The Influence of Institutional and Resource Dependence Relationships on Family Firms' Board Practices. An Integrated, Theoretical Perspective.

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Abstract

Board practices in family firms are characterized by evident homogeneity. Research in family businesses has described such board practices, yet avoiding or failing to give a coherent theoretical, causal explanation of them. Different theoretical approaches qualify for explaining such phenomena. The topic of this paper is an exploration of the potential of only two of them: neoinstitutional theory and resource dependence theory. Hence, the aim of this paper is to elaborate some theoretical hypotheses based on the integrated use of both neoinstitutional and resource dependence approaches, and aimed at explaining board practices in family firms through subsequent empirical testing.

Introduction

Board practices in family firms (1) are characterized by a startling homogeneity. Indeed, two board practices distinctly prevail: the *absence of a board,* when the family firm is governed by a sole administrator; the *formal board,* when the board of directors consists of a limited number of members, all of them coming from the family or from within the firm.

Research in family businesses has explored and described such board practices, yet avoiding or failing to give a coherent theoretical, causal explanation of them. Different theoretical approaches qualify for explaining such phenomena. Yet, the **topic of this paper** is an exploration of the potential of only two of them: *neoinstitutional theory* and *resource dependence theory*.

Neoinstitutional theory is here suggested as suitable to explain the "homogeneous" behavior of family firms characterized by the absence of a board, or by a formal board. More specifically, institutional processes will be suggested to explain the pressures to conform and the processes through which family firms conform. On the opposite, resource dependence theory is suggested as an alternative theory suitable to explain the "deviant" behavior of family firms characterized by large, active boards.

Despite the different nature of the two theoretical approaches, an integrated explanatory perspective is proposed. Indeed, "deviant" family firms might be led to adopt different board practices by the stronger technical pressures characterizing their task environment or due to demanding strategic actions, hence lowering the relative importance of institutional pressures. However, in doing so they also face legitimacy issues, where legitimacy is seen not as the desired outcome of board decisions, but as a resource essential to increase the firm's competitive position. On the other hand, family firms adopting "homogeneous" board practices might

overlook technical pressures deriving from their task environment - especially when facing considerable resource dependence - pushing towards more “dynamic” governance solutions. Homogeneous board practices may, in these cases, lead to a weaker impact of the board on firm’s activities and, hence, performance.

Hence, the **aim of this paper** is to elaborate some **theoretical hypotheses** based on the integrated use of both neoinstitutional and resource dependence approaches, and aimed at explaining board practices in family firms through subsequent empirical testing.

Board Practices in Family Firms

There is only sparse empirical evidence of board practices in family firms. However, some general common patterns seem to emerge from an analysis of the literature.

Whatever the definition of family firm used in empirical investigations on governance issues (though differences in defining family firms may actually severely affect comparisons between different studies), one of the most common findings of such studies is that many family firms have small boards, if any, seldom comprising more than three to five directors (Barach, 1984; Cromie et al., 1995; Westhead & Cowling, 1996). Multi-generation firms (i.e., second or more generation, as opposed to first generation family companies) tend to have more directors than first generation ones (Cowling & Westhead, 1996).

Besides the number of directors, board composition is remarkably homogeneous among family firms. *There is some evidence that family firms are less likely to employ outside directors* (2) *than non-family firms* (Church, 1969; Barach, 1984; Cromie et al., 1995; Cowling & Westhead, 1996; Westhead & Cowling, 1996). Again, a slight difference emerges between family firms of different age. *The average number of outside directors is low in both first and multi-generation firms; yet, the presence of outside directors is more frequent in multi-generation, than first generation, companies* (Cowling & Westhead, 1996).

Another interesting and somewhat surprising characteristic of many family firm boards - though not the majority of them - is that *a large proportion of family firm directors hold outside directorships in other firms* (Ward & Handy, 1988; Cowling & Westhead, 1996).
Family firms that seem more likely to have outside boards are firms whose CEOs have often sat on other companies’ boards (Ward & Handy, 1988). As far as the difference between family and non-family firms is concerned, *there is some evidence that members of boards in independent unquoted family firms are more likely to held outside directorships in other companies than members of comparable non-family firms* (Cowling & Westhead, 1996).

To sum up some of the findings of major interest: family firms tend to have small boards, and the number of directors tends to increase as the firm grows older; family firms tend to have less outside directors than comparable non-family firms, and the number of outsiders increases with firm’s age; a significant proportion of board members in family firms hold outside directorships in other firms.

Current Explanations of Board Practices in Family Firms

Some explanations of why family firms adopt the observed governance structures emerge from the literature. However, such explanations often fail to give a complete, exhaustive account of board practices in family firms, for two major reasons. First, they do not usually base on clearly defined and well developed theoretical frameworks, which makes them difficult to be empirically tested. Second, empirical studies on boards of directors in family firms have been almost exclusively univariate, descriptive analyses of governance practices, where any subsequent causal explanation is left to the authors' subjective judgment, often based on professional experiences.

Explanations already existing in the literature can be grouped into three different clusters. The two explanations relating governance choices to *the body of legislation* or to *family related needs* usually explain why family firms' boards are so homogeneous. Explanations relating the choice of board composition to the potential *roles played by the board of directors* are often used to explain the 'deviant' behavior of firms characterized by large, outside and active boards, or the opportunities for growth missed by the majority of other firms, tied to more conservative and traditional behaviors. On the opposite, empirical studies finding evidence of *uncertainty* about the actual existence of such roles use the same set of explanations to account for and advocate the use by family firms of small, internal boards. The three sets of explanations will now be described in further detail.

Corporate legislation in industrialized countries tends to be homogeneous in relation to the required structure and functioning of the board of directors in privately owned, unquoted firms, at least as far as the major basic requirements are concerned. In the U.S., for example, privately owned firms are usually under no obligation to have a board, beyond the minimally required one specified by the state where they are chartered (Vance, 1983; Ford, 1988). In the majority of industrialized countries only joint stock companies must have a board of directors, with a very limited minimum number of members. No distinction is usually made between inside and outside directors. In other words, family firms can often choose either not to have a board of directors (i.e., relying on a sole administrator), if they are not corporations, or to have a very small, internal board.

The reasons why the vast majority of family firms choose one of the two latter solutions relies on the second set of explanations: *family related needs*. Different studies have demonstrated the will of families owning and running a firm to maintain independent ownership and managerial control of the company. This kind of choice ensures family interests always come first in the decision-making process within the business. Outside board members, on the opposite, generally focus on the financial performance of the firm rather than upon the non-financial aspirations of family owners (Church, 1969; Goffee & Scase, 1985; Leach, 1994; Westhead & Cowling, 1996).

The third set of explanations of board practices in family firms relies on the *potential roles that the board of directors can play* in a family firm. According to some of the main literature contributions, board members can play four different kinds of roles within family firms (partition in role categories is partly inspired by Johnson, Daily & Ellstrand, 1996). The first is a

control role, including supervision, control of management and the firm's performance. The second is a *service role*, which includes bringing new managerial skills or developing existing ones, supporting the definition of objectives and strategies. The third is a *family issues management role*, which includes planning and managing the succession process, coordinating the family and the firm, managing conflicts between the family and the firm, and within the family. The fourth is a *resource-dependence role*, which includes developing a network of contacts and obtaining external legitimacy in order to gain access to crucial resources.
Explanations based on potential board roles have been used to explain both the use by family firms of small, inside boards, and the use of larger, more active outside boards, according to the respectively low and high contribution of board directors to firm's performance, as emerging from empirical evidence.

As the conspicuous empirical evidence clearly shows, it is very difficult to single out the usually subtle and indirect impacts of board structure and functioning on firm's performance (Dalton, Daily, Ellstrand & Johnson, 1998).

Nonetheless, basing on sparse, often anecdotal empirical evidence, different authors have claimed the positive effects of active, outside boards on family firms' performance. Such claims recall the four potential roles of board directors mentioned above (Hoy & Verser, 1994; Leach, 1994; Whisler, 1988; Donnelley, 1964; Westhead & Cowling, 1996; Ram & Holliday, 1993).

Other authors, however, have found no empirical evidence supporting the value of active, outside boards and board members. In various studies, one of the major determinants of not having this kind of board is its perceived uselessness or, in other words, *uncertainty about its efficiency and effectiveness* (Ford, 1988). At any rate, even in studies supporting the use of outside boards, a number of family firm owners are reported as questioning the positive role of the board because of such uncertainty on its effectiveness (e.g., Ward & Handy, 1988).
To sum up, a number of explanations for family firms' board practices already exist, but none of them sounds theoretically convincing. First, if some possible causes of board practices have been addressed, no empirical investigation has tried to understand the *mechanisms* and *processes* leading to such homogeneous board practices. In other words, board structures in family firms are almost always treated as a qualitative state: boards, for example, are either large or small; outside or inside. There has been surprisingly little attention given to conceptualizing and empirically testing the *processes* through which board structures are defined in family firms. Second, choice of board structure in family firms has almost always been approached as the result of internal decision mechanisms, hence overlooking any possible *external, social or environmental pressure* on such organizational behaviors.

The Influence of Institutional Relationships on Family Firms' Board Practices

The neoinstitutional theory addresses the research question of why organizations behave homogeneously, often adopting very similar structures, strategies and processes. In other words, research in neoinstitutional theory is interested in what causes organizational *isomorphism*. The answer to such question given by neoinstitutionalists can be summarized as follows: organizations engage in isomorphic behaviours as a reaction to different kinds of environmental

pressures, and with the aim of being legitimized within the environment. The unit of analysis of neoinstitutional theory is the *organizational field*, composed of those organizations constituting, in the aggregate, a recognized area of institutional life (Meyer & Rowan, 1977; Zucker, 1977, 1987; DiMaggio & Powell, 1983; Tolbert & Zucker, 1983; Scott & Meyer, 1983; Scott W.R., 1987, 1995). A fundamental outcome of institutional isomorphism is organizational *legitimacy*, which guarantees acceptance of the organization by its external environment. Legitimacy is, in turn, essential to ensure long term *survival* to the organization (Meyer & Rowan, 1977; DiMaggio & Powell, 1983).

According to the categorization proposed by DiMaggio and Powell (1983), there are three mechanisms through which institutional isomorphic change occurs. *Coercive isomorphism* "results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function" (p.67). To this kind of isomorphic pressure belong state regulations, standards and law requirements, rules and standards imposed outside the governmental arena, and all the more subtle and less explicit pressures coming from the stakeholders constituting the community surrounding the organization. *Mimetic isomorphism* is a result of uncertainty. "When organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations" (p.69). This kind of mimicry may occur unintentionally and indirectly, or explicitly, diffused by organizations such as accounting and consulting firms, or industry trade associations. In both cases, organizations tend to model themselves after other organizations in the same institutional field that are perceived as both similar and more legitimate or successful. This does not mean, according to early neoinstitutionalists, that imitated behaviours are the most efficient. DiMaggio and Powell (1983) posit that "the ubiquity of certain kinds of structural arrangements can more likely be credited to the universality of mimetic processes than to any concrete evidence that the adopted models enhance efficiency" (p.70). Finally, *normative isomorphism* derives from professionalization: formal education and the growth and elaboration of professional networks legitimize and rapidly diffuse new models, to which organizations belonging to such professional networks tend to adapt.

Neoinstitutional theories have never been explicitly applied to explain board practices in general, and in family firms in particular. Several recent studies have provided empirical evidence for the role of director interlocks in the diffusion of various organizational practices and structures (Haunschild, 1993). These empirical investigations have clearly shown that imitation is encouraged whenever information about organizational practices come from a *familiar source*, such as director ties. Previous studies already showed that *familiarity* affects imitation both among individuals (Bandura, 1977) and firms (Galaskiewicz & Wasserman, 1989). *Acquaintance, friendship and trust* are important determinants of mimetic processes within interorganizational fields, as shown by Galaskiewicz and Wasserman (1989). They pointed out that, under environmental uncertainty conditions, organizations are especially likely to mimic the behavior of other organizations to which they have some type of extraorganizational, interpersonal network, via boundary-spanning personnel.

In all the above mentioned studies on director interlocks, the board of directors is seen as mechanism of imitation, but not as the *object* of imitation. This does not mean that institutionalism cannot be adopted to explain board practices as institutionalized ones. From the

early institutionalists up to the most recent contributions, mechanisms of imitation have been suggested to explain various organizational forms and practices.

Thus, the above delineated sketch of early neoinstitutionalist propositions can be applied to board practices in family firms through the following hypotheses.

Existence and aim of mimetic processes.

Hypothesis 1: Family firms perceiving high environmental uncertainty define their board structure according to mimetic processes.

Hypothesis 2: Family firms defining their board structure according to mimetic processes perceive homogeneity of their board practices as a way of obtaining organizational legitimacy towards major stakeholders.

How does mimicry take place.

Hypothesis 3: State laws exert a strong coercive pressure on family firms' board practices.

Hypothesis 4: Cultural expectations in the society within which family firms function (i.e., both the extended family and the local community) exert strong coercive pressures on board practices.

Hypothesis 5a: Family firms are likely to mimic board practices of other family firms which they know and trust.

Hypothesis 5b: Family firms are likely to mimic board practices of other family firms with which they have a director interlock.

Hypothesis 5c: Family firms are likely to mimic board practices of other family firms with which they have some type of extraorganizational, interpersonal network.

Hypothesis 6: Family firms deciding their board practices with the help of accounting or consulting firms (or with the help of accounting or consulting firms belonging to some sort of professional network) are likely to show homogeneous board practices.

Hypothesis 7: Family firms belonging to the same trade/entrepreneurial association are likely to show homogeneous board practices.

Early neoinstitutional research has emphasized the pursuit of legitimacy and the widespread use of taken-for-granted practices as determinants of organizational imitation (Meyer & Rowan, 1977; Tolbert & Zucker, 1983; DiMaggio & Powell, 1983; Scott W.R., 1987), in accordance with DiMaggio and Powell (1983), and Meyer and Rowan's (1977) assertions that isomorphism is the result of institutional pressures and not of efficiency considerations.

Recent neoinstitutional theoretical and empirical contributions have suggested that organizations may act under the simultaneous pressure of both social and technical/efficiency considerations (Powell, 1991; Orru, Biggart & Hamilton, 1991; Scott W.R., 1991; Haunschild &

Miner, 1997). Haunschild and Miner (1997), for example, have shown that *frequency-based imitation* (i.e., imitation of actions that have been taken by large numbers of other organizations) and *trait-based imitation* (i.e., selective imitation of practices that have been used by other organizations with certain traits, such as large size or positive financial performance) coexist with *outcome imitation* (i.e., imitation of actions that appear to have had good outcomes for other organizations in the past) in affecting organizational behaviours. Frequency- and trait-based imitation are clearly social processes, closely resembling DiMaggio and Powell's (1983) mimetic processes. On the other hand, outcome-based or selective imitation derives from *perceived consequences* of the practice, hence being linked more closely to technical processes and considerations than to social ones (Haunschild & Miner, 1997, p.476). In other words, outcome-based imitation is more a form of economically rational organizational learning based on the perceived impact of practices (Miner & Haunschild, 1995), than a form of social mimicry.

As a consequence of the described evolution, the analysis of factors determining the extent to which either of the two pressures prevails (i.e., social pressures, through frequency- and trait-based imitation, or technical/efficiency pressures, through outcome imitation) is an emerging area in neoinstitutional research. According to the most recent findings, *uncertainty about the efficiency of practices and structures* seems to play an essential role in determining the relative occurrence of institutional and efficiency related factors in organizational decisions. Haunschild and Miner's results (1997) have clearly supported the idea that uncertainty makes institutional factors (i.e., frequency- and trait-based imitation) more influential, making technical/efficiency factors (i.e., outcome imitation) less influential, or, at least, unaffected. It is important to notice that uncertainty to which Haunschild and Miner refer is specifically related to the efficiency of adopted organizational practices and structures, as opposed to the broader environmental uncertainty to which DiMaggio and Powell (1983) refer.

Thus,

Hypothesis 8: Uncertainty about the efficiency of board structures and composition strengthens frequency- and trait-based imitation of the solutions adopted by other family firms (as opposed to outcome-based imitation).

Hypothesis 9: Perceived efficiency and usefullness of board structures and composition strengthens outcome-based imitation of the solutions adopted by other firms (as opposed to frequency- and trait-based imitation), i.e., adoption of new board practices based on economically rational considerations.

The Influence of Resource Dependence Relationships on Family Firms' Board Practices

Resource dependence theorists address a totally different research question than institutionalists, being interested in what makes firms different, and some of them more successful (Pfeffer & Salancik, 1978). For this reason, resource dependence theory is here proposed as a theoretical framework to supplement neoinstitutional theory in explaining the 'deviant' behavior of family firms with large, active and external boards. Nonetheless, the two

approaches are not antithetical: one of the basic resources considered by resource dependence theorists is *legitimacy*, which is the main output of the institutionalization process.

The resource dependence theory of the firm has been often applied to explain the role of the board of directors, which is seen as a particularly effective means of obtaining essential resources for the company (Zald, 1969; Pfeffer, 1972, 1973; Pfeffer & Salancik, 1978; Aldrich, 1979). Indeed, the most recent and extensive reviews of the literature on boards of directors have classified the resource dependence role among the most important served by board directors (Zahra & Pearce, 1989; Johnson, Daily & Ellstrand, 1996).

According to this theory the firm does not control all the resources it needs. The majority of such resources are found only outside the firm. Acquisition of resources by organizations - the critical activity for their survival - is carried out through the interaction with the subjects who control those resources (Pfeffer & Salancik, 1978). Hence, trying to eliminate or reduce resource dependence becomes a vital activity for any firm.

Different patterns of action can help an organization avoiding or manipulating resource dependence on the environment. Within these alternatives, *interorganizational relations strategies* are widely considered the most effective (Pfeffer & Salancik, 1978; Aldrich, 1979). In fact, a peculiarity of resource dependence theory, as opposed to neoinstitutional theory, is its reliance on the *effectiveness of managerial action or agency*, *and on organizational and interorganizational practices*, which, on the opposite, is seldom recognized as having an impact by neoinstitutional scholars.

Among interorganizational relations strategies, some are particularly effective (usually the so-called *proprietary strategies*; Pfeffer & Salancik, 1978), but some others are particularly efficient, being more cost-effective and less time consuming, like, for example, the choice of board directors. Increasing the number of board directors, opening the board to external members - thus widening the organization's social network - and establishing board interlocks with other firms are less costly solutions, if compared to other interorganizational strategies. For these reasons, a careful choice of board composition can be a particularly effective way to overcome resource constraints imposed by the environment (Galaskiewicz, 1985; Mizruchi & Galaskiewicz, 1993; Penning, 1980; Scott J.P., 1991; Zahra & Pearce, 1989). This holds true especially for companies, such as small and medium size family firms, that cannot devote huge amounts of time and money to interorganizational relations strategies (Selznick, 1949; Pfeffer & Salancik, 1978; Daily & Dalton, 1992, 1993).

Empirical works addressing the directors' resource role have shown that three main factors influence board size and composition (Pfeffer & Salancik, 1978; Pearce & Zahra, 1992; Boyd, 1990; Boeker & Goodstein, 1991; Huse, 1995). First, *environmental uncertainty* decreases the control a firm has over resources, thus increasing the need to reduce resource dependence through appropriate organizational solutions. Second, *firm strategies* can be particularly resource demanding, hence requiring preferential access to those strategic resources. Fast growth, internationalization, diversification, innovation, going public and quotation, are all strategies requiring large amounts of resources from a larger number of stakeholders, usually not directly available by a family firm. Third, poor *past financial performance* often forces changes in board

size and composition, aimed at favoring the company's turnaround and at reassuring external stakeholders about the control the firm has on its environment.

Empirical evidence in family or owner/manager firms shows that in the presence of poor financial performance, demanding firm strategies and general environmental uncertainty, the firm reacts increasing the size of the board, its activism, and the number of outside members (Ward, 1988; Borch & Huse, 1993; Huse, 1995). Such behavior is fundamentally driven by the will to reduce resource constraints, but also by an evident will to improve firm's legitimacy towards the larger number of stakeholders deriving from the modified company's situation. In other words, an increase in technical and efficiency-related needs does not eliminate social pressures on the organization. Hence, a firm relying on the efficiency of board practices, whenever perceiving a high level of resource dependence, will try to reduce it increasing the number of directors, and of outside directors in particular, at the same time adopting a board structure suitable to obtain legitimacy by the increased number of stakeholders it has to face. Some kind of *outcome imitation based on resource considerations* may explain such behavior.

In addition to these explanations, empirical works on the board resource role have often concluded that changes in board composition and size are positively associated with improvements in future performance, or at least lead to a higher impact of the board on firm's activities and, hence, at least potentially, on its performance (e.g., Pfeffer & Salancik, 1978).

Thus:

Hypothesis 10: Family firms which have experienced an increase in environmental uncertainty (either autonomous or deriving from firms' strategic choices) are more likely to have larger, outside boards.

Hypothesis 11: Family firms which have engaged in resource demanding strategies (e.g., fast internal growth, internationalization, diversification, innovation, quotation) are more likely to have larger, outside boards.

Hypothesis 12: Family firms which are trying to recover from poor financial performance are more likely to have larger, outside boards.

Hypothesis 13: An increase in the number of stakeholders (following increased environmental uncertainty, demanding strategy or recovery from poor financial performance) induces in family firms choices of board structure based on outcome imitation.

Hypothesis 14: Board of directors of family firms engaging in mimetic board practices when their resource dependence is high, are more likely to have a lower impact on the firm's activity and on its performance.

This last set of hypotheses implies that institutional pressures and technical pressures due to resource constraints can coexist in determining board structure in family firms. Indeed, coexistence of resource dependence and institutional pressures is evident in many empirical and theoretical contributions (e.g., Pfeffer & Salancik, 1978; Sutton et al., 1994; Edelman, 1992; Scott W.R., 1987, 1994).

Future Research Implications and Conclusions

The main theoretical implications of this paper may be summarized as follows.

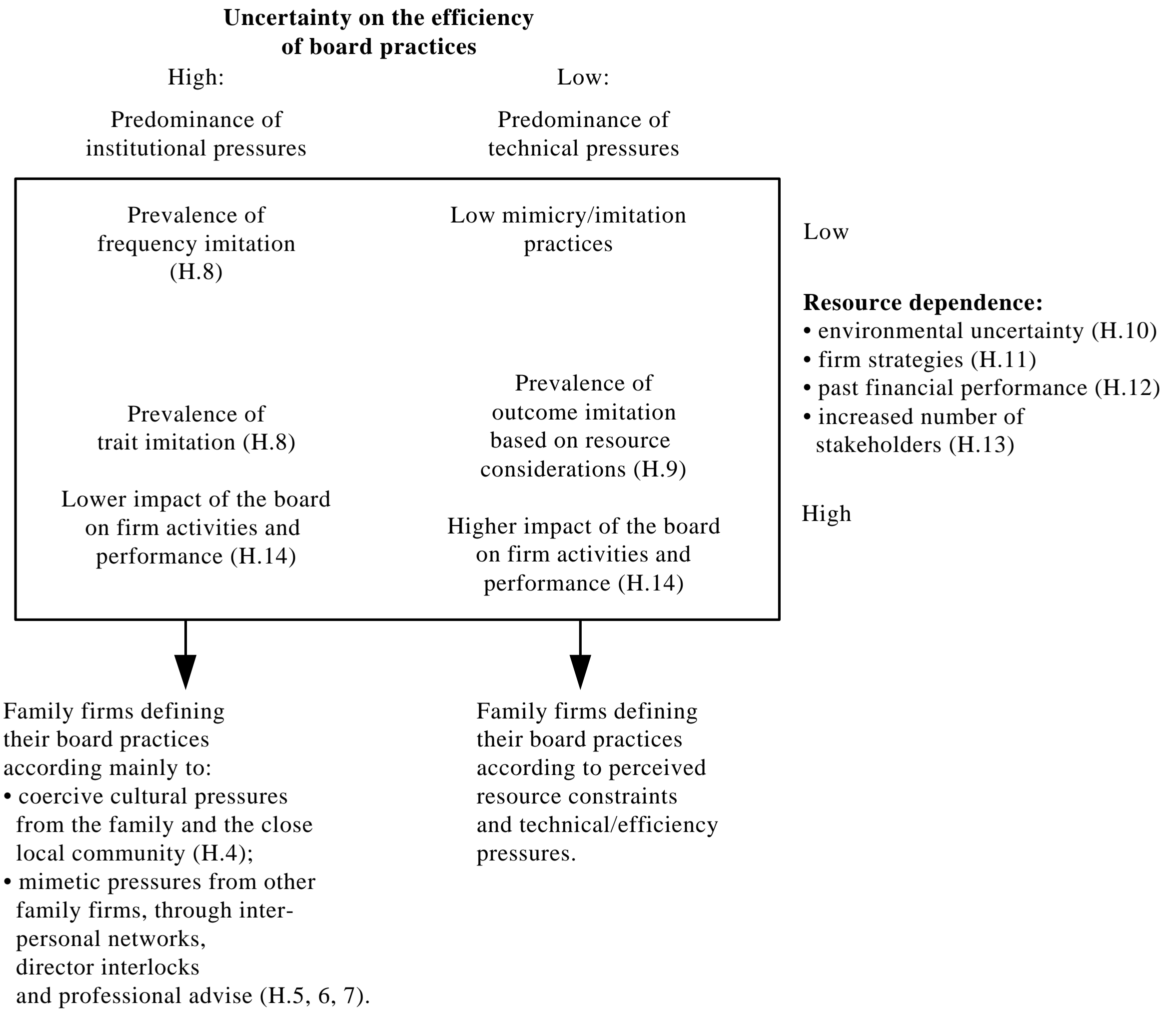
First, family firms often define their board structures reacting to institutional pressures, through a process of interorganizational learning and mimicking - directly or indirectly - from other family firms. Such isomorphic behavior is more likely when the family firm is highly uncertain about the efficiency of board practices.

Second, whenever a family firm faces strong resource constraints (usually because of an increase in environmental uncertainty, or because of resource demanding strategies or poor past financial performance), board structure decisions become more rational, or at least driven by the explicit will to reduce resource dependence, instead of obtaining social legitimacy through isomorphic behaviors.

Third, institutional and resource pressures should be jointly adopted to explain board structure decisions in family firms. *Institutional pressures* prevail when there is high uncertainty on the efficiency of board practices. In this case, however, when resource dependence is high, isomorphic board practices may lead to a weaker impact of the board on firm's activities. *Resource pressures* prevail when there is low uncertainty on the efficiency of board practices, and resource dependence is high. In this case, however, obtaining the resource 'legitimacy' through suitable board practices is one of the fundamental aims of board structure decisions.

These conclusions and some of the Hypotheses they refer to are outlined in Figure 1.

Figure 1. Board practices in family firms: determinants according to an integrated use of neoinstitutional and resource dependence approaches.



Future research can examine both institutional and resource dependence pressures as potential explanations of board practices in family firms.

Institutional and social pressures have been overlooked in the literature as potential explanations of board practices in general, and in family firms in particular. In this field, empirical research can be devoted first, to find clear empirical evidence of such isomorphic behaviors; second, to understand the processes through which family firms mimic each other in structuring their board; third, to understand the conditions making reliance on mimetic processes more likely than more efficiency-oriented decision making processes, and vice-versa. Here, the role of uncertainty about the efficiency of board practices has been proposed as a potentially relevant variable in distinguishing family firms which are more or less likely to define their board structures imitating other organizations.

The role of resource constraints in affecting board structure decisions is well known in the literature. However, it should be coupled with more institutionally based explanations. Indeed, 'legitimacy' can be considered as both an essential resource the family firm needs in resource-scarce situations to improve its competitive performance, and a valuable outcome of board structure decisions in itself.

The key implication of the proposed model is that family firms will define their board structures according to both institutional/social and technical/resource-related considerations. Failure to address these explanations and their interactions may reduce the explanatory power of empirical investigations. Future research efforts on the same subject will shed additional light on both the proposed hypotheses, and on alternative theoretical explanations.

Footnotes

(1) Given the extreme heterogeneity of definitions used in the literature, in sections devoted to literature review the term 'family firm/business' will be used without making any distinction as to how it has been defined. In the other sections, however, the term 'family firm/business' will be used referring to firms in which more than 50% of the ordinary voting shares are owned by members of a single family group related by blood or marriage, and the company is perceived by the Chief Executive, Managing Director or Chairman to be a family business (Westhead, Cowling & Storey 1997).

(2) An *outside director* is here defined according to the U.S. Securities and Exchange Commission (SEC, Regulation 14A, Item 6(b)) of outside-unaffiliated director, which allows singling out board directors who are actually independent from the CEO. *Outside boards* are here defined as those with one or more outside directors. Other works have considered outside boards as those with at least two outsiders (e.g., Ward & Handy, 1988), but using a much less restrictive definition of outside director.

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