in Sweden, according to

Jonnergård & Kärreman (2004). These authors interpreted their survey data in terms of a general shift connected to general contextual changes or variables (linked to denationalization of ownership) rather than firm specific ones. According to the authors, "the perceived board function is derived rather from the expectations of future needs for equity capital (i.e. signalling to the expected investors on the capital market) and external control mechanisms in the form of the market for board members (i.e. signalling to the labour market for directors). Thus, board members act to anticipate future benefits for the companies and themselves, rather than the present situation of the company." (p. 250)

The range of board tasks can be redefined by "new" issues that reach the boards' table. An example of such an issue is the questions of social responsibility and sustainability. This is developing into a field within the academic field of corporate governance, c.f. specialised journals. In recent years, new issues are perceived as relevant and important to boards of directors. Lin-Hi & Blumberg (2011) develop on the connection between corporate governance, global corporations and sustainable profit. The authors illustrate with the case of the decision-process in BP to drill for oil in the Mexican Gulf, and the contradictions between a long-term and short-term perspective. Their conclusion is that companies must prioritize sustainability before short-term profit. Our conclusion from the literature referred to in this synthesis is that all this depends on what corporate stakeholders, such as shareholders, do, with corporate boards playing their part in the negotiation on corporate goal formation.

In this context, it is of importance to acknowledge that there are stakeholders other than those claiming to be so. A wide range of advisory organisations has intimate and long-standing ties to corporations and to corporate boards, and as such is to be regarded as stakeholders. This has been highlighted in general by for instance Coffee (2006). The interactions between corporate directors and their advisors remain largely unstudied.

Conclusion and suggestions for research

The question on what boards do has empirically turned out to be the most difficult one to answer. This has most likely to do with the secrecy involved in these activities. There is still a huge demand for knowledge about what corporate boards actually do, not just talk about doing (Jonnergård and Stafsudd, 2011).

A growing number of voices claim that in order to advance academic knowledge, better use must be made of qualitative research methods, including observing boards in real time and interviewing directors (Leblanc & Schwartz, 2007; Leblanc, 2004). Huse et al. (2011) make the case for redirecting research on corporate boards away from currently dominant questions, theories, and methods to pave the way for more questions about board practice, theoretical pluralism, and novel both quantitative and qualitative methodologies.

Payne et al. (2009) is a example of methodological innovation, carving out useful information from publicly available sources for quantitative analysis, as is Vandevaerde et al (forthcoming), documenting and interpreting board meetings. Another promising route to take is more advance methodologies in interviewing and interpretation of materials. Geale (2007) provides an example of a phenomenological approach to board practice detecting varying horizons of understanding among directors of their own practice.

We would like to suggest that one more classical route to take is to follow the well-established format in management studies: the case study (cf. Hassard, 1991; in corporate governance research we point to Bebchuk et al, 2010, on executive pay; Scherer and Palazzo, 2011 on CSR; Becht et al 2010 on shareholder activism, and Kallifatides et al 2010 on the market for corporate control, and board practice). We could and should pursue and present interpretative narratives of board effectiveness or task performance, lending support to or doubt to various theoretical approaches. Since corporate boards are vehicles of power, the uses and abuses of that power should remain in the researchers view: narratives of who, what and how, should be connected to the overarching question: How did all that impact on the creation or destruction of value? For that to be possible, we have tentatively presented a synthesising characterisation of (some of the elements) of a value-creating corporate board. This (kind of) synthesising characterization – or “theory” – could and should be tested against real life descriptions. That kind of study has yet to become a standard format in published and widely disseminated corporate board research.

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