

BOARD RESPONSES TO REFORM: COHESIVENESS, CONFLICT AND
FINGERPOINTING

by

JILL A. BROWN

(Under the Direction of Ann K. Buchholtz)

ABSTRACT

Research on corporate governance reforms has typically focused on whether the reforms accomplish their stated objectives; however, reforms of any kind can bring unintended consequences, both positive and negative. This study explores the unintended consequences of the Sarbanes-Oxley Act of 2002 that was put in place to address corporate malfeasance and agency issues. The precepts of institutional theory suggest that boards of directors experience more uncertainty, additional pressures of accountability and changing relationships with the CEO as they struggle to define norms of behavior under a variety of new mandates from different sources. The assumptions of the institutionalization process are explored to advance theory regarding how reforms become legitimized and diffused, and how this can break down in the absence of institutional logics. Using data from 138 directors in 54 firms, this dissertation answers the call for more research into board behaviors by examining the relationship between institutional changes, board reactions, board behaviors, and board performance. In addition, this dissertation develops a new construct of fingerprinting under scapegoat theory that is generalizable to other contexts. The findings of this study provide partial support for model predictions, suggesting that the pressures of accountability for board members lead to increased

cognitive conflict, less cohesiveness and fingerpointing. Cohesiveness is also shown to have a direct effect on board performance. Thus, the findings suggest that the diffusion of new reforms may be challenged by the unintended consequences of new board level behaviors, when the pressures of accountability lead to changing group behaviors, with negative ramifications for board performance.

INDEX WORDS: Boards of directors, Institutional theory, Conflict, Fingerpointing

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A Dissertation Submitted to the Graduate Faculty of The University of Georgia in Partial
Fulfillment of the Requirements for the Degree

DOCTOR OF PHILOSOPHY

ATHENS, GEORGIA

2007

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August 2007

DEDICATION

To family---past and present. It has been a long way from the coalmines of Pennsylvania and the retail district of Fall River, Massachusetts.....to the academic halls of Athens, Georgia. I hope that you know that I have done this for you, as much as for myself. Lizzy, Steven and Eric, you don't even remember the beginning of my PhD program, when I tried to quit in the first semester. The three of you stood outside of my bedroom door and begged me to finish what I had started. You told me that you admired me, and you would do whatever it took to support me in this endeavor. It was such an adult statement of support, from three small children. I dedicate this to you and your father, who took over many duties to see my finish this degree.

In addition, I offer a special dedication to Ann Buchholtz, my major professor, mentor, and friend. You will always be an advocate for the underdog. You have taught me life lessons that I promise to take into the classroom and apply to my research. It may sound trite, but you inspire me to make a difference.

ACKNOWLEDGEMENTS

To Mom, Dad, Holly, Mike, Elizabeth, Steven and Eric.....and all of the dear friends who have suffered through my trials and tribulations and shared in my successes (Sharon, MaryHelen, Shelley and Gerrie, in particular). Thank you, thank you, and thank you. I am so grateful for your support, and I would not have stayed in the program without your constant words of encouragement and help. I love you all very much. God has blessed me in so many ways.

To my friends at Augusta State who encouraged me to apply for the PhD program, I owe you a huge “thanks.” Drs. Nabil Ibrahim, Mary Mobley, and Marc Miller inspired me to get my doctorate and they pushed me to finish it. Nabil, YOU are the reason I even thought about doing work in ethics and social issues, and you guided me to Ann and Archie. Thank you. My former students Kenlsee, Jennifer and Andrea were also very helpful and encouraging. Thanks for your smiles.

I would also like to thank the members of the staff in the Department of Management who have assisted me along the way. MaryLou, Dana, Ruth, and Mary....your words of praise were always inspiring (“You go girl!”) and you were always willing to answer a question or help me find information. Ruth and Mary, I especially want to thank you for helping me organize my survey at a particularly stressful time. Thanks.

To the (present and former) faculty of the Management Department, I want to thank you for taking a bet on me. With a pool of strong potential doctoral students when I applied, you chose a middle-aged woman on a third (and hopefully, final) career path. I hope that I made you proud. I have thoroughly enjoyed my learning experience. Special thanks to Andrew Ward,

Gideon Markman, Melenie Lankau, Mandy O'Neill, Marcus Stewart, Archie Carroll, Bob Vandenberg, Allen Amason and Sandy Wayne who encouraged (and often pushed) me to do well. Special thanks to Amy Moon for helping me contact directors for my dissertation.

To my friends in the program, past and present, you gave me a sense of community that was so helpful to a person trying to juggle a long commute and a family of five. Peter, Kareem, Thomas N, Tom W, Chris T., Stacy, Justin, Ken, Marcus B, Bryan D, Jeff and Mark C.....always fun to share some jokes and some competitive spirit with you.

Finally, to Ann Buchholtz. What can I say? You have always believed in me and encouraged me to do well, even when I doubted myself. You continue to inspire me to research, write, and learn. I look forward to many years of friendship and productive times together. Thank you for showing me the way!

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CHAPTER ONE
INTRODUCTION
PURPOSE OF THE STUDY

Boards of directors have the ultimate responsibility for corporate governance: they provide governance guidelines, designing mechanisms that protect shareholder interests, and putting those mechanisms into place (Walsh & Seward, 1990). Corporate governance researchers have focused largely on board composition, structure and control over strategic decision making to address agency issues that create costs and compromise shareholder wealth. In a host of empirical studies, they have examined whether changes in board composition or structure can influence firm financial performance (Vance, 1983; Chaganti, Mahajan & Sharma, 1985; Kohls, 1985; Mattar & Ball, 1985; Norburn, 1986; Kesner, Victor & Lamont, 1986; Kerr & Bettis, 1987; Hill & Snell, 1988; Kesner, 1988; Donaldson & Davis, 1991; Hermalin & Weisbach, 1991; Rechner & Dalton, 1991). However, a meta-analytic review of the relationship between board composition, leadership structure and financial performance showed that there is little evidence of this relationship (Dalton, Daily, Ellstrand & Johnson, 1998). Researchers have begun to take more political and behavioral perspectives on the role of boards in an effort to better assess board effectiveness and firm performance (Zahra & Pearce, 1989; Boeker, 1992; Westphal, 1998; Westphal, 1999). However, very few of them examine context-specific antecedents to board behaviors that impact performance. Additionally, they tend to assume a static institutional environment for business decisions.

With the exception of Luoma & Goodstein's study about variations in legal environments and the impact on stakeholder representation on boards (1999), those studies that examine environmental jolts and regulatory punctuations on strategic decisions center on the outcomes of deregulation (Tushman, Virany & Romanelli, 1985; Fox-Wolfgramm, Boal & Hunt, 1998; Ginsberg & Buchholtz, 1990; Powell, 1991; Haveman, 1992; Ang & Cummings, 1997; Haveman, Russo & Meyer, 2001). Recent governance reforms with an increase in mandates, however, offer a rich context to study the effects of a changing institutional environment on executive decision-making. Institutional reforms such as Sarbanes-Oxley, new listing requirements for publicly traded companies, new mandates from private corporate governance ratings agencies and changing judicial opinions set the stage for a series of board-level responses to radical change. Institutional theory suggests that coercive, mimetic and normative processes in an organization's environment will dictate institutional rules including cultural cognitive practices, normative beliefs and regulatory practices that allow organizations to isomorph into homogeneous organizations, even after radical change (DiMaggio & Powell, 1983; Meyer & Scott, 1983; Scott, 2003; Deephouse, 1996). The hope of new governance reforms, therefore, is that the reforms that dictate additional transparency and accountability for board members will translate into effective "best practice" board behavior and strong firm performance.

This dissertation focuses on how institutional changes can impact specific group level behaviors, with both positive and negative implications for board and firm performance. By integrating institutional theory with group and organizational level theories through the cognitive effects of these institutional changes on board behaviors, I offer a multi-level theoretical model to understand effective board behaviors in the wake of reforms.. I argue that the ability of

governance reforms to address agency issues and corporate malfeasance may be hampered by the pressures of accountability, uncertainty and changing power relationships that board members experience with these reforms. The irony of these reforms is that they can lead to heterogeneous practices between board members and between the board and the CEO, despite the fact that institutional reforms are intended to create homogeneity of practices within and between organizations.

Research Questions

In this dissertation, I examine the relationship between institutional reform changes since the Sarbanes-Oxley Act of 2002 and board behaviors of cohesiveness, conflict, common enemy and finger pointing, with their resultant impact on board performance (see Figure 1).

Specifically, I ask: 1) how have institutional reforms mandating increased accountability of board members affected board dynamics and behaviors? and 2) what are the consequences of these behaviors on board performance?

Structure of the Dissertation

Chapter Two

Chapter Two builds the theoretical framework and explores new constructs used in the dissertation. First, I review the literature related to board studies and board performance, noting that there are few studies that examine the cognitive and behavioral aspects of board decision making. Second, I review institutional theory and its offshoot, institutional logics theory, focusing on the impact of institutional change on group level behaviors and the failure of institutional logics under changing reforms. The pressures that board members experience as a result of increased accountability and scrutiny impact the legitimacy assigned to the new mandates and thus impact the process that is integral to the diffusion of institutional norms.

These institutional pressures result in several group level behaviors that can negatively impact board performance. The failure of institutionalization of norms results in a perceived board member “state uncertainty.” As board members assume increased responsibility under these mandates, the CEO receives less managerial discretion. These pressures convolute the already difficult roles of board members as monitoring agents and stewards of an organization, with implications for board member behaviors. Finally, I develop hypotheses that form a model of board level responses to institutional changes.

Chapter Three

In this chapter, I describe the research methodology used to test each of the hypotheses. The research design incorporates both qualitative and quantitative research methodologies as well as primary and secondary data to gather information about boards of directors. The measures of each constructs are detailed with special attention to the development of measures for common enemy, scapegoat behaviors and board performance.

Chapter Four

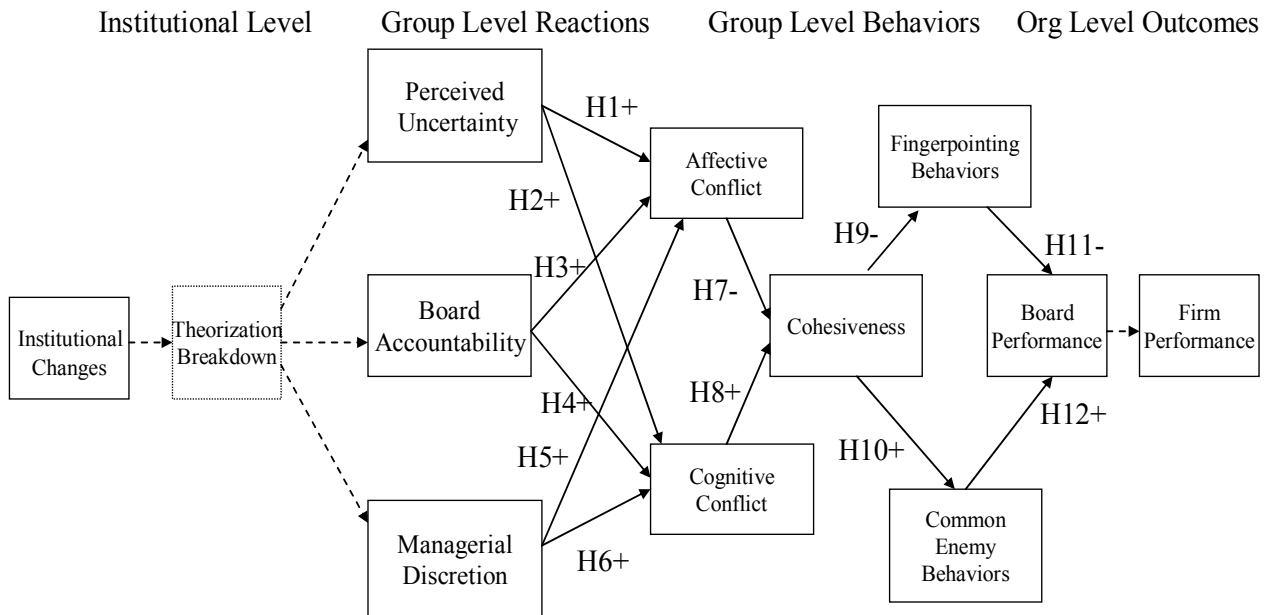
Chapter Four presents the dissertation results. First, I present the survey responses to assess validity. Additionally, the results of item analysis, factor analysis and WABA (within-and-between) analysis ensure that all of the group measures met the criteria for model testing. hypothesis testing, examination of direct and indirect effects.

Chapter Five

This chapter examines the hypotheses for each set of variables. The results indicate that the causal model is tenable, with direct and indirect effects and several hypotheses supported; however, the model holds some spurious components between variables. In addition, a number of post hoc tests were run in order to examine the possibility of a more direct path between

variables. Finally, the limitations of the study are presented, with implications for practitioners and future researchers.

Theoretical Model
Figure 1
The Impact of Institutional Changes on Board Level Behaviors



CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Existing research on boards of directors is heavily concentrated on studies of board structure and composition antecedents to firm financial performance. Despite meta-analysis finding no evidence of “substantive relationships between board composition and financial performance (Dalton, Daily, Johnson, Ellstrand, 1999: 674), governance researchers continue to examine these components with little insight into how board members interact to make decisions, and how the greater institutional environment affects board decision making. Even fewer studies examine the board behavioral and cognitive components of decision making, or address alternative measures of board performance beyond traditional measures of firm performance. I begin with a review of the existing board literature with the focus on composition and structure, and then examine the few studies that look at board behavioral components and alternative measures of board performance.

Board Composition, Structure and Performance

Board composition is comprised of director qualifications and membership criteria, the director nomination process and board leadership and independence. (Monks & Minow, 2004: 533). Board structure is slightly different from composition, and encompasses the size of the board and the division of labor between the board and CEO (Finkelstein & Hambrick, 1996). Various measures of both aspects have been used in the literature, but board structure is usually measured as a ratio of outside to inside directors (e.g Zahra & Pearce, 1989; Westphal, 1998)

while board composition uses demographic and relational characteristics of board members for measures for qualifications and membership criteria, including occupation, tenure, gender, race, functional background, educational background and type of director and committee membership (e.g. Weirsema & Bantel, 1992; Main O'Reilly & Wade, 1995; Westphal, 1998). From a board structure standpoint, past and current research in this area highlight the need for some optimal mix of outside, inside and independent board of directors.

Many researchers argue that effective boards will be comprised of a greater proportion of outside directors (see Mizruchi, 1983; Lorsch & MacIver, 1989; Pearce & Zahra, 1991; Useem, 1993; Westphal & Zajac, 1994, 1997). Other studies have challenged this argument on the idea that inside directors provide stability, more and higher quality information, better opportunity for innovation, diversification, and resources, and as a way to protect firm/management relationships (Pfeffer & Salancik, 1978). In essence, researchers square off on the double-edged sword of having inside board members provide stability while also opening up the opportunity for entrenchment practices under agency theory (Walsh & Seward, 1990). In a similar vein, CEO duality becomes an issue under board composition and effectiveness when assessing the benefits or pitfalls of a CEO who also serves as chairman of the board (Rechner & Dalton, 1991; Finkelstein & D'Aveni, 1994; Baliga, Ram, Moyer & Rao, 1996; Dalton et al, 1998). From a theoretical standpoint, the argument involves the trade-off between agency control with a separate CEO/Chair and leadership control of the CEO when he/she serves both roles. The agency argument favors separate CEO/Chair to effectively monitor the CEO and avoid CEO entrenchment on board effectiveness. The leadership argument capitalizes on stewardship theory and the benefits of collaboration and information sharing with a dual CEO/Chair. Again, the agency perspective seems to dominate effective board practice, since conflicts of interest can be

claimed when the CEO is serving on the board and potentially approving his/her own compensation practice and reviewing his/her own decisions. Additionally, when the CEO also serves as chairman of the board, there is a reduced ability and /or willingness of outside directors to challenge the CEO in board meetings (Westphal, 1998; Vance, 1983); however, when CEOs are not serving as chair they potentially lose their ability to lead effectively (Westphal, 1998; Harrison, Torres, Kukalis, 1988; Cannella & Lubatkin, 1993). From a financial performance standpoint, Dalton, Daily, Ellstrand & Johnson (1998) found no relationship between CEO/Chair duality and financial performance. Despite this debate, board independence levels continue to rise as companies work towards meeting recently enacted US stock exchange listing requirements and the implementation of the Sarbanes-Oxley Act.

Other outcome variables to board composition focus on strategic decision outcomes. These include the effects of board composition on: executive compensation (Kerr & Kren, 1992; Westphal & Zajac, 1994; Main, O'Reilly & Wade, 1995), CEO turnover (Zahra & Pearce, 1989; Cannella & Lubatkin, 1993; Ward, Bishop & Sonnenfeld, 1999), corporate strategy (Baysinger & Hoskisson, 1990; Goodstein & Boeker, 1991; Pearce & Zahra, 1992; Hillman, Cannella & Paetzold, 2000), anti-takeover provisions (Kosnik, 1990; Davis, 1991; Buchholtz & Ribbens, 1994; Sundaramurthy, Mahoney & Mahoney, 1997), stockholder wealth (Sundaramurthy, Mahoney & Mahoney, 1997), effect on entrepreneurship (Zahra, 1996), corporate R & D structure (Baysinger, Kosnik & Turk, 1991), internal corporate control systems (Walsh & Seward, 1990; Johnson, Hoskisson & Hitt, 1999), poison pills (Davis, 1991), stockholder suits (Kesner & Johnson, 1990), the commission of illegal acts (Kesner, Victor & Lamont, 1986), incidences of golden parachutes (Cochran, Wood & Jones, 1985; Singh & Harianto, 1989) and corporate social performance (Johnson & Greening, 1999). Taken together, these board

composition studies try to establish a link between demographic and relational board characteristics and different strategic outcomes.

Again, while board composition and structure studies are plentiful, very little research investigates board behaviors and processes. Pettigrew (1992: 173) noted that, “alongside an interest in different patterns of board power, we need to know much more about the general conduct of board affairs and how and why board processes impact on empirical patterns and theories of choice and change. Hence, while board composition/structure studies continue to provide insight into the nature of boards that might contribute to performance issues, the black box of processes and behaviors still offers opportunities for future research on boards.

Board Processes and Behaviors

A few studies have examined board processes and behaviors by looking at the sociopolitical nature of the CEO/board relationship with an outcome variable of CEO or top management succession. Boeker (1992) in a longitudinal study examining board membership and chief executive power found that powerful chief executives (relative to the board) are less likely to be dismissed during poor performance as they successfully displace blame onto their subordinates. Alexander, Fennell & Halpern (1993) examined the sociopolitical structures that defined the relationship between the CEO and the board and found strong main effects of board-CEO relations on leadership stability, independent of organizational growth or decline. Fredrickson, Hambrick & Baumrin (1988) proposed a model of CEO dismissal that explored director expectations and attributions, director allegiances and values, the power of the incumbent CEO and the availability of alternative candidates for the CEO position. Cannella & Lubatkin (1993) tested this model, examined the sociopolitical internal impediments to outsider selection, and found that when an outgoing CEO has influence with directors, or when directors

have committed to an heir apparent, performance will be decoupled from the selection decision. When the reverse is true, they found that poor performance is associated with outsider selection. Zajac & Westphal (1996) expanded the examination of sociopolitical CEO/board factors to include board and CEO preferences for demographically similar successors, and they found that boards that are more powerful are likely to change CEO characteristics in the direction of their own demographic profile. Westphal (1999) also examined how social factors such as trust and perceived social obligations in the CEO-board relationship can promote collaboration with frequent advice and counsel interactions that promote strategic decision making and better firm performance. In a large study of CEOs and top executives, Pearce & Zahra (1991) analyzed the relative power of CEOs and boards and developed a typology of relative powers that resulted in four board types labeled Caretaker, Statutory, Proactive, and Participative. Each type had significant differences in internal processes, decision-making styles, board effectiveness and contribution to company performance, and powerful boards were associated with superior corporate financial performance.

While the above-mentioned sociopolitical studies of the CEO/board relationship generally start with the nature and level of CEO/board power, Ocasio's work on the circulation of power discusses the political and technical contests that take place between CEO and board that lead to a shift in power (1994). Ocasio found that contests for control and opposition to the CEO by the board take place with increased executive tenure and under conditions of economic adversity. In a subsequent study, Ocasio and Kim (1999) found that CEO selection is both a political contest between board members and the CEO, and an ideological contest between board, CEO and top executives over defining the corporate agenda and strategy.

Board power, separate from CEO/board relationships has also been studied from the context of the way that board members gather power through social network ties to other members (Westphal & Milton, 2000). While most of these studies concentrate on CEO/board power struggles that result in increased board power, Lorsch & MacIver (1989) found that the power of board members is squelched by the norms of polite boardroom behavior, the presence of insiders, the strong dependence of the board members on the CEO and the enormous leadership power of the CEO. Similarly, Westphal & Khanna (2003) found that the social network ties that can bind directors together could also become a form of social control by top managers who use “social distancing” as a kind of informal social sanctioning when the board tries to exert control over management.

A few studies have attempted to examine the role of board cognitions, primarily with theoretical studies that examine the thought processes behind CEO dismissal. The methodological challenges of “getting into the minds” of the directors is limiting, but again, with an outcome variable of CEO dismissal, researchers attempt to pattern the thought processes that affect board decisions. Capitalizing on earlier work by Frederickson et al (1988), Halebian & Rajagopalan (2006) recently introduced a three-stage framework to explore how sensemaking and interpretation of events by board members influences CEO dismissal decisions. Specifically, they examine the board’s perception of performance, its attributions of performance and efficacy assessment of the CEO.

Forbes & Milliken (1998) introduced a theoretical model of board processes that links board demographic characteristics, processes, and performance outcomes. This model remains untested; however, it successfully introduced the idea that board output is cognitive in nature, and the effectiveness of the board is dependent on social-psychological processes. While Forbes

& Milliken introduced board demographic characteristics as exogenous to board behaviors of conflict, cohesiveness, and task performance, I examine the institutional domain of governance reforms that affect board processes.

Institutional Logics Theory

As an offshoot of institutional theory, institutional logics theory explains how institutional changes filter down to organizational and individual behaviors by providing material and symbolic guidance to decision makers through rules of action (Jackall, 1988; March & Olsen, 1989; Ocasio, 1997; Thornton & Ocasio, 1999). It allows us to look at issues like regulation to provide norms of behaviors to organizational and individual levels. Institutional logics theory takes the idea of bridging new organizational rules to the individual level by suggesting that individuals will translate new rules or practices of an industry or society into relationships within an organization that might dictate power relationships between individuals (Haveman & Rao, 1997; Thornton & Ocasio, 1999). Most institutional logics studies revolve around how executives concentrate on certain market characteristics in decision making to the exclusion of others, and how, therefore, the “rules” of executive power and succession are dictated by the prevailing institutional logic in an industry or society (Thornton, 2002). As noted by this theory, the legitimacy of leadership, control of political rewards, and decision rewards are all determined by the prevailing logics at industry and societal levels. Regulation is one source of such logic, with the assumption that the legal structure, a source of coercive norms, provides norms of behaviors that filter down from societal to organizational to individual levels and shape the values, beliefs and rules that control or reward executives’ focus on particular economic or political activities.

A critical assumption in institutional logics theory is that social actors can meander their way through the often-contradictory logics that come from multiple levels within institutional changes. This assumption hinges on the idea that actors, in seeking legitimacy, will come to homogeneity of norms; however, it fails to take into account some of the pressures that can limit the adoption of institutional behaviors at every level and perhaps even change the behavior of individuals. Many studies assume a level at which institutional logics operates, such as at the industry-level (Friedland & Alford, 1991; Thornton & Ocasio, 1999) or at the organizational field level (DiMaggio & Powell, 1983; Greenwood, Suddaby & Hinings, 2002). However, some institutional theorists have argued that the *process* of the institutionalization of norms is ignored at every level, with little understanding of the process by which “theorization” or the conferring of legitimacy takes place (Strang & Meyer, 1993). Drawing from Greenwood et al.(2002), theorization is the development of categories and chains of cause and effect that allow new ideas and rituals to be distilled and dispensed in the wake of some institutional change. The process begins with the specification of an “organizational failing”, the “justification of abstract possible solution”, and “moral and/or practical legitimacy” that then allows for diffusion of norms (Greenwood et al, 2002: 59). The establishment of chains of cause and effect is **often done by regulatory agencies** that facilitate the theorization process by helping to form and reproduce shared meanings and push for agreements between competing claims. Agencies like the state, the SEC and professional associations help organizations to interact and gain an understanding of “reasonable conduct” and teach others in the field how to behave. Diffusion of new ideas occurs only if “new ideas are compellingly presented as more appropriate than existing practices.”(p.60) The diffusion will only take place when the changes are conferred with legitimacy by professional associations. Although this offers explanatory process for the way that institutional

logics might be adopted it still assumes that legitimacy is conferred by the structuration of interaction among organizations in a field (DiMaggio & Powell, 1983), and through the role of regulatory agents in granting legitimacy (Greenwood et al, 2002). In this dissertation, I argue that broad-based governance initiatives from a host of regulatory agencies impede institutional logic and trigger change in board behaviors.

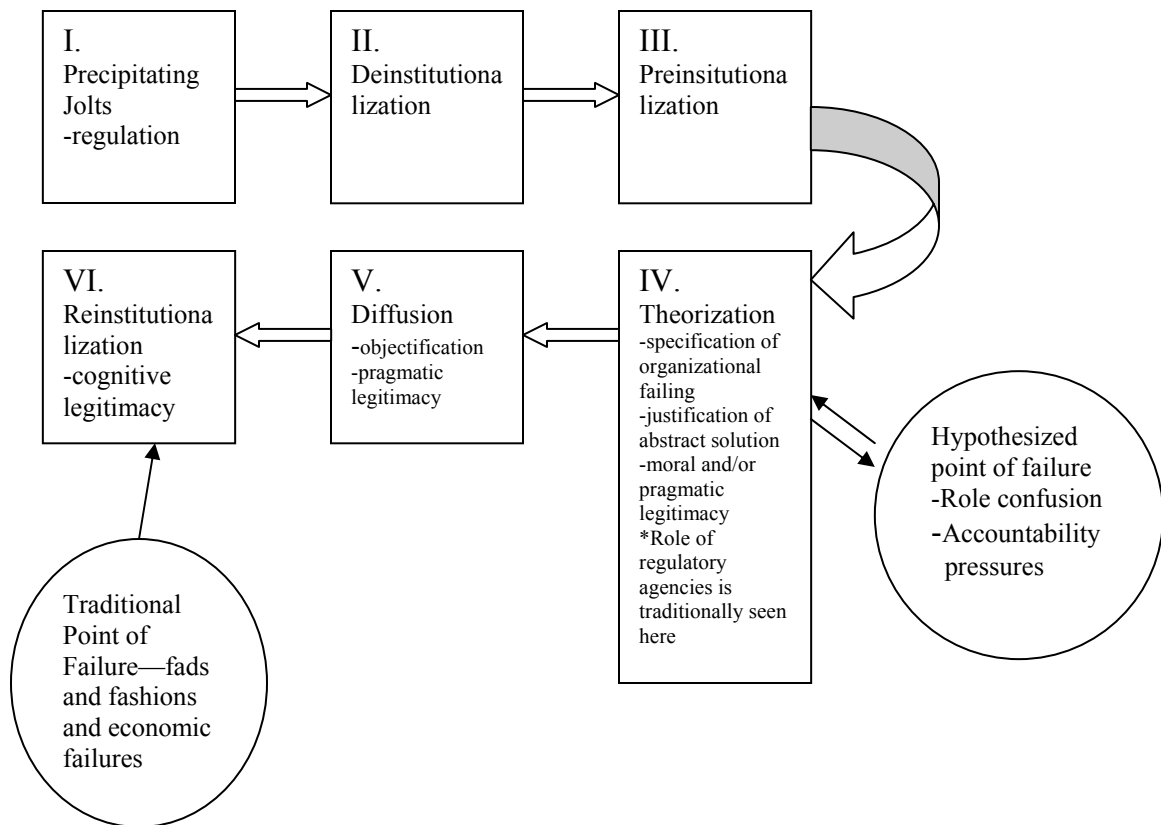


Figure 2
Stages of Institutional Change
 (Adapted from Greenwood, Suddaby & Hinings, 2002)

I examine a context of institutional change that challenges the structuration and diffusion of norms under institutional logic, primarily because of conflicting mandates from many different sources at different institutional levels. **Prior to the diffusion process**, reactions within

organizations to institutional change can circumvent the theorization process when social actors question the moral and practical legitimacy assigned by regulatory agencies and professional associations. Specifically, I show how the pressures of role confusion and additional accountability under reforms works against the theorization process, ***despite the use of regulatory agencies***. These pressures cause board members to question the legitimacy of the changes. While this often happens in the short-term as organizations react to regulatory change, the theorization process usually continues with the help of regulatory agencies that assist diffusion and help to reinstitutionalize changes. However, in this case, the failure of theorization from these sources leads to board member behavior changes that affect performance, with potentially longer-term delays for the reinstitutionalization of norms within and between organizations.

Failure of Theorization Process

As has been noted in studies of airline, banking and hospital deregulation, regulatory changes are exogenous shocks that can impact a complex host of organizational domains including, but not limited to corporate governance (Sutton & Dobbin, 1996); strategic responses (Ginsberg & Buchholtz, 1990; Ang & Cummings, 1997), board linkage patterns (Lang & Lockhart, 1990) and outcome variables of CEO succession and firm performance (Haveman, 1992; Haveman, Russo & Meyer, 2001). While regulatory change always brings uncertainty, there is usually a “dominant institutional logic” at industry, organization and executive decision making levels of an organization. This logic is able to “order reality and provide meaning to actions and structure conflicts” (Thornton & Ocasio, 1999: 803), and the dominant logic provides formal and informal rules of action that affect decision makers in accomplishing organizational tasks. While a certain amount of confusion about norms of practice exists

following any regulatory change, the corporate governance reforms are particularly complex in their mandates for behaviors of board members. This occurs, in part, because the reforms began as a reaction to corporate malfeasance that created high shareholder costs with the potential for destroying capital markets. Multiple areas of organizations share the burden for compliance, with specific mandates for industries and organizations in audit-related areas, board-related areas, and disclosure/accounting rule changes. These mandates all affect and are affected by the decisions of board members and they all mandate the increased accountability of directors. To show how the mandates in this context circumvent the theorization process, I first examine the complexity of the mandates, then I discuss how they impact the already paradoxical roles of board members, and then I discuss the failure of new regulations to establish legitimacy as a result of the pressures of accountability that affect board member behaviors.

The Reforms

As complex works-in-progress, these reforms exacerbate the already paradoxical nature of boards as both controlling and collaborating with managers for effective corporate governance. The reforms come from a host of more salient, if not new, secondary stakeholders that the board must address including the media, private governance ratings agencies, independent auditors, the New York Stock Exchange and the Securities and Exchange Commission. The new governance reforms have mandates for board members that have been labeled as either “conflict-reducing” or “action-inducing” (Clark, 2005), *Conflict-reducing reforms* aim at reducing relationships for board members that create conflicts of interest, therefore allowing them to be good controllers of agency issues and monitors of misbehavior. These include reforms like listing standards that require a majority of independent directors on boards, with strict definitions of independence that include no interlocking affiliations if a

director is on a compensation committee and no close relatives who are employees of the company in question, and mandates for regularly scheduled executive sessions where insiders are not present. *Action-inducing reforms*, in contrast, are reforms that enhance the ability and incentives of directors to act diligently by setting standards of ability and incentives for directors that *expand their roles*. These reforms aim at increasing the practical abilities of board members to communicate, gather information and act diligently to improve their performance. They include reforms like new standards for audit committee members to be financially literate, limiting directors so that they do not serve on too many boards, requiring independent directors to own significant amounts of stock in their companies, developing codes of conduct and ethics at the board level, and requiring boards to have formal self-assessments and evaluations (see Table 1 for a summary of directives under these categories). While Clark (2005) characterizes these reforms as possessing “a startling degree of thematic unity”, he also notes that absence of substantive rules about self-dealing, related party transactions, the setting of executive compensation, the extraction of private benefits from management positions, and perhaps most important to this discussion, the absence of rules about the allocation of powers among officers, directors and shareholders beyond board committee restructurings and limited shareholder-empowerment reforms (pp.25-26). Monks & Minow (2004) also note that, “some reforms are so over-broad that they almost qualify as shrill” (p.249). The role confusion of board members, already a significant challenge, is made worse with paradoxical reforms. In essence, the causal ambiguity that plagues corporate governance in general is made worse with more regulation that is complex and attempts to address both agency and stewardship functions of board governance simultaneously.

TABLE 1
New Governance Directives: Two sides of Board-level Reforms
 (Summary of Clark, 2005)

<u>Conflict- Reducing Standards</u>	<u>Action –Inducing Standards</u>
Majority of independent directors	Financial literacy and expertise members
Stricter definitions of independence	
Key committees can only have independent directors	Limits on over-boarding
Companies must have key committees: audit, compensation, nominating	Director stock ownership
Supermajority of independent directors of ethics	Governance guidelines and codes
Independent chairpersons	Self-assessments
Regular executive sessions	

Roles of Directors as Monitors of Agents and Stewards of Information

Researchers often note the dual roles of board control and collaboration (Mizruchi, 1983; Walsh & Seward, 1990; Sundaramarthy & Lewis, 2003). Corporate governance researchers have explored the conflicting roles of board of directors members, separate from regulatory reform, that stem from: 1) the need for board members to be collegial with management for strategy formulation, but confrontational with those same agents for accountability and compliance issues (Monk, 2005), 2) the paradox of their function as both agents and stewards of the organization (Sundaramurthy & Lewis, 2003), and 3) the dual role of external boundary-spanners/environmental assessors and internal monitors/attributors of the organization (Zald,

1969; Pfeffer, 1972; Walsh & Seward, 1990; Alexander, Fennell & Halpern, 1993). These roles are summarized in Table 2. According to agency theory, board members serve a monitoring function to protect the shareholders. Yet this control function, while curbing human limitations, can also propel a firm towards failure under a pathological spiraling relationship of excess control that limits the ability of boards to gather information from managers in the corporation (see Sundaramurthy & Lewis, 2003). Under stewardship theory, board of directors members will gather information and collaborate with managers deemed trustworthy in protecting the interests of the shareholders, but these managers might engage in groupthink or mistrust that can fuel a reinforcing cycle of mistrust. The role of directors, therefore, becomes one of managing both control and collaboration with agent managers. Additionally, while not inherently conflicting, board members serve dual roles as liaisons to external resource providers as well as controllers of internal policies and procedures (Price, 1963; Zald, 1969; Walsh & Seward, 1990; Alexander et al, 1993). Ultimately, the shareholders, large institutional investors, state courts and governance ratings agencies monitor the board's balancing of these duties. To a certain extent, board members have always felt pressure from scrutiny by these groups that assess their performance in their roles as both agents and stewards protecting shareholder interests. These “watchdogs of governance” ensure that directors perform under their mandate of fiduciary responsibility of duty of care and duty of loyalty. The scrutiny of governance watchdogs here falls under the category of watching for directors' conflicts of interest, while at the same time hoping for added shareholder value because of “trends and transactions that that high-level corporate officers can bring to a board.” (Monks & Minow, 2004: 223). In fact, watchdog initiatives often rely on prescriptives for board composition to enhance the roles of boards both externally and internally.

TABLE 2

Two Sides of Board Focus in Governance
(Leading to Uncertainty, Role Conflict and Failure of Institutional Logic)

Conflict-Resolution/Managerial Role (Clark, 2005)	Action-Inducing/Monitoring Role
Collegial for Strategy	Confrontational for Accountability (Monk, 2005)
Collaborative (Sundaramurthy & Lewis, 2003)	Controlling
Information Gatherers/Environmental Assessors (Walsh & Seward, 2001)	Attributors of Responsibility
Buffer & Boundary Spanning-External (Alexander et al, 1993; Zald, 1969; Price, 1963)	Setting Policy-Internal

Accountability

Board members are a group of elites with special authority and qualifications to provide direction to corporations (Useem, 1984; Pettigrew, 1992). Prior to these recent governance reforms, observers accused boards of directors of meeting infrequently, with good pay for limited time at task, and nebulous responsibilities with indirect communication to the general shareholders (Businessweek, 2005). Board vigilance is now “part of a higher-stakes game”, under the pressure of criminal prosecution of high-level executives and directors for corporate misdeeds that were once somewhat protected under the business judgment rule (Corporate Board Member, 2005, p. 61). Board members fear the negative consequences from accountability, especially since these reforms stem from a rash of corporate scandals.

Accountability provides a second explanation for a failure of the theorization process in the diffusion of institutional logics under governance reforms. Accountability offers a “natural bridging construct between individual and institutional levels of analysis” (Lerner & Tetlock, 1999: 256). While accountability in decision making can be an effective means of organizational control under agency theory doctrine, the impact of accountability depends on many factors. In fact, the concept of accountability for organizational control has been criticized as cognitive or social panacea that produces a variety of effects, only some of which are beneficial (Lerner & Tetlock, 1999: 270). In general, accountability refers to the expectation that an individual will have to justify one’s beliefs and actions to others (Scott & Lyman, 1968; Semin & Manstead, 1983; Tetlock et al., 1992; Lerner & Tetlock, 1999). More specifically, accountability has been defined as, “...accepting and meeting one’s personal responsibilities, being and feeling obligated to another individual as well as oneself, and having to justify one’s actions to others.” (Rutkowski & Steelman, 2005). Accountability is considered a positive managerial element in leader member exchange, upward feedback and improved performance of subordinates in the workplace through managerial development (London, 2004). However, in the context of governance reforms, accountability of board members may create a political environment that produces externalities, or unintended outcomes. The concept of accountability implies the need for legal gatekeepers who judge the satisfactoriness of justifications for action, and for negative consequences accorded those provide unsatisfactory (Lerner & Tetlock, 1999). When accountability comes from changes that threaten autonomy or when people sense that others want to control their beliefs, individuals will respond by asserting their own views more vigorously and/or taking an attitude that is polarized away from an advocated position (Baer, Hinkle, Smith & Fenton, 1980; Lerner & Tetlock, 1999). Such is the case under new governance

reforms from multiple sources. In the absence of a “guiding light” of institutional logic for board behaviors, governance reforms that threaten the autonomy of boards and put more controls in place from a variety of sources lead to a failure in the theorization process of institutional change defined above. Researchers have proposed that decision makers who rely on accountability may have to deal with normatively controversial responses like risk aversion, attitude polarization, decline in intrinsic motivation and excessive stress at the individual level (Lerner & Tetlock, 1999). However, they also note these controversial responses are contingent upon whether individuals perceive the accountability demands as legitimate, such that the less legitimate the source, the more individuals might experience controversial responses (Brockner, Siegel, Daly, Tyler & Martin, 1997). In the context of new reforms, board members question the legitimacy of the reforms as they 1) debate the variety of sources of these new demands, impeding the ability of institutional change to reach the point of providing industry or organizational level norms to decision makers and creating an environment for behavioral changes 2) question the need for such reforms as many board members consider the reforms unnecessary and inapplicable to their “best practices” 3) believe that the legislation does not address the true problems of corporate malfeasance, and 4) experience a “fear factor” of liability associated with the additional accountability.

Multi-Level Nature of the Theorization Process

While organizations will experience short-term flux and performance challenges following environmental changes (Greenwood, Suddaby & Hinings, 2002), the theorization process is important to the diffusion and reinstitutionalization of norms and standards for the long-term. Group level reactions within organizations to institutional change can circumvent the theorization process when social actors question the moral and practical legitimacy assigned by

regulatory agencies and professional associations. When this process breaks down, the door is open for a host of behavioral changes in the organization. Accountability, with its emphasis on the perceived legitimacy of demands, provides insight into how the theorization process of reinstitutionalization of norms might break down and trigger a host of board level behaviors. By considering the effects of *a lack of* institutional logics this study can then begin to examine potential effects from reforms that were perhaps unintended---changing board behaviors that can have a potential negative effect on firm performance.

Group Level Reactions to Institutional Change: Perceived Uncertainty

Major regulatory change is an “exogenous shock” to an organization on the same scale as radical technical innovation, social and political turmoil, and economic crashes that alter technical and institutional environments (Haveman, Russo, Meyer et al, 2001). Although a discussion of organizational change theory is beyond the scope of this dissertation, regulatory reforms are precipitating jolts that go through several stages of institutionalization before diffusion of practice, reinstitutionalization and cognitive legitimacy is achieved (Greenwood et al, 2002). As discussed above, when board members experience the pressures of role confusion and accountability, the institutionalization of new reforms is compromised. This produces uncertainty for decision makers. This uncertainty is a perceptual phenomenon---the “descriptor state of a person who perceives himself/herself to be lacking critical information about the environment”, and a concept also known as “state uncertainty” (Milliken, 1987: 134). While studies on uncertainty usually identify three levels of potential uncertainty—state, effect, and response uncertainty, the three levels of uncertainty are usually distinguished by types of information that organization administrators are lacking (Milliken, 1987: 138). State uncertainty is characterized by industry confusion, when administrators perceive the environment or one of

its components to be unpredictable (Miller & Shamsie, 1999). Effect uncertainty and response uncertainty, in contrast, are characterized by a lack of skills or creativity at the organizational level (effect uncertainty), and/or the perceived risks of decisions by individual managers (response uncertainty). In the absence of institutional logics that provide norms of information-gathering for board members, the directors experience state uncertainty since they do not understand how components of the regulatory environment are changing, or the nature of interrelationships between elements in the environment, like the roles of various watchdogs agents in pushing regulatory reform. Additionally, board members perceive the new reforms to be unpredictable in the actions that key organizational constituents like banks and accounting firms might take---a cross-industry uncertainty that also characterizes state uncertainty. Finally, the uncertainty becomes a threat for board members as the unpredictable nature of the new regulatory environment challenges board members in decision-making. March & Simon (1958) initiated the idea that perceived uncertainty has ramifications for internal actions in the organization as individuals seek to devise ways to gain control. This has relevance for the changing behaviors of board members as they grapple with the uncertainty of reforms in the absence of institutional logics

Group Level Reactions to Change: Board Accountability and Fear Factor

Accountability pressures were noted above to be a major contributing factor to the breakdown of the theorization process in the reinstitutionalization of norms. Increased board accountability is also a major component of the reforms themselves, and this has tremendous implications for board level behaviors. As boards come under the scrutiny of additional accountability they face a “fear factor” of personal liability that results from government investigations and shareholder suits that call for directors to pay personally for corporate misconduct. WorldCom’s twelve

directors, for example, agreed to a \$24.75 million settlement to compensate investors who lost money in the corporation's downfall and ten former Enron board members agreed to pay \$13 million to resolve an investor lawsuit. From a theoretical standpoint, distrust and fear can be reactions to control approaches that promote separation of responsibilities and additional accountability (Sundaramurthy & Lewis, 2003), although this concept is usually applied to defensive reactions of managers to board control. For board members, the fear factor of liability is highly linked to their enhanced role under governance reforms. As Businessweek magazine notes, "Fear has always motivated directors, but the degree of it is getting worse." (2005). Not only has this resulted in higher director turnover (Businessweek, 2006), but the reforms that call for independent directors may dwindle the pool of available independent directors. Again, anecdotal evidence suggests that this is already happening as "director recruiting firms" are forming to provide independent director candidates to fuel this market where demand is greater than supply. In the US, the National Association of Corporate Directors maintains a database of director candidates, while in the UK PRO NED (the Promotion of Non-Executive Directors) attempts to provide boards with qualified independent candidates. In this political atmosphere of distrust, fear and a shrinking pool of directors, relationships between board members is affected. With additional accountability, the board is also given more authority to perform actions that often set them up to be adversarial to the CEO. Hence, governance reforms that increase board accountability give the members more authority and power relative to the CEO.

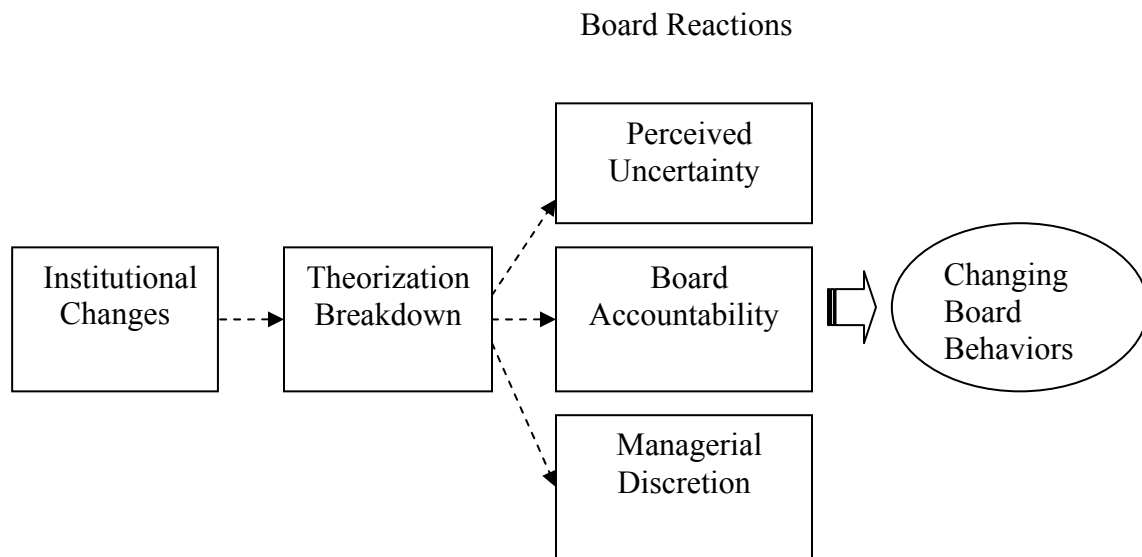
Group Level Reactions to Change: Managerial Discretion

Regulatory reforms often lead to changes in executive leadership, specifically, CEO succession (Helmich & Brown, 1972; Tushman, Virany & Romanelli, 1985). However, this dissertation examines how regulatory changes can also lead to changes in CEO discretion as a

result of a circulation of power between the CEO and the board. Circulation of power theory (Ocasio, 1994) suggests that executive level political and technical contests take place in response to changes in the environment. This theory contrasts institutionalization of power theory, which proposes that the CEO will perpetuate power over time, even during poor performance, because of cohesiveness, escalation of commitment, institutionalization of actions and established networks (Ocasio, 1994). In the context of institutional changes, the ability of the CEO to maintain political dominance over the board is limited, not only as a result of governance reforms that directly limit CEO control over director nominations, but also because new regulations create a turbulent environment that welcomes a questioning of leadership. By virtue of environmental dynamism, and with an absence of norms of behavior because of a failure of institutional logics, the previous political styles of the CEO become obsolete and less effective in the wake of reforms, while the board is given more authority under additional accountability. This scenario sets the stage for debate in board meetings and the possibility of an escalating political environment in the boardroom. Linking the failure of institutional logics to CEO/board changes, the lack of norms of behavior creates contests between the board and the CEO as the CEO's managerial discretion weakens. CEO/board contests are a natural reaction to the absence of "a set of implicit rules of the game" (Thornton & Ocasio, 1999) which are elements of institutional logics. Political contests between the board and the CEO are complemented by technical contests that occur when CEOs are unable to adapt to institutional changes and the board regards the CEO as technically obsolete.

To summarize, complex reforms from a variety of sources reinforce the paradoxical roles of board members under agency and stewardship theories. As noted above, the diffusion of institutional logics hinges on the establishment of norms of practice. These norms confer a

moral or practical legitimacy that allows for diffusion of standards of behavior. However, a confusion of reforms challenges the process of institutionalization of reforms and impedes the granting of legitimacy. The pressures of accountability further limit the opportunity for a dominant institutional logic for board members to develop, at least in the short run, as board members struggle with increased uncertainty and changing CEO/board discretion. See Figure 3 below.



Board Reactions
Figure 3

Ultimately, these changing board behaviors will affect board performance. Since Berle & Means (1932) noted the separation of firm ownership and control that followed the development of the modern corporation, board performance measures have focused on the extent to which directors ensure that managers are maximizing shareholder wealth. Board performance, under this approach, is the ability of board members to monitor management, under agency theories surrounding the opportunistic, self-serving nature of management that potentially exploits shareholders (Eisenhardt, 1989; Walsh & Seward, 1990). However, as explained here and in current research, we see that the role of boards has expanded to include not only monitoring, but

strategic decision making and service (Zahra & Pearce, 1989), governance under cooperation (Davis, Schoorman & Donaldson, 1997; Sundaramarthy & Lewis, 2003), resource gathering (Hillman, 2005), social networking for power and resources (Boyd, 1994; Pearce & Zahra, 1989) and broader tasks that create alignment between a board's intellectual capital and the roles required of it (Nicholson & Kiel, 2004). To assess board performance following a breakdown in the institutional theorization process, it is important to look beyond old assessments of board effectiveness that were heavily oriented towards a demography-outcome approach (Pettigrew, 1992). Instead, it is important to look at board processes that reflect the performance of boards as decision-making groups, in a similar manner to studies of top management team members. The impact of regulatory changes on board behaviors ultimately affects the ability of board members to make decisions inside the boardroom. In the absence of institutional logics, the fear factor of liability and the pressure of mandates under accountability may inhibit the ability of members to process information, formulate and implement strategy. Forbes & Milliken (1999) introduced the concept that board performance involves the cognitive aspects of board decision making since, "the effectiveness of boards is likely to depend heavily on social-psychological processes, particularly those pertaining to group participation, interaction, the exchange of information and critical discussion." (1999: 492). Thus, as an additional contribution to understanding the impact of governance reforms, and to move beyond traditional theoretical explanations of board performance, I suggest that the breakdown in the theorization process of institutional change affects the cognitive orientation of board members. Group theories of conflict, cohesiveness, effort norms and group knowledge skills are the theoretical underpinnings for self-report measures of board performance that encompass the board's need to both control opportunistic agents and provide service to the organization (Forbes & Milliken 1999). As a

result of the breakdown of the theorization process, boards will either process change and perform better under a common enemy approach to the reforms, or the social-psychological processes will inhibit their ability to make decisions as they cast blame on each other and engage in finger-pointing, scapegoat behaviors.

Hypotheses Development

The twelve hypotheses are divided into three sections of board behaviors in response to reforms. The first six hypotheses look at the effects of theorization breakdown and examine the relationship between board perceived uncertainty and changing accountability, discretion and cognitive and affective conflict (see figure 4). The second section of four hypotheses examines the impact of board conflict on cohesiveness, and the resultant behaviors of common enemy and finger-pointing (see figure 5). The third section assesses the relationship between these behaviors and board task performance, a concept of board effectiveness that is introduced as a new measure of board performance with two hypotheses.

When any type of environmental jolt takes place, adaptation occurs at multiple levels of the organization as decision makers select and interpret stimuli (Meyer, 1982). In this dissertation, I examine how environmental uncertainty from institutional changes affect group process behaviors, defined as the “intragroup and intergroup actions that transform resources into a product”(Gladstein, 1984: 500). Group behaviors include the maintenance behaviors that regulate group life, as well as the process behaviors that help the group accomplish its objectives (Bales, 1958; Gladstein, 1984). While elements of group behaviors originate with the individual characteristics of the group members, process behaviors are also affected by external environmental changes. Organizational change theory states that an organization and its elements must learn to adapt to changes as a self-designing organization to avoid the pitfalls of

decaying backwater and stagnation (Hedberg, Nystrom & Starbuck, 1976). When regulatory punctuation takes place, executives experience enormous pressures that create an internal environment conducive to conflict, as group members question decision making styles and each other's roles and look for norms of behavior. Conflict is noted to be a group process behavior that plays a role in group effectiveness, along with elements of communication, supportiveness, discussion of strategy, weighting of inputs and boundary management (Gladstein, 1984).

Typically, researchers examine group conflict at the executive levels of organizations by looking at top management team behaviors in the context of decision making (Eisenhardt & Bourgeois, 1988; Priem, 1990; Schweiger & Sandberg, 1991; Amason, 1996; Amason & Sapienza, 1997; Buchholtz, Amason & Rutherford, 2005). Early research on conflict theory viewed conflict as a negative cognitive process that potentially undermines effective decision making (Pondy, 1967; Mintzberg, Raisinghani & Theoret, 1976). However, Amason and Schweiger (1994) introduced the idea that conflict can be both cognitive and affective, with correspondingly functional and dysfunctional effects on strategic decision making (Amason, 1996). Cognitive conflict arises from differences in judgment or perceptual diversity, and is task-oriented, while affective conflict is said to arise from emotional disagreements and is personalized. If the uncertainty from reforms triggers a commitment to task and facilitates the exchange of information among board members, then this would indicate the presence of cognitive conflict. If, however, board members react to the uncertainty with emotionally-based misinterpretation of motivations of team members (Amason, 1996; Eisenhardt & Bourgeois, 1988) then these reforms would be seen to increase affective conflict. Both types of conflict would be natural reactions to the confusing nature of the reforms.

Combine these tensions with a fear factor of liability and affective conflict can develop between board members. As members wrangle with uncertainty, distrust and fear can be reactions to control approaches that promote separation of responsibilities and additional accountability (Sundaramurthy & Lewis, 2003). Disputes between board members and the board/CEO relationship may be strained and produce hostility (Brehmer, 1976). Because of such perceived uncertainty, board members may react with increased levels of this dysfunctional conflict as emotions run high.

H1: The greater the level of perceived uncertainty by board members following governance reforms, the greater the level of affective conflict

While uncertainty can promote affective conflict, it is equally likely that in reaction to reforms, boards may experience functional cognitive conflict. This conflict can develop from board reactions to the uncertain regulatory environment that spurs board members to seek and gather information to seek control during periods of change. When an organization's environment has changed radically, the organization will have survival value if they can react with flexibility and diversity (Weick, 1979). Cognitive conflict develops as decision makers grapple with change by reevaluating current ideas and standards (Hedberg, Nystrom & Starbuck, 1976; Tjosvold, 1991; Jehn, 1995). Cognitive conflict is noted to be inevitable in strategic decision making since top management teams and executives are looking at different positions in different environments (Amason & Mooney, 1999), however in an uncertain regulatory environment, these aspects of "perceptual diversity" may be accentuated.

H2: The greater the level of perceived uncertainty by board members following governance reforms, the greater the level of cognitive conflict.

Researchers have long noted that control and collaboration in corporate governance is a social phenomenon with political aspects at the executive level that can affect group dynamics (Pfeffer & Salancik, 1978; Useem, 1984; Perrow, 1986; Davis & Thompson, 1994; Thornton & Ocasio, 1999; Westphal & Khanna, 2003). Much of this research has focused on the sociopolitical structures that define power relationships, influence, information access and decision making orientations of the board of directors. An uncertain regulatory environment can cause the board to scrutinize and challenge the CEO under conditions separate from organizational performance, which is considered a “political challenge”. CEOs are often questioned by the board of directors and even dismissed when there is no decline in performance (Ward, Bishop, Sonnenfeld, 1999), and it is often outsiders who put pressure on a board of directors for change in the wake of media attention to a business, industry or societal change (Useem, 1996). New governance reforms provide fertile ground for the less beneficial effects of accountability, as board members feel the additional scrutiny and a need to justify their actions beyond their former duties under the general mandate of fiduciary responsibility to shareholders. This would also contribute to political contests between the board and the CEO. As a result of such contests, CEO political competency comes into question when the CEO is limited in his/her ability to build personal alliances and the board is simultaneously more accountable in decision making, which requires a certain amount of information gathering and stewardship behavior. Davis & Thompson (1994) note that the politics of corporate control are comprised of interests, social infrastructure, mobilization processes and political opportunity structure that determines a group’s capacity to act on control. With new governance reforms, the circulation of power within the firm has implications for group conflict. Affective conflict usually results from emotions and political gamesmanship (Eisenhardt & Bourgeois, 1988). Since the circulation of

power between the CEO and the board after reforms results in increased political and technical contestations among elites, affective conflict would result as one party tries to gain influence over another. It can also produce suspicion, distrust and hostility (Brehmer, 1976; Faulk, 1982; Amason & Sapienza, 1997). Businessweek noted that in response to a shift in power from CEO to board of director members, "...the chumminess and banter (between board directors and between board directors and CEO) has given way to a more adversarial attitude. This new cop-on-the-beat mentality has helped to topple Fannie Mae CEO Franklin D. Raines, Boeing CEO Harry C. Stonecipher, Walt Disney CEO Michael D. Eisner and Hewlett-Packard CEO Carly Fiorina, among others." (2005, p.88). Hence, changing board roles that increase board accountability while simultaneously decreasing CEO managerial discretion can lead to increased board affective conflict.

Conversely, the circulation of power could also produce functional cognitive conflict. This conflict can develop from board reactions to the uncertain regulatory environment that spurs board members to seek and gather information to gain control during periods of change. When an organization's environment has changed radically, the organization will have survival value if they can react with flexibility and diversity (Weick, 1979). The board, by mandate, has increased pressure to gather information for effective decision-making. Yet, as noted above, cognitive conflict is inevitable to effective decision making in a changing environment. As the boards pursue their job of strategic decision-making, the presence of diverse ideas, when combined with structured cognitive conflict can produce superior decisions (Schweiger et. al., 1986, 1989). And so, as a result of reforms that change the accountability of the board and the discretion of management, increased conflict ensues at the board level.

H3: The greater the board accountability as a result of governance reforms, the greater the affective conflict.

H4: The greater the board accountability as a result of governance reforms, the greater the cognitive conflict.

H5: The less managerial discretion of the CEO as a result of governance reforms, the greater the affective conflict.

H6: The less managerial discretion of the CEO as a result of governance reforms, the greater the cognitive conflict.

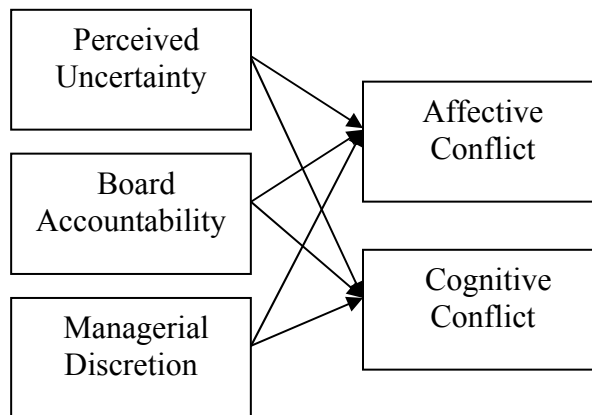


Figure 4
Changing Board Behaviors I

In practice, the board of directors is a body that will typically be cohesive. Cohesiveness is usually defined as, “the resultant forces which are acting on the members to stay in a group” (Festinger, 1950), and it has been defined as a construct that is “intuitively easy to understand” under a variety of terms that convey connections, ties and couplings (Man & Lam, 2003: 981). Two aspects of group theory literature have formed regarding cohesiveness: one that concentrates on the social cohesion aspects of members’ attraction to the group, which is

considered in terms of group members' liking for one another (Hogg, 1992), and one aspect of group theory that places more attention on the commitment of members to group task and pride in task (Carron, 1982; Goodman, Ravlin & Schminke, 1987; Carron & Brawley, 2000; Carless & De Paola, 2000; Man & Lam, 2003). Hence, cohesiveness is comprised of three components: interpersonal attraction, commitment to task and group pride. Although it is closely correlated with group consensus, it remains a separate construct. Board cohesiveness is, "the degree to which board members are attracted to each other and are motivated to stay on the board (Summers, Coffelt, & Horton, 1988). Boards of directors, as group decision makers, are appointed by confronted with highly complex tasks that would seem to necessitate cohesiveness for effective decision-making. The effectiveness of boards depends on social-psychological processes like group participation, exchange of information and critical discussion (Butler, 1981; Jackson, 1992; Milliken & Vollrath, 1991; Forbes & Milliken, 1999). While it may be true in theory or in pre-Sarbanes-Oxley practice that boards operated with cohesiveness (Bainbridge, 2002), the introduction of intragroup conflict with institutional changes may affect the levels of board cohesiveness and even undermine their ability to achieve consensus in decision-making. Theoretically, conflict and cohesiveness are linked in many different ways, and the perception of group members is important in trying to analyze a link between the two constructs. Cohesiveness increases when group members 1) feel frustration or threat from outside the group that is shared by group members, 2) feel that the frustration/threat is not attributable to deficient skill or ability, and 3) feel that there is no way out (Hogg, 1992). Conversely, groups experience less cohesiveness when a frustration or threat is deemed internal, is not shared by others, is attributable to skill deficiencies of members and where there *is* a way out. It is easy to see how these noted antecedents to cohesiveness outline the positive (cognitive) and negative (affective)

types of conflict that can result from reforms. Both conflicts can be associated with the “fear factor” of liability associated with reforms, however each type of conflict has different repercussions for group cohesiveness.

Affective conflict of board members can launch cognitive dissonance as they take on new roles, especially with regard to the CEO. Cognitive dissonance is “the perception of incompatibility between two cognitions, which can be defined as any element of knowledge, including attitude, emotion, belief, or behavior.” (Merriam-Webster, 2006). The theory of cognitive dissonance holds that contradicting cognitions serve as a driving force for changes in cognitions or behaviors as the person is motivated to reduce the dissonance. The possession of dissonance creates psychological discomfort that motivates people to restore consistency and order (Harmon-Jones, Greenberg, Simon, Nelson & Brehm, 1996). As noted above, board members already experience a certain amount of dissonance as they struggle with their paradoxical roles as collaborators and controllers in governance (Sundaramarthy & Lewis, 2003). Board members might change their behaviors and become less cohesive as they struggle to reconcile their new role identities under reforms. This type of behavior is consistent with Weick & Penner’s findings that dissonance motivates individuals towards behavior changes, and that earlier group experiences will affect subsequent interactions for the group (1969). Boards lose their sense of “we-ness” (Owen, 1985) and lose common commitment to group task with emotional disagreements under affective conflict. The cognitive dissonance board members experience in their new roles creates psychological discomfort between group members that limits the ability of boards to come together. With this logic, affective, dysfunctional emotional conflict between board members would lead to shifting intragroup relationships and less cohesiveness.

H7: The greater the level of board affective conflict following governance reforms, the less cohesive the board will be.

The state of uncertainty and circulation of power that changes board and CEO discretion can also promote cognitive conflict as outlined in the conflict theory section above. However, this type of conflict can cause boards to become more cohesive as they pursue the goals of governance compliance. Cognitive conflict can increase the reevaluation of current ideas and standards that would be conducive to a group's commitment to task (Hedberg, Nystrom, & Starbuck, 1976; Tjosvold, 1991; Jehn, 1995). Staw, Sandelands & Sutton (1981) noted that environmental changes could be considered an external threat that draws group members together and increases group cohesiveness. When this change is accompanied by cognitive conflict that is task-oriented and that arises from differences in judgment, an atmosphere of creativity is fostered that can combat the potential for an anti-work norm to develop within group (Goodman et al, 1988; Langfred, 1998). Cognitive conflict is generally conducive to information gathering and the evaluation of alternatives in decision-making (Shweiger et al., 1986). These outcomes of cognitive conflict contribute to greater board cohesiveness in that they lead to an adoption of group performance norms and develop both task and interpersonal dimensions of cohesiveness. More board power relative to the CEO can promote status congruence, cooperative interdependence in the pursuit of shared goals, and interpersonal similarities that can cause boards to become more cohesive. Board members align together to pursue the goal of reducing CEO managerial discretion, and so the resultant cohesion of board members comes from commitment to task, the most important component of the cohesiveness-performance link (Mullen & Cropper, 1994). External threats usually draw group members together with increased group cohesiveness (Staw et al, 1981). The group becomes more cohesive as they

focus on intragroup membership, work towards uniformity and consensus, and tend towards well-learned responses to address issues. Also, since cohesiveness encompasses both cooperative interdependence in the pursuit of shared goals (Sherif & Sherif, 1969) as well as interpersonal similarity (Festinger, 1950, 1954) new CEO/board relationships can cause boards to become more cohesive under a commitment to the shared task of firm performance.

H8: The greater the level of board cognitive conflict following governance reforms, the more cohesive the board will be.

Forbes & Milliken (1999) identified cohesiveness as an antecedent to board task performance and firm performance. The effect of cohesiveness on productivity and performance is an oft-debated and well-researched relationship in social psychology that has mixed results (Mullen & Cropper, 1994; Craig & Kelly, 1999). This may be attributable, in part, because of its multidimensional nature and measurement challenges, as well as possible mediating and moderating effects of other variables (Gross & Martin, 1952; Hagstrom & Selvin, 1965; Gully, Devine & Whitney, 1995; Craig & Kelly, 1999). Behavioral consequences to cohesiveness may also muddy the main effects of the cohesiveness-performance relationship. One consequence of cohesiveness is intragroup uniformity of conduct; however, once again this relationship has mixed results (Bovard, 1951; Downing, 1958; Janis, 1972; Hogg, 1992). I explore two extremes of group conduct uniformity under the constructs of scapegoat and “common enemy” behaviors that may reflect levels of board cohesiveness following reforms.

In the context of reaction to reforms, scapegoat behavior between and amongst board members is logical fallout from the uncertainty, confusion and low levels of cohesiveness of board members following extensive regulation. Scapegoating is the, “displacement of hostility upon some target other than the task leader” (Gamson & Scotch, 1964; Burke, 1969).

Summarizing Bales theory of scapegoating (1953), scapegoat behavior occurs when task activities are complex but low in legitimation, and conditions give rise to tension and hostility that is displaced onto a scapegoat, or group of scapegoats at the bottom of the status structure. Allport (1954) noted that frustration is usually a key factor in the development of scapegoating, while Zurcher & Wilson (1981) found that scapegoating is associated with dissatisfaction of roles in different social situations. The additional challenges to board members from increased accountability as well as increased task activities placed on board of director members following governance reforms might promote this behavior. The concept of displacing blame is central to scapegoating, and displacement, while usually directed at the task leader, can be directed at any group member. This is especially true in partially defined group settings such as exists with committee chairs organizing committee members that form an “interaction hierarchy” through “behavior status process” (Shelly & Troyer, 2001). Prior research on scapegoat behavior at the executive levels of an organization has been done in the context of CEO or top management team succession because of poor performance and organizational decline (Brady & Helmich, 1984; Boeker, 1992; Alexander, Fennell & Halpern, 1993). However, under the general definition of scapegoat behavior as a displacement of hostility, scapegoat behavior can be measured with something other than CEO or top management succession. Rather, there is room to define “fingerpointing” behavior as a form of scapegoat behavior, where board of director members might blame other members for internal control problems. While scapegoat behavior in this context is close to the construct of defensive attribution in holding managers responsible for a firms’ failure (Burger, 1981; Walsh & Seward, 1990), there is a distinction in the hostile displacement of task blame under mandate as well as the distinction that this displacement takes place internally, within the group. This distinction is important because the causes and

consequences of attributions vary in relation to the function the attribution serves for the attributor (Forsyth, 1980). Individuals often use attribution to communicate their causal interpretation of events to others (Tetlock, 1981). Hence, we define fingerprinting as a “causal interpretation of events to others within a group”. For board members, fingerprinting behaviors might occur because they feel a need to protect self and social identity and control the perceptions of others. This is an instrumental form of scapegoat behavior, defined by Bonazzi (1983) as follows: “subjecting an individual to sanctions through no fault of their own, but as the rational and successful outcome of strategies employed by power holders when they feel at risk of being accused of being responsible for misdemeanors, the blame for which may socially or legally accrue to them (p.1)” Again, these defensive finger-pointing behaviors pull the group members apart and exacerbate the self-protection mechanisms of group members under threat of liability. Finger-pointing behaviors by board members would naturally follow from governance reforms that mandate compliance, and that come with extensive social and/or legal ramifications. Bonazzi (1983) provides examples of instrumental scapegoating under five behaviors in the French political system that include conviction of crime, dismissal, punishment by slights against prestige, self-imposed disciplinary actions, or censure. Taking some of these examples to a business governance context, examples of attributions of blame under finger-pointing might be one committee group attributing non-compliance to other committees, or board members changing committees mid-term, attributing the change to failures in communication, or a change in committee chairmanship before term end. Anecdotally, there is evidence to suggest that this takes place in boardrooms as board committees take part in excessive check listing to satisfy compliance requirements and committees begin overlapping tasks to avoid disclosing a material weakness. In preliminary interviews with a board member of a large publicly held finance

company, this director alluded to these behaviors when he noted that the audit committee is often blamed by other committees for compliance mandates that are outside their realm; they often are “dumped on” and blamed for compliance issues that are the responsibility of other committees. While this is context-specific, these types of behaviors may be generalizable to situations under defensive attribution theory where theory explains that individuals react defensively based on the presence of an evaluative audience, the status of the audience, the audience’s access to information on subject’s future performance and task or situational factors that affect the plausibility of various explanations (Tetlock, 1981). Additionally, this type of attribution meets the needs of board members to explain and protect themselves; another criterion of attributions as it serves an egocentric function as well as an interpersonal function (Forsyth, 1980).

H9: To the extent that boards are less cohesive following reforms, they will exhibit finger-pointing behaviors.

“Common enemy” theory stems from intragroup conflict theory that cites a behavior of ethnocentrism, or hostility to others with an intense loyalty to the ingroup (Sherif, 1958). In a test of ethnocentrism, the Robbers Cave Experiment (Sherif, Harvey, White, Hood & Sherif, 1961) showed that conflict between groups leads to greater cohesion within groups and was reflected in a common enemy approach to other groups. It was also determined that shared superordinate goals between groups can reduce this conflict. In applying this to board of directors’ response to new reforms, when board members are more cohesive and pull together under uncertainty, this could result in a common enemy approach to the new reforms—i.e. their behavior reflects a defensive stance towards the new reforms. Additionally, they pull together towards the superordinate goal of firm performance, Anecdotal evidence from board members seems to suggest that this might occur as many boards ratchet up the involvement of lawyers in

meetings, pile up the level of expertise in board meetings to avoid issues of potential liability, and make jokes about signing documents with “invisible pens”(Katz, 2006). In a recent poll of CFOs, many of whom serve on boards, Section 404 of the Sarbanes-Oxley Act was described as, “the most hated provision of Sarbox, with three-quarters of polled CFOs wanting to see it repealed” (Katz, 2006) . Additionally, recent reforms have been described by some board members and judicial attorneys as “...a recent march to the federalization of corporate law” that encroaches on the traditional province of state law (Corporate Board Member, 2005: 50). Hence, we define common enemy here as a group behavior reflecting a defensive stance towards something new that results in the group pulling together towards a superordinate goal. It is distinctive from finger-pointing and other defensive mechanisms by its external attribution of blame to the regulatory reforms themselves.

Evidence from studies of activist groups supports this theory; that in being united against a “common enemy” activist groups are able to find focus to their mission and drive to success in their causes (Calloway, 1977). Research on the behaviors of groups also supports this, as they show that under stress conditions of survival, when individual members lose their goal orientation under uncertainty, the common danger often saves them (Torrance, 1954). At the board level, board members would be working together under a common enemy approach to avoid liability and scandals for non-compliance to regulatory mandates. While they might band together under a “fear factor” of liability, the complexity of governance reforms in the absence of institutional logics poses more of a challenge and sets up the governance watchdog agencies, the NYSE, the SEC, institutional investors and other regulators as the common enemy. In the Robbers Cave experiment, the solution to conflict between groups involved a superordinate common goal for both groups to overcome hostility. Again, in the absence of institutional logics

that help to determine “the social organization of attention and decision making” (Thornton & Ocasio, 1999), board members may perceive a common enemy with the reforms, and approach the enemy with a renewed commitment to task that helps the group deal with the complexities of the reforms.

H10: To the extent that boards are more cohesive following governance reforms, they will exhibit common enemy behaviors.

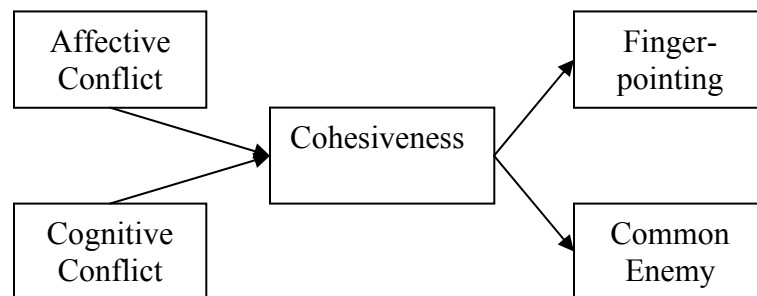


Figure 5
Changing Board Behaviors II

Governance researchers have often struggled over how to assess the performance of a corporation’s board of directors. The complexity of understanding group oversight of an organization of operating agents is part of the issue, as well as the many theories that help to help explain the elements of board structure, composition, and decision making processes that are antecedents to board performance. Agency theory, the historical theory that suggests the role of the board as monitors of top management has led to various assessments of board performance that reflect the fiduciary duties of loyalty and care supported by US corporate common law that places shareholder interests above all others (Monks & Minow, 2006: 50-51). As monitors of management, the board is duty bound to use efficient control mechanisms like incentive

contracts and management dismissal to curb entrenchment practices of management that might affect shareholder wealth (Walsh & Seward, 1990). While there is a lot of debate about the optimal mix of incentives and monitoring mechanisms to control for agency costs (Rediker & Seth, 1995), the effectiveness of boards under agency theory lends itself nicely to some assessment of *firm performance* under this narrow interpretation of fiduciary duty. The only debate left under this outcome variable is what combination of market-based measures best reflect firm performance, since the former is past-oriented, while the latter is future-oriented (Chakravarthy, 1986; Hillman, 2005). Forbes & Milliken (1999) make the argument that because boards are not involved in implementation, the output that boards produce is cognitive, so their effectiveness and subsequent performance depends heavily on social-psychological processes---therefore, traditional measures of firm performance may not be applicable to board performance and effectiveness. Since this dissertation examines social-psychological outcomes of board behaviors, board performance is analyzed by looking at the decision-making aspects of boards that result from group behaviors. Specifically, I examine the ability of boards to make effective strategic decisions following governance changes. This is the outcome variable most often reviewed in top management team literature (Amason, 1996) with decision quality and consensus of decisions as indicators of good group performance. Additionally, Forbes & Milliken (1999) propose that board task performance represents, “the degree to which boards succeed in fulfilling control and service tasks” (p.492). These tasks include decisions regarding hiring, compensation, replacement of managers, and the approval of initiatives proposed by management, combined with providing expert insight to important events.

Finger-pointing behaviors would be naturally detrimental to board task performance. Finger-pointing behaviors are divisive and signal that there is a threat; in fact, as noted above,

finger pointing is a reaction that is a defensive attribution. Additionally, the perception of threats by group members can lead to a restriction of information processing and a constriction of control that is not conducive to effective decision-making (Staw, Sandelands & Dutton, 1981; Gladstein & Reilly, 1985). The host of group studies that examine communication structure and performance indicate that external environmental threats will close down process-performance relationships and individual input-process relationships and halt decision-making, regardless of the degree of threat (Harshberger, 1971; Van de Ven & Delbecq, 1974; Gladstein & Reilly, 1985). As such, scapegoat behaviors like finger-pointing that are reactions to threats will be negatively related to board performance.

Conversely, the “common enemy” approach to governance reforms would be conducive to decision making for financial performance as boards work towards a superordinate goal of firm performance. Common goals promote earlier and extensive discussion of alternative scenarios in decision making (Hogg, 1992). Interpersonal cohesiveness enhances performance to the extent that it leads to the adoption of norms that encourage engagement in task activity, openness, and even disagreement on the way towards consensus (Craig & Kelly, 1999). Additionally, the common enemy approach may serve to reduce any cognitive dissonance that board members feel in their new power relationship to the CEO, as communication improves and increased uniformity is achieved. The co-orientations of group members towards a common goal allow individuals to achieve mutual dependence (Festinger & Thibaut, 1951; Schacter, 1951; Sherif, Harvey et. al., 1952) that might foster higher quality decisions, consensus and ability to fulfill control and service tasks as board members.

H11: The greater the level of scapegoat behaviors following governance reforms, the lower board task performance

H12: The greater the level of common enemy behaviors following governance reforms, the greater the board task performance.

Theoretical Summary

To summarize, this multi-theoretical model of board behaviors examines the way that the pressures of accountability in regulatory changes translate into *heightened levels of perceived uncertainty, greater board discretion and power changes for board members in relation to the CEO that results in less managerial discretion*. These outcomes to reforms are examined for their impact on *board conflict and board cohesiveness*. Finally, *common enemy* behaviors of boards with regard to reforms are proposed to lead to higher board performance while scapegoat and *finger-pointing behaviors* of board members will result in lower *board performance*. By integrating institutional-level theory with group-level theories this paper advances an understanding of how boards react to reforms and how they work as groups. The implications for this model are significant. As introduced above and explained later, the very reforms that are designed to provide clear guidelines for compliance may create uncertainty and change power relationships that ultimately lead to poor financial performance. Additionally, the reforms that are designed to provide institutional logics to industries and organizations may actually lead to heterogeneous practices between industries and organizations as boards react differently to mandates for accountability.

Board Reactions

Board Behaviors

Board Responses

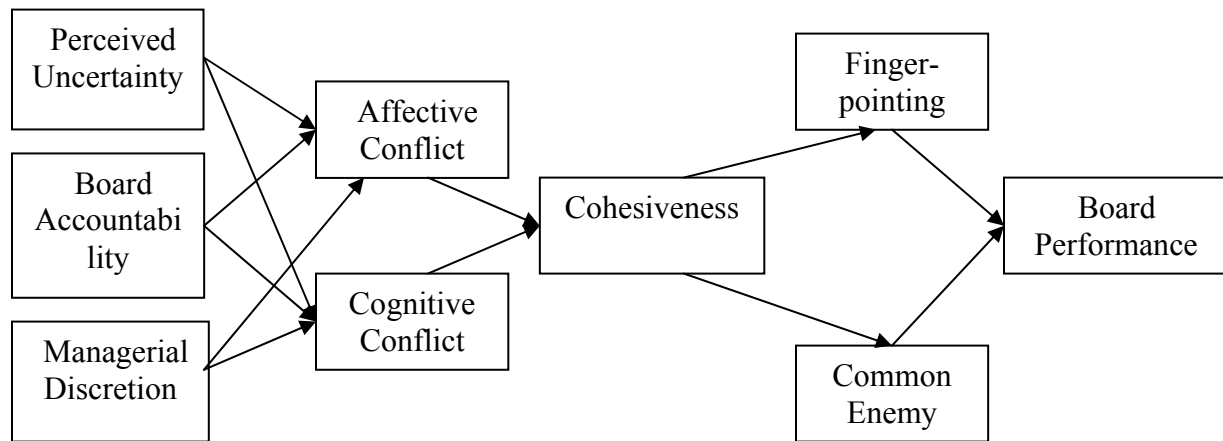


Figure 6
Board Reactions, Behaviors and Responses

CHAPTER THREE

METHODS

Sample and Data Collection

The sample frame for this study drew from 430 publicly held companies selected from the *IRRC Database* where at least two directors from each company were in place prior to 2002 (pre-Sarbanes-Oxley) and still in place in 2007. This sample was then supplemented by another 707 companies from the *Execucomp* database of publicly held companies where at least two directors were still serving, and had served as director prior to 2002. Additionally, another 173 companies from the database of a major business school's *Directors College* were sent surveys asking for participation. Together, these companies offered a wide range of size, industry and performance experiences.

Survey Design

A survey was designed and approved by the University Internal Review Board to assess the reactions of board members to governance changes. Specifically, board members were asked to reply to measures of perceived uncertainty, board accountability, affective conflict, cognitive conflict, cohesiveness, finger-pointing, common enemy and board performance. The first survey respondent was the Chairperson of the Board, while subsequent respondents were directors, so that each board was represented by the response of the board chairperson, as well as at least one other director member.

To ensure the psychometric soundness of behavioral measures, I assessed each measure for content validity, criterion related validity, construct validity and internal consistency

(Hinkin, 1995). For new measures of scapegoat and fingerpointing behaviors I used the three-step process cited by Schwab (1980) whereby the development of measures began with item development, then scale development and then scale evaluation. This process is outlined under the item measures below.

The development of the research instrument began with an inductive approach to assessing the phenomenon of governance reforms. I conducted in-depth telephone interviews with board members in several large companies in the financial services, for-profit health care and textile industries as well as one expert in board directorship from a large recruiting company for board of director members. These semi-structured discussions examined how the regulatory changes have affected CEO/board relations and how these have manifested themselves into board behaviors. Interviewees were asked open-ended questions about how new governance regulations influenced the way business is conducted in the boardroom. In their responses, the directors mentioned specific changes that referenced the constructs that are documented in the literature and measured in the survey. I then followed up with a second phone call to these directors for clarification and confirmation about their responses. As suggested by Eisenhardt & Graebner (2007), I maintained a careful chronicle of the discussions and then categorized the quotes. See Exhibit D for a chronicle of these interviews and associated constructs.

As a result of these interviews, and because content adequacy is a theoretical issue (Nunnally, 1978), I tried to limit the categories of board member reactions and behaviors to eight categories. Additionally, evidence of psychophysical judgment seems to indicate that eight categories are the upper bound for the collection of reliable data (Schriesheim et al, 1993). Measures of four of the constructs are highly used in strategy and organizational behavior research (i.e. uncertainty, board accountability, affective and cognitive conflict); therefore, I

asked these experts to assess the content validity of measures of cohesiveness, common enemy, finger-pointing and board task performance.

Next, to ensure adequate content validity of the survey instrument, I sat down with three of the directors and two expert reviewers familiar with boards to examine the survey instrument. Each director and expert assessed a description of each construct. To make the item assessment as simple as possible I asked each expert to match the questionnaire items to the constructs identified in the open interviews, with the addition of an “other category”. Those items that were assigned to the proper category more than 80% of the time were retained (Hinkin, 1995). This resulted in several measures being re-written for clarification and the elimination of two measures for board task performance. To take into account the context-specific nature of this dissertation to regulatory reforms that were implemented in 2002, all questions were designed using the term “post-Sarbanes-Oxley reforms” to check for regulatory influences over the 2002-2006 period.

Measures

Perceived Uncertainty

Measures of environmental uncertainty have been subject to much debate (Forbes & Milliken, 1999; Tosi, Aldag & Storey, 1973; Downey & Slocum, 1975; Downey, Hellriegel & Slocum, Jr. , 1975). Key to dissecting a measure for this construct is the fact that this is perceptual—a state uncertainty in response to confusion about the greater environment. Lawrence & Lorsch (1967) offer nine items in three subenvironments that were broken down to marketing, manufacturing and research as three departments, however in subsequent studies these were seen to have low reliabilities. I used a set of subscales including job requirements, degree of difficulty and feedback time developed by Downey, Hellriegel & Slocum (1976) in

their revision of the original Lawrence & Lorsch instrument. These had historically adequate reliabilities ($\alpha > .62$). I tailored the instrument to the setting of boards, thereby addressing methodological criticisms of the Lawrence & Lorsch instrument that suggested that respondents did not have the ability to divide the environment into subenvironments. The subenvironments for board members therefore addressed 1) their job duties in the areas of audit, selection and compensation as identified by Forbes & Milliken (1999), 2) the degree of difficulty for some of the tasks that they perform, adapted from Forbes & Milliken (1999) and 3) the length of time before feedback is available to the directors in their job duties. These items produced three subscale scores and a total uncertainty scale score.

L & L Items 1-3. To what extent are you clear on your job duties in the following areas, since the new governance mandates (SOX et al)?:

	<i>Less Clear</i>				<i>More Clear</i>		
Audit functions	1	2	3	4	5	6	7
Selection functions	1	2	3	4	5	6	7
Compensation functions	1	2	3	4	5	6	7

L & L Items 4-6. Please circle the point on the scale provided which most nearly describes the degree of difficulty each functional area of the board has in accomplishing its assigned job since the new governance mandates (SOX et al):

	<i>Less Difficult</i>				<i>More Difficult</i>		
Developing new strategies	1	2	3	4	5	6	7
Producing value-added components to the organization	1	2	3	4	5	6	7
Monitoring agents and protecting shareholder interests	1	2	3	4	5	6	7

L & L Items 7-9. Please check the alternative which most nearly describes the typical length of time involved before feedback is available in each of your functional board areas concerning the success of its job performance:

Audit Issues 1 day 1 week_ 1 month_ 6 months_ 1 year_ 3 years or more____

Selection Issues 1 day 1 week_ 1 month_ 6 months_ 1 year_ 3 years or more____

Compensation Issues 1 day 1 week_ 1 month_ 6 months_ 1 year_ 3 years or more____

Board Accountability

Board accountability was assessed using fifteen subjective measures adapted from a study by Pearce & Zahra (1991) which were used to capture the changing level of board authority in each of fifteen areas. Since accountability for decision-making is a means of organizational control (Kirby & Davis, 1998), and can be assessed by feelings of responsibility (Rutkowski & Steelman, 2005), board-specific measures of self-perceived authority were used. These items have also historically had adequate reliability ($\alpha > .76$), which were confirmed under separate item analysis.

Please rate how much your decision making authority has changed, post-SOX?

(Scale 1-6 indicating 1=Less Authority 6=More Authority):

Changing company bylaws	1	2	3	4	5	6
Approving changes in capital structure	1	2	3	4	5	6
Decisions about capital expenditures	1	2	3	4	5	6
Decisions about future acquisitions	1	2	3	4	5	6
Establishing long-term goals	1	2	3	4	5	6
Policy formation	1	2	3	4	5	6
Planning for top leadership succession	1	2	3	4	5	6
Selecting a new CEO	1	2	3	4	5	6
Evaluating the performance of key executives other than the CEO	1	2	3	4	5	6
Selection of corporate strategy	1	2	3	4	5	6
Decisions to adopt new technologies	1	2	3	4	5	6
Decisions regarding charitable contributions	1	2	3	4	5	6
Dealing with external groups	1	2	3	4	5	6

Managerial Discretion (CEO/Board Relationship)

Managerial discretion is a construct that has been measured a variety of ways, with a number of objective measures (Alexander, Fennel & Halpern, 1993; (Zajac & Westphal, 1996; Wade, O'Reilly & Chandratat, 1990; Mallette & Fowler, 1992). Since the variable in question is a change variable, I took the relative CEO to board tenure at T1, pre- Sarbanes-Oxley at 2002, and compared it to the relative tenure ratio at T2 in 2006. In order to isolate the ratio change due to shifts in board composition rather than merely the elapsed time, the ratio was corrected for the time lapse between T1 and T2. The measure of managerial discretion therefore is the positive or negative difference in the CEO/board tenure from 2002 to 2006. I also collected on the percentage change of independent outside directors for that time period, as measured by number of outside directors appointed before a CEO began his or her tenure/total number of board members relative to the total number of directors that took place from 2002 to 2006. Finally, I also collected information about CEO duality as a third measure of managerial discretion. All of these measures were collected from company proxy statements for the year 2006. In order to be

consistent with prior research, CEO duality was coded with a 1, while the absence was coded with a 0 (e.g. Finkelstein & DAveni, 1994; Buchholtz, Young & Powell, 1998).

Cohesiveness

As suggested by Forbes & Milliken (1999) in their assessment of board behaviors, cohesiveness was measured using a four-item index developed by Seashore (1954) and used by O'Reilly & Caldwell (1985) in a study of board member behaviors ($\alpha = .76$):

Please rate the extent to which your board members....:

	<i>Not At all</i>			<i>Very Much</i>
Are ready to defend each other from criticism by outsiders	1	2	3	4
Help each other on the job	1	2	3	4
Get along with each other	1	2	3	4
Stick together under pressure	1	2	3	4
Are united in trying to reach goals for performance	1	2	3	4
Have conflicting aspirations for board performance	1	2	3	4
Communicate freely about each other's responsibilities	1	2	3	4
Take responsibility for loss of performance	1	2	3	4

Conflict

Cognitive and affective conflict were measured with items from the Interpersonal Conflict Scale developed by Jenn (1992; 1994) and used by Amason (1996), in a study of top management team settings. The first four items measured affective conflict and the last three items measured cognitive conflict ($\alpha = .86$ and $.79$, respectively).

Think of a recent board decision and on a scale of 1 to 5 with 1=none and 5= a great deal. Tell us:

How much anger was there among the group over this decision?	1	2	3	4	5
How much personal friction was there in the group during this decision?	1	2	3	4	5
How much were personality clashes between group members evident during this decision?	1	2	3	4	5
How much tension was there in the group during this decision?	1	2	3	4	5

How many disagreements over different ideas about this decision were there?	1	2	3	4	5
How many differences about the content of this decision did the group have to work through?	1	2	3	4	5
How many differences of opinion were there within the group over this decision	1	2	3	4	5

Common Enemy

Item development for both common enemy behaviors are adapted from individual attraction to the group-task dimensions of the Group Environment Questionnaire developed by Carron, Widmeyer & Brawley (1985). Proposed measures were put through content analysis, exploratory and confirmatory analysis to assess validity as noted in the item analysis below.

Think of a recent board decision where there were differences of opinion about compliance issues, and tell us to what extent

Not at all

*Very much
agree*

Members of our team will overcome compliance issues	1	2	3	4	5	6	7
Our team is united in trying to comply with SOX et al mandates	1	2	3	4	5	6	7
We all come together to deal with new reforms	1	2	3	4	5	6	7

Fingerpointing Behaviors

Scapegoating, or the general displacement of hostility (Burke, 1969: 159) has been measured with an outcome variable of managerial change (Gamson & Scotch, 1964; Boeker, 1992). Under an instrumental approach to scapegoating, I have developed a fingerpointing construct that denotes the “symbolic blame-giving” that takes place in reaction to new mandates. The first and third items were developed based on the psycho-sociological references to the behaviors of the individuals in the five case studies of scapegoating in the French-political administrative system that were described by researcher Bonazzi (1983). The second item was developed based on the “grousing” behaviors attributable to dissatisfied Naval Reserve officers in another case study on the general dynamics of scapegoating (Zurcher & Wilson, 1981)

Think of a recent board decision where there were differences of opinion about compliance issues, and tell us to what extent:

	<i>Not at all</i>				<i>Very much agree</i>		
When something goes wrong with compliance issues, board members place blame on others	1	2	3	4	5	6	7
Some committees are blamed unfairly for tasks that are beyond the scope of their mandates	1	2	3	4	5	6	7
Not all board members take responsibility for the compliance issues	1	2	3	4	5	6	7

Board Performance

Item development for board performance are adapted from Amason's 1996 measures for decision quality and affective acceptance (a proxy for consensus) as well as from Forbes & Milliken (1999) descriptives of board task performance. Measures were put through content analysis, exploratory and confirmatory analysis to assess validity as noted below.

Please rate the extent to which board decision making declined or improved in the following areas post-SOX?:

The overall quality of board decisions	1	2	3	4
Generating and analyzing strategic decisions	1	2	3	4
The quality of board decisions regarding organizational performance issues	1	2	3	4
The value of the advice and analysis that board members contribute	1	2	3	4
Hiring, firing and compensation decisions	1	2	3	4
Strategic goal setting	1	2	3	4
Providing expert insight during major events	1	2	3	4

Controls

Several variables were captured to control for board performance. Board size is important to board performance because group size has been noted to have direct impact on group performance (Festinger, 1957). Additionally, firm size may influence board behaviors.

(Finkelstein & D'Aveni, 1994; Sanders & Carpenter, 1998; Westphal, 1999). I collected information on both board and firm size from each company's proxy statements for the year 2005. However, after analyzing the descriptives and item analysis on these items, both variables had extremely low correlations with board performance (board size to board performance $r^2=.09$; firm size to board performance $r^2=.05$). Following the logic of researcher Becker (2005), I did not include these control variables because, as Becker warns, "beware of impotent control variables (ones uncorrelated with the dependent variable). Unless there is reason to believe that a control variable is a legitimate suppressor, including a control variable that is uncorrelated with the dependent variable in analysis reduces power." (2005: 285).

Analytical Procedure

Path analysis was used to test hypotheses using OLS regression in SPSS 11.5. Path analysis is an extension of the regression model and it is used often in industrial organizational research (Billings & Wroten, 1978). It is useful for testing a hypothesized pattern of causal relationships, and while it is not designed to discover causes it "sheds light" on the tenability of the causal model based on theory (Pedhazur, 1997: 770). This dissertation model meets all the assumptions of path analysis in that it is unidirectional, recursive, and all variables are measured on an interval scale and are assumed to be without error (Pedhazur, 1973). Path coefficients in this model are zero-order correlations, where each variable is dependent on a single cause and a residual. Drawing from Pedhazur (1997) and Loehlin (1992), path analysis allows for the decomposition of correlations among variables, thereby enhancing the interpretation of relations. Each proposed path is analyzed by a linear regression equation, and one regression is needed for each endogenous variable. Therefore, for this model, twelve regressions were performed to test the model. Path coefficients (standardized regression weights) provide an index of the direct

relationship between two variables (Rutkowski & Steelman, 2004). The total effect of one variable is the sum of the direct effect, indirect effects and spurious effects.

CHAPTER FOUR

RESULTS

Survey Responses

A first mailing was sent to the board chairpersons of these companies asking that they complete the questionnaire and asking if they agreed to have their board used in the study. After this mailing, sixty-five questionnaires were returned as undeliverable, fifty-five responses were unusable, and thirty-five companies stated that it is policy that they do not participate in surveys. Fifty-four board chairpersons agreed to participate. To permit interrater reliability assessments, a second survey was sent to the directors of each company whose chairperson responded to the first survey (N= 429). In the manner of Westphal (1999), directors who sat on more than one board in the survey were asked to respond for only the one company corresponding to the respondent chairperson, and the chairperson was not surveyed twice. Attached to each survey was a letter guaranteeing anonymity and stating that the chairperson had agreed to participate, and stating that the survey would take no more than 5 minutes of their time. To ensure highest possible responses, I followed the suggestions of Westphal (1999) and Groves, Cialdini & Couper (1992): 1) I developed, and pretested the survey with experts and a small sample of directors 2) I agreed to share the results of the study, and 3) I sent nonrespondents a new questionnaire at alternate addresses about 20 days after the initial mailing. Surveys for corporate managers have notably low response rates of less than 20 percent (Judge & Dobbins, 1995). While the response rate for the chairpersons in the study was low at 4.1% (N=54), the response rate for directors was 32.16% (N= 138); This response rate compares favorably with similar

studies of upper-echelons (Westphal, 1999; Finkelstein, 1992; Amason, 1996). The participating 54 companies encompassed over 23 different industries under two-digit Standard Industrial Classification (SIC) categories, ensuring an adequate representation of the sample population. Average number of respondents per board size was 2.56. In addition, firms ranged from \$18 million to \$28 billion in assets. To assess for nonresponse bias, I assessed a second sample group of 100 from the original 1300 companies to see if respondents were significantly different from respondents, based on the average number of directors. There was no significant difference.

Common method bias is a problem for paper and pencil measures of abstract theoretical variables (Schriesheim, Powers, Scandura, Gardiner & Lankau, 1993; Podsakoff & Organ, 1986; Campbell & Fiske, 1959). Many of the independent variables in this study deal with concepts of power, influence and cognition that are abstract and are historically measured as self-report items (Alexander, Fennel & Halpern, 1993; Frederickson, Hambrick & Baumrin, 1988). Following the pattern of prior researchers faced with this difficulty, I use a combination of self-report and objective methods. The objective methods ride on the assumption that structural measures of this construct will “determine the condition of sociopolitical constructs discussed in theory.”(Alexander et al, 1993: 86). The obtrusive measures try to “get into the head” of the directors but run the risk of common method and/or response bias under self-report. In this case, I controlled for common method bias by including data derived from secondary data to supplement self-reported items. These items included director tenure, sales size, CEO tenure, board size, and CEO duality as noted in each firm’s SEC filings. Additionally, to test for common method on self-reported items, an unrotated principal components factor analysis was performed to determine if one factor emerged that accounted for the majority of variance in the

items (Podsakoff & Organ, 1986). Using the aggregated firm level data, the extraction showed that no one factor contributed more than 28% of the variance in items. Thus, directors were able to make a distinction amongst the various behaviors outlined in the survey. Finally, as noted below, independent sources were used for scale development and for assessing, construct validity (Campbell, 1976).

Analyzing the Data

Means, standard deviations and bivariate correlations for each variable are reported in Appendix F. The largest correlation among independent variables was .66 between perceived uncertainty and accountability and .63 between cognitive conflict and affective conflict. Since collinearity can have an adverse effect on the standard errors of regression coefficients, tolerance values were computed for the variables in question, calculated as $1-R^2_i$, where R^2_i is the squared multiple correlation of the independent variable with i remaining independent variables.

Variance inflation factor is the inflation of the variance of nonstandardized regression coefficients (b), calculated by the equation $VIF_i = 1/1-R^2_i$. The larger the VIF, the larger the standard error of the regression coefficient. Conversely, the smaller the tolerance, the greater the problems arising from rounding errors. As indicated below, all tolerance values are well above the cutoff value of .01 (Dixon, 1992) and all variance inflation factors are less than the cutoff value of 10 (Pedhazur, 1997):

	Collinearity Statistics Board PerformanceDV	
	Tolerance	VIF
Board Accountability	.427	2.34
Perceived Uncertainty	.526	1.90
Affective Conflict	.468	2.14

Cognitive Conflict	.540	1.85
Common Enemy	.908	1.10
Fingerpointing	.732	1.36
Cohesiveness	.612	1.63

Item Analysis

I conducted item analyses on all sixty items in the survey to assess inter item correlations and reliability estimates as well as to assess which items to include or to exclude from a scale. Item correlations yielded two items that needed to be reverse coded ---item 3 assessing uncertainty and item 6 assessing cohesiveness. Additionally, uncertainty items were standardized since the last three items were on a different metric (Likert scale 1-6) the first six items (Likert scale 1-7). After transforming these items, all alpha coefficients were greater than .6 for all of the items, a cutoff that is used in research (Hair, Anderson, Tatham & Black, 1992), however, the analysis suggested that the reliability of the perceived uncertainty measure could be improved from .62 to .75 if the last three uncertainty items were dropped. This was later confirmed under confirmatory factor analysis that showed a better fit for the measurement model with these items dropped. Hence, the construct of perceived uncertainty was measured with the first six survey items. The individual coefficient alpha reliabilities for all items are reported with the constructs below, however, it should be noted that these values might be slight overestimates of the population alphas because the same sample was used to conduct the item analyses as well as to compute reliability estimates. :

Construct	Cronbach's Alpha Inter-item Reliability
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Perceived Uncertainty (6 items)	.75
Board Accountability (15 items)	.94
Managerial Discretion (2 items)	.94
Affective Conflict (3 items)	.85
Cognitive Conflict (3 items)	.83
Cohesiveness (8 items)	.71
Fingerpointing (3 items)	.78
Common Enemy (3 items)	.71
Board Performance (7 items)	.92

I took special care in assessing the validity of fingerpointing and common enemy constructs, because these constructs are new to governance literature and I developed scales to assess these constructs. As noted above, I first assessed content validity through transcribed interviews and subsequent sorting technique by experts in governance. Then, I used exploratory factor analysis with factor extraction and factor rotation to determine what items or scales should be included and excluded from the measure. To determine the number of extracted factors, I obtained eigenvalues based on the principal components solution. The scree plot suggested two extracted components with eigenvalues greater than one for the six items assessing common enemy and fingerpointing behaviors. Based on this, I concluded that two factors should be rotated under a varimax orthogonal rotation. I chose orthogonal (verses oblique) rotation because the variable to factor ratio is relatively small, producing similar results to oblique (Pedhazur, 1997) and so the structure will be very much the same between the two techniques. Additionally, the correlation among variables is relatively low, suggesting that oblique rotation is not necessary over and above orthogonal. Finally, varimax orthogonal rotation has been shown to produce less sampling error and is easier to replicate (Pedhazur and Schmelkin, 1991). The

solution resulted in two factors labeled common enemy and fingerprinting; the extracted factors explained 31.8% and 25%, respectively, of the total variance of the six variables.

Table 3
Exploratory Factor Analysis Results for Common Enemy and Fingerprinting Constructs
Using Varimax Rotation

	Factor 1	Factor 2
Common Enemy 1	-.286	.733
Common Enemy 2	-.404	.779
Common Enemy 3	-.015	.781
Fingerprinting 1	.858	.290
Fingerprinting 2	.883	.223
Fingerprinting 3	.683	.131

Confirmatory Factor Analysis

Confirmatory factor analysis in Lisrel 8.0 was used to assess construct validity and to assess a goodness of fit for the predetermined measurement model (Jöreskog and Sörbom, 1993). Factor loadings were specified a priori for the nine factors, and then tested to see whether the observed correlation matrix could be reproduced given the specifications. While tests of fit were low, the factors all loaded on their specified constructs, indicating convergent validity. See Table 5 below. Goodness of fit statistics indicated that Chi-Square = 3347.45 (df= 1289, p=.000), RMSEA= .10, CFI = .84, RMR = .12. The Chi-square statistic is particularly sensitive to sample size, which might indicate the poor fit on this assessment (Bagozzi & Foxall, 1996). Other indices were slightly above or below threshold requirements, because ideal RMSEA should be less than .08, CFI should be greater than .95 and RMR should be less greater than .08 (Brown & Cudeck, 1983)..To assess for discriminant validity, I compared the chi-square values of two models----one, our proposed model, and the other, a test model that constrained (to a value of 1) the correlation between the variables within each subset of measures (cf.Bagozzi, Yi and

Phillips, 1991). I was able to establish the discriminant validity of the variables as the unconstrained model had a lower chi-square (3347.45) than the constrained model (3646).

Table 4
Standardized CFA Results

	Uncert	BdAcc	AffCon	CogCon	Cohes	Fingrpt	ComEn	BdPerf
Uncert1	.82							
Uncert1	.91							
Uncert1	.81							
Uncert1	.21							
Uncert1	.34							
Uncert1	.21							
BdAcc1		.66						
BdAcc2		.77						
BdAcc3		.59						
BdAcc4		.86						
BdAcc5		1.01						
BdAcc6		.93						
BdAcc7		.90						
BdAcc8		.85						
BdAcc9		1.02						
BdAcc10		.66						
BdAcc11		.77						
BdAcc12		.43						
BdAcc13		1.21						
BdAcc14		.31						
BdAcc15		.33						
AffCon1			.91					
AffCon2			.79					
AffCon3			.91					
AffCon4			.59					
CogCon1				.82				
CogCon2				.87				
CogCon3				.77				
Cohes1					.20			
Cohes2					.33			
Cohes3					.36			
Cohes4					.47			
Cohes5					.33			
Cohes6					.36			
Cohes7					.28			
Cohes8					.43			

Fingrpt1						.98		
Fingrpt2						1.06		
Fingrpt3						.65		
ComEn1							1.14	
ComEn2							1.47	
ComEn3							.98	
BdPerf1								.76
BdPerf2								.87
BdPerf3								.75
BdPerf4								.89
BdPerf5								.72
BdPerf6								.76
BdPerf7								.68
Chi Square = 3347.45 (df= 1289, p=0.00)								
NNFI = .83								
CFI = .84								
RMSEA = .10, RMR = .12								

Within and Between Analysis

This analysis involves groups of individuals, so the rationale for aggregation of individual level responses to group level constructs must be justified. Within and between analysis (WABA), first recommended for this procedure by Dansereau, Alutto & Yammarino (1984), is used to assess levels of analysis and to avoid the “ecological fallacy” of aggregating measures to group level when there may not even be within-group homogeneity for the measures (Yammarino & Markham, 1992; Pedhazur, 1982).

Drawing from Yammarino & Markham (1992), in WABA, within and between-cell indicators are calculated and compared with tests of traditional significance under a one-way ANOVA with the following formula:

$$\eta_{Bx} \eta_{Bx} \Gamma_{Bxy} + \eta_{wx} \eta_{wy} \Gamma_{wxy} = \Gamma_{Txy}$$

where η_{Bx} and η_{By} are the between etas for variables x and y respectively, and η_{wx} and η_{wy} are the corresponding within etas, and r_{Bxy} and r_{wxy} are the corresponding between and within cell correlations. r_{txy} is the familiar raw score (total) correlation between variables x and y. WABA

essentially shows that any raw score correlation is the sum of a between-cell component and a within-cell component. Under the E test (eta ratio) of practical significance, researchers assess the variation in each variable within and between groups with the formula to look at the magnitude of effects η_B / η_W . This eta ratio is not dependent on degrees of freedom, and if greater than 1.0, means that the between-cell eta is larger than the within-cell eta. If this is the case, a traditional F test for the between-and within is then examined for significance to test the larger eta and assess statistical significance (Waldman, et al, 1990). When the eta ratio is less than 1.0 it means that the within cell eta is larger than the between cell eta and inverse F-test is required to conform to acceptable statistical procedures (Dansereau et al, 1984). The E test should be met before statistical significance is considered under the F test. The results from the WABA show that all of the constructs, with the exception of perceived uncertainty had larger between group etas than within group etas. This is verified as well by the F test for significance. Finally, a “15-degree test” can then be assessed so that if at least 63% of the variation in scores occurs between entities, then a “whole condition” can be inferred, so that there is rationale for aggregating individual responses to group level. Eta-square values (equivalent to R^2 measures) indicate that the percentage of variance between groups was not significantly different for perceived uncertainty (20% within groups and 15% between groups).

Table 5
WABA Analysis

	Eta		Eta Squared		E Test	F Test	Corrected F Test	WABA Inference*
Variable	Between	Within	Between	Within				
Board Accountability	.71	0.54	0.50	0.29	1.72	1.32	.75	Grouped/Mixed
Perceived Uncertainty	.39	0.45	0.15	0.20	.75	.88	1.14	Nongrouped

Affective Conflict	1.19	0.47	1.41	0.22	6.41	2.53**	.39	Grouped
Cognitive Conflict	1.11	0.61	1.23	0.37	3.32	1.82*	.55	Grouped
Cohesiveness	2.55	1.66	6.50	2.76	2.35	1.54*	.65	Grouped
Common Enemy	1.27	0.84	1.61	0.70	2.30	1.51*	.66	Grouped
Fingerpointing	.21	0.14	0.05	0.02	2.5	1.54*	.65	Grouped
Board Performance	.73	0.62	0.53	0.38	1.39	1.17	.85	Grouped/Mixed

* p<.05 **p<.01 ***p<.001

Based on the WABA 1 results an inference towards a whole condition seems warranted. Constructs of affective conflict, cognitive conflict, cohesiveness, common enemy and fingerpointing all indicate a grouped nature with both E and F tests significant. Board accountability and board performance, while passing the E test for larger between cell etas than within cell etas give partial support to aggregating individual responses to group level constructs. A null case is inferred from the construct of perceived uncertainty, suggesting that the practical significance of assessing this group level construct from individual responses is marginal at best.

Model and Hypotheses Testing

Under path analysis, path regression coefficients are standardized regression coefficients (β 's). Although the use of standardized versus unstandardized coefficients is debatable, the standardized coefficient is preferable because it is scale free and can be compared across different variables (Pedhazur 1997). All hypothesis testing was therefore analyzed with standardized regression coefficients, with each endogenous variable in the path model tested separately. In path analysis, it is assumed that each of the residuals is not correlated with the variables in the equation in which it appears, nor with the variables preceding it in the model. However, this assumption is potentially violated with this model, since it is overidentified, with the potential for spurious effects because the model displays two sets of variables that share

common antecedents: 1) affective conflict and cognitive conflict share perceived uncertainty, accountability and managerial discretion, and 2) fingerpointing behaviors and common enemy behaviors share cohesiveness. To account for this, I collected the partial correlation of the two sets of endogenous variables, using as controls all of their common causes. Partial correlations for the first set were small but significant under a Bonferroni approach (partial $r^2 = .625$, $p = .000$), while set two was not significant (partial $r^2 = .545$, $p = .58$). Hence, the beta coefficients for these paths under the first set reflect partial correlations that contribute to the spurious effect.

Hypothesis 1, which proposed a positive relationship between perceived uncertainty of board members following reforms, and affective conflict, was not supported ($\beta = .09$, $r^2 = .008$, $p = .52$).

Hypothesis 2, which proposed a positive relationship between perceived uncertainty of board members following reforms and cognitive conflict, was not supported ($\beta = .20$, $r^2 = .041$, $p = .14$).

Hypothesis 3, which proposed a positive relationship between board accountability and affective conflict was not supported ($\beta = .05$, $r^2 = .002$, $p = .73$).

Hypothesis 4, which proposed a positive relationship between board accountability and cognitive conflict **was supported** at a p level below .10 ($\beta = .12$, $r^2 = .02$, $p = .08$).

Hypothesis 5 predicted a positive relationship between managerial discretion and affective conflict. This was not supported based on two measures of managerial discretion: a) the change variable of managerial discretion calculated by the relative CEO to board tenure from 2002 to 2006 and affective conflict ($\beta = -.16$, $r^2 = .027$, $p = .23$), b) the change in the percentage of outside directors and affective conflict over that same time period ($\beta = -.06$, $r^2 = .005$, $p = .63$). CEO

duality was not used as a measure of changing discretion since only ten of the 54 companies did not have CEO duality and only one company changed their duality status from 2002-6.

Hypothesis 6, which proposed a positive relationship between managerial discretion and cognitive conflict was not supported based on the two different measures of managerial discretion: a) the change variable of managerial discretion and affective conflict ($\beta = -.05$, $r^2 = .002$, $p = .75$), b) the percentage of outside directors and affective conflict ($\beta = -.07$, $r^2 = .005$, $p = .60$), or c) the ratio of board to CEO tenure ($\beta = -.05$, $r^2 = .002$, $p = .75$).

Hypothesis 7 proposed a negative relationship between affective conflict and cohesiveness of board members following reforms. This **was supported** ($\beta = -.54$, $r^2 = .288$, $p = .000$).

Hypothesis 8 predicted a positive relationship between cognitive conflict and cohesiveness of board members following reforms. This relationship **was not supported, however a negative, significant relationship was determined**. ($\beta = -.33$, $r^2 = .109$, $p = .015$).

Hypothesis 9, which proposed a negative relationship between the cohesiveness of boards and fingerpointing behaviors **was supported** ($\beta = -.41$, $r^2 = .169$, $p = .002$).

Hypothesis 10 predicted a positive relationship between cohesiveness and common enemy behaviors following reforms. This was not supported ($\beta = .03$, $r^2 = .001$, $p = .84$).

Hypothesis 11 predicted a negative relationship between fingerpointing behaviors and board performance. This was not supported ($\beta = -.115$, $r^2 = .013$, $p = .41$).

Hypothesis 12 predicted a negative relationship between common enemy behaviors and board performance. This was not supported ($\beta = -.07$, $r^2 = .004$, $p = .65$).

Effect Analysis

Path analysis is used to shed light on the tenability of a causal model, rather than discover causes. As pointed out above, this model is overidentified, in that it contains more information than is necessary to estimate the path coefficients, since one variable may affect another directly as well as indirectly. Model overidentification is common to path analysis, since most phenomena can only be explained with multiple variables. The challenge to overidentified models is that there may be spurious effects when two or more variables are affected by the same cause, making it difficult to reproduce the correlation matrix. So, further testing is needed to identify whether path analysis is useful for statistical interpretation.

One way to assess whether the postulated model is consistent with the data is to reproduce the variable correlations from calculated path coefficients. If there is a large discrepancy between the original correlation and the reproduced one, then this might indicate that the model does not fit the data (Billings & Wroten, 1978). Accordingly, original and recomputed correlations are presented in the upper right corner of the descriptives and correlations table Appendix F. The correlations for perceived uncertainty and affective conflict were closely reproduced, as were the correlations between cognitive conflict and common enemy, however, none of these met the threshold of less than .05 difference advocated by Billings & Wroten (1978). No other reproduced correlations were aligned with original correlations. To interpret this, it is important to note that while correlation reproduction may be evidence of the “consistency of the model”, it is “no proof of the validity of the model” (Pedhazur, 1997: 786). The decomposition of variables provides evidence of the effects of the different paths on the endogenous variable, board performance.

One of the advantages of path analysis is that it is possible to decompose the correlation between variables along a path. The indirect effects are calculated by multiplying path coefficients for each path from one side of a model to the other. Because accountability is the antecedent with the only significant path, I analyze the indirect effects from board accountability to board performance below, and compare these indirect effects to a direct effect of board accountability to board performance (unhypothesized, but important to effect decomposition):

Equation 1: Board performance= accountability to cognitive conflict to cohesiveness, to fingerpointing behaviors to board performance.

$$.122*-.331*-.421*-.115 = -.736$$

Equation 2: Board performance= accountability to affective conflict to cohesiveness to fingerpointing to board performance.

$$.048*-.537*.412*-.115 = -.316$$

Equation 3: Board performance = accountability to cognitive conflict to cohesiveness to common enemy to board performance.

$$.122*-.331*.028*-.064 = -.070$$

Equation 4: The total indirect effect of accountability on board performance is the sum of all the equations from above:

$$-.736+-.316+-.070 = -1.10 \text{ total indirect effect}$$

The total indirect effect of accountability on board performance is -1.10. In comparison, the direct effect of board accountability on performance, while not outlined in the model, is only -.51, indicating that the indirect effect has more explanatory power than direct effect linking board accountability and performance, and confirming the benefit of using path analysis to decompose effects. Total causal effect of the significant path is therefore -1.61. However, on

this path, there is a spurious direct effect of accountability as an antecedent to both affective and cognitive conflict, so that the total effect (TE) of the antecedents on board performance is -1.60 made up of -.51 direct effects (DE), -1.10 indirect effects (IE) and .006 spurious effects (SE). There is indication that the overidentified model may need some “theory trimming” or model revision to drop paths along the model, because the indirect effects are so much greater than the direct effects (Pedhazur, 1997: 806). However, this path analysis can be further studied to assess the differential effects of several variables on the endogenous variable. The effect coefficients of perceived uncertainty, accountability, discretion, affective conflict, cognitive conflict, cohesiveness, fingerpointing and common enemy on board performance are summarized in Table 7. Although hypotheses testing indicated only the one significant path, these effects can provide information for model trimming for future research. Accordingly, I conclude that, separate from the significant path from accountability to board performance outlined above, cohesiveness has the largest potential causal effect on board performance, followed by affective conflict and cognitive conflict. Moreover, the effect of managerial discretion on board performance is smaller than the effect of either of the other variables.

Table 6
Summary of Direct and Indirect Effects in the Model

	Direct Effect	Indirect Effects	Spurious Effects	Total Causal Effect (Indirect + Direct)	Total Effect (Causal + Spurious)
Uncertainty to Board Performance	N/A	.09*-.54*-.41*-.12+.09*-.54*.03*-.06+.20*-.338*-.41*-.12+.2*-.33*.03*-.06 =	.09*.2=.01	-.006	.04

		-.006			
Accountability to Board Performance*	N/A	.12*-.33*-.42*-.11+.05*-.54*.41*-.11+.12*-.33*.03*-.06 = -1.10	.05*.12=.006	-1.10	-1.09
Accountability to Board Performance	N/A	.05*-.54*-.41*-.12+.05*-.54*.03*-.06+.12*-.33*-.41*-.12+.12*-.33*.03*-.06 = -.01	.05*.12=.006	-0.01	-.004
Managerial Discretion to Board Performance**	N/A	.16*-.54*-.41*-.12+.16*-.54*.03*.16+-.17*-.33*-.41*-.12+-.17*-.33*.03*.16 = -1.60	.16*-.17=-.01	-1.60	-1.59
Affective Conflict to Board Performance	N/A	-.54*-.41*-.12+-.54*.03*-.06 = -.025	N/A	-.025	-.025
Cognitive Conflict to Board Performance	N/A	-.33*-.41*-.12+-.33*.03*-.06 = -.015	N/A	-.015	-.015
Cohesiveness to Board Performance	N/A	-.41*-.12+.03*-.06 = .047	N/A	.047	.047
Fingerpointing to Board Performance	-.12	N/A	N/A	-.12	-.12
Common Enemy to Board Performance	-.06	N/A	N/A	-.06	-.06

* Calculated along the significant path for hypothesis testing

**Calculated with managerial discretion change variable, since this had highest significance level.

CHAPTER FIVE

DISCUSSION AND CONCLUSION

When institutional change takes place, the institutionalization process begins. New modes of behavior are conferred with legitimacy and social actors develop a new set of norms and behaviors that are adopted by the broader society under reinstitutionalization (Greenwood, Suddaby & Hinings, 2002). As noted in this study, the breakdown of institutionalization often takes place in the “blackbox” of the theorization process, where social actors do not confer legitimacy upon the changes, and in this case, when the pressures of accountability and role confusion of board members circumvents the theorization process that is necessary before the diffusion of norms. This study explored the “blackbox” and found that board members experience the pressures of accountability, and this accountability increases cognitive conflict that leads to less cohesiveness in boardrooms. This has a negative impact on board performance, while also causing board members to engage in “fingerpointing” behaviors in a defensive attribution of blame when there are problems with compliance to reforms. Hence, I have explored the changing group level behaviors that can take place within organizations as they react to institutional changes.

This study addresses the previously unexplored area of theorization by looking at the institutional context of governance reforms and a failure of institutional logics. In particular, I examine the impact of changing reforms on board behaviors, while also developing new constructs of fingerpointing and common enemy behaviors in the boardroom that result from governance changes. In an effort to address criticisms of board research that it is heavily

content-laden in the area of board composition and structure, I have taken on the challenge of examining board processes. This study is unique in offering some insight into what happens in board decision making following the pressures of reforms.

Hypotheses H1-H6: Group Level Reactions

Path analyses indicated that of all three hypothesized group reactions to institutional changes, board accountability was the only one of the hypothesized relationships that was supported, with a positive significant relationship between board accountability and cognitive conflict. This is consistent with previous studies on accountability that suggest that accountability has a positive effect on creativity in decision making (Stewart, Billings & Stasser, 1998), and it is helpful to processing tasks in more complex ways (Tetlock & Boettger, 1990). In the context of this dissertation, these findings suggest that accountability from these governance mandates can be a positive managerial element that fosters a functional conflict to help boards in their decision making. This is potential “good news” to reforms; however, it also confirms that the social actors in organizations react strongly to institutional changes, and that these reactions may assist in the breakdown of the theorization process. The weak path from perceived uncertainty to the conflict constructs may relate to the limitations of this group level construct under WABA analysis above, as well as the methodologically challenging nature of this construct which has been noted in literature (Tosi, Aldag & Storey, 1973).

Hypotheses H7-H8: Group Level Behaviors

This set of hypotheses examines the impact of governance reforms on group level behaviors, which is vitally important to the theorization process and the diffusion of norms and standards of behavior following reforms. As the path diagram indicates, both affective and cognitive conflict had strong relationships with cohesiveness. As predicted, higher affective

conflict was seen to reduce board cohesiveness, confirming previous studies that indicate that the emotional, dysfunctional aspects of conflict would not be conducive to desired group membership (Hogg, 1987), and also supporting anecdotal evidence that this conflict is taking place in boardrooms since Sarbanes-Oxley et al (WSJ, 2006) . This is also a key element in the breakdown in the theorization process of institutionalization, since affective conflict would hamper board members in granting legitimacy to their new compliance mandates and fuel the cognitive dissonance that they experience in their new roles. However, contrary to what was predicted, when higher cognitive conflict results from the increased accountability of reforms, this decreases cohesiveness in the boardroom. This is an important development in researching group behaviors, since the link between cognitive conflict and cohesiveness is relatively untested, and for years, cohesiveness has been a convoluted construct with debatable dimensionality and measurement (Hogg, 1992). More specific to this study, functional conflict from the accountability of reforms also causes board members to be less motivated to stay on the board, as seen by a negative relationship between cognitive conflict and cohesiveness. The highly complex tasks from the reforms may be part of this phenomenon, as well as the “fear factor” that works against even the benefits of cognitive conflict and causes group members to be less attracted to each other.

Hypotheses H9-H10: Group Level Behaviors, Fingerprinting and Common Enemy

This set of hypotheses explored two new board behaviors as a result of changing levels of cohesiveness following reforms. In H9 and H10, I predicted that cohesiveness would be negatively related to finger-pointing behaviors and positively related to common enemy behaviors. Only H9, the relationship between cohesiveness and fingerprinting proved statistically significant. This is particularly interesting, since most scapegoat theory- based

research looks at the scapegoating of top managers following poor performance. Here, this provides evidence that group behaviors become antecedents to fingerprinting behaviors. This finding supports anecdotal evidence of board member's reacting to reforms by blaming others for compliance issues, most notably fingerprinting the audit committee when there has been a dispute over compliance mandates. Regarding hypothesis 10 and the affect of cohesiveness on common enemy behaviors, it is possible that common enemy is subsumed within cohesiveness, although correlations between the two did not indicate theoretical or statistical collinearity. Historically, common enemy behaviors have only been noted in manipulation exercises where participants have a clearly identified "common enemy", so it is also possible that the new reforms are so broad that the common enemy is somewhat elusive to board members self-reporting on a survey.

Hypotheses H11-H12: Board Performance

Hypotheses 11 and 12 analyzed board performance as an outcome to fingerprinting and common enemy behaviors. While both were negatively related to performance, neither hypotheses was statistically significant. This is addressed in post hoc analysis.

In sum, the proposed path model was partially supported by the data, with a significant path from accountability to fingerprinting behaviors, indicating that board members, as a group, have changed their behaviors in response to reforms. In particular, board members feel the pressure of increased accountability, and they are more likely to experience cognitive conflict, less cohesiveness and fingerprinting behaviors as a result.

Post Hoc Analyses

Due to the large number of hypotheses that were not supported, several post hoc analyses were performed. First, I analyzed the *direct* effect (direct path) of all constructs on board

performance to assess the total effect of the constructs with direct and indirect effects (see table 7 below). Under this hypothesis, the path from accountability to board performance still produces the greatest effect, however not all direct paths were statistically significant. Separate from the significant path, uncertainty has the largest effect on board performance, followed by accountability and cohesiveness. This provides information for future research in that the construct of perceived uncertainty may still be of interest in board research. Interestingly enough, managerial discretion as measured by the percentage of outside directors offers the smallest direct and indirect effect to board performance, posing the question as to whether these directors affect group behaviors in the boardroom.

Table 7
Post-Hoc Analysis of Direct and Indirect Effects Including Previously Untested Direct Effects of All Exogenous Variables on Board Performance

	Direct Effect	Indirect Effects	Spurious Effects	Total Causal Effect (Indirect + Direct)	Total Effect (Causal + Spurious)
Uncertainty to Board Performance	-.514	.09*-.54*-.41*-.12+.09*-.54*.03*-.06+.20*-.338*-.41*-.12+.2*-.33*.03*-.06 = -.006	.09*.2=.01	-.520	-.519
Accountability to Board Performance*	-.501	.12*-.33*-.42*-.11+.05*-.54*.41*-.11+.12*-.33*.03*-.06 = -1.10	.05*.12=.006	-1.60	-1.59
Accountability to	-.501	.05*-.54*-	.05*.12=.006	-.511	-.506

Board Performance		.41*-.12+.05*-.54*.03*-.06+.12*-.33*-.41*-.12+.12*-.33*.03*-.06 = -.01			
Managerial Discretion to Board Performance**	.019	.16*-.54*-.41*-.12+.16*-.54*.03*-.16+-.17*-.33*-.41*-.12+-.17*-.33*.03*.16 = -.1.60	.16*-.17=.01	1.58	1.57
Affective Conflict to Board Performance	-.103	-.54*-.41*-.12+-.54*.03*-.06 = -.025	N/A	-.128	-.128
Cognitive Conflict to Board Performance	-.094	-.33*-.41*-.12+-.33*.03*-.06 = -.015	N/A	-.109	-.109
Cohesiveness to Board Performance	.236	-.41*-.12+.03*-.06 = .047	N/A	.283	.283
Fingerpointing to Board Performance	-.12	N/A	N/A	-.12	-.12
Common Enemy to Board Performance	-.06	N/A	N/A	-.06	-.06

In order to test for the possible trimming of the model through dropping insignificant paths, a dotted-line hypotheses H13 was tested for the direct effects of cohesiveness on board performance. This relationship was positive and significant at a .10 significance level ($\beta=.236$, $r^2=.056$, $p=.09$), and indicated a direct effect on board performance. Hence, there is a consistent, significant path of changing group behaviors from board accountability to board performance.

Post Hoc Multiple Regression

For comparison of testing models, multiple regression was performed with all of the independent path variables as exogenous to board performance. The variables under this regression are presented in Table 8 and show similar total effect for the variables in question. Under this model, the eight exogenous variables to board performance explain approximately 29.7% of the variance in board performance ($p=.002$, $F=3.49$, $df=53$). This compares well with the final direct effect of cohesiveness on board performance ($\beta=-.236$) and total effect from the path analysis above (Total effect = $-.283$).

Table 8
Post Hoc Regression

	Full Model
	B
Perceived Uncertainty	-.284*
Board Accountability	-.503***
Managerial Discretion –Change in Percentage of Outside Directors	.186
Managerial Discretion –Relative Change in CEO/Bd Tenure	-.072
Affective Conflict	-.042
Cognitive Conflict	-.051
Cohesiveness	.235
Fingerpointing	-.185
Common Enemy	-.093
F Value	3.49**
Adjusted R ²	.297

Dependent Variable = Board Performance

* $p<.05$, ** $p<.01$, *** $p<.001$

Post Hoc Testing for Mediation

Initial hypothesis testing and significant path results indicate that there is some evidence of a causal link between accountability and board performance. In post hoc analysis, I ran a

mediated regression analysis for the three mediated relationships along the path: 1) from accountability to cohesiveness mediated by cognitive conflict; 2) from cognitive conflict to fingerprinting behaviors mediated by cohesiveness, and 3) from cognitive conflict to board performance mediated by cohesiveness. Baron and Kenny's (1986) three-step procedure was used to assess the mediating roles of cognitive conflict and cohesiveness.

The mediated regression analysis for the first relationship began with regressing the mediator variable (cognitive conflict) on the independent variable (accountability). In the second step, the dependent variable (cohesiveness) was regressed on the independent variable (accountability). In the third step, the dependent variable (cohesiveness) was regressed on the independent variable (accountability) and the mediator (cognitive conflict) together. Table 9 indicates that neither partial nor full mediation existed, since the second step regression was insignificant, and beta weights were higher and more significant at step 3.

The mediated regression analysis for the second relationship began with regressing the mediator variable (cohesiveness) on the independent variable (cognitive conflict). In the second step, the dependent variable (fingerprinting) was regressed on the independent variable (cognitive conflict). In the third step, the dependent variable (fingerprinting) was regressed on the independent variable (cognitive conflict) and the mediator (cohesiveness) together. Table 9 indicates that neither partial nor full mediation existed, since the second step regression was insignificant, and beta weights were higher at step 3.

The mediated regression analysis for the third relationship began with regressing the mediator variable (cohesiveness) on the independent variable (cognitive conflict). In the second step, the dependent variable (board performance) was regressed on the independent variable (cognitive conflict). In the third step, the dependent variable (board performance) was regressed

on the independent variable (cognitive conflict) and the mediator (cohesiveness) together. Table 9 indicates that neither partial nor full mediation existed, since the second step regression was insignificant, and beta weights were higher at step 3.

Table 9
Mediated Regression Results

	Step 1		Step 2		Step 3	
	F	β	F	β	F	β
DV: Cohesiveness	.786	.122**	1.15	.147	4.32	.19***, -.354***
DV: Fingerpointing	6.39	-.33***	.765	.120	5.21	-.02***, -.42***
DV: Board Perform	6.39	-.33***	.467	-.09	1.51	-.02, 2.3

Limitations of the Study

This model has twelve proposed parameters, and ideally, there should be ten times as many cases for analysis as parameters in a path model (Kline, 1980). The results above are therefore interpreted with caution, given the small sample size that is common to research on boards of directors.

This research is unique in its attempt to gather information about board behaviors that generally take place behind the doors of the boardroom. As such, the measures of behaviors are self-reported, with the limitations that come from response bias. While this is a viable concern, the between and within analysis of these items, as well as the theoretical argument for board self-reporting of board task performance, serves to mitigate this limitation and confirms that board members, as diverse representatives of shareholders, are able to attest to board behaviors as well as their ability to “get the job done”.

The cross-sectional survey design limits the ability to apply these constructs in dynamic settings, and the survey questions were specific to a point of time following governance reforms. This poses some interesting questions for future research. It might be possible to explore

different contexts of institutional change that foster changes in board level behaviors, beyond those from regulation. I discuss this in the section below.

Implications

The very reforms that are designed to provide clear guidelines for compliance may create pressure from accountability that could ultimately lead to poor financial performance.

Additionally, the reforms that are designed to provide institutional logics to industries and organizations may actually lead to heterogeneous practices between industries and organizations as boards react differently to mandates for accountability. From a theoretical standpoint, there is evidence that something has happened in the “trickle down” theorization process that follows institutional change. More specifically, these reforms from a host of different sources have combined with the already convoluted roles of board members to change board behaviors. This is one contextual example that helps to provide insight to the “black box” of the theorization process whereby the reforms are not granted legitimacy by the groups within organizations.

As we have seen from this dissertation, the heart of these reforms is the mandate for increased scrutiny and accountability of executives and boards for proper accounting and internal controls in the wake of corporate malfeasance and scandals. While the benefits of accountability and transparency in governance have been studied in the past (Davis & Thompson, 1994; Golden-Biddle & Rao, 1997; Westphal & Zajac, 2001), the downside of these reforms has received relatively little attention. This dissertation has addressed some of the group-level effects and altered board behaviors as a result of institutional changes and scrutiny of reforms. By examining the trickle-down effects of institutional change, the (lack of) diffusion of institutional logics, and subsequent effects on the cognitive processes of board behaviors, we hope to come to a better understanding of the multi-level impact of reforms on board performance.

Future Research

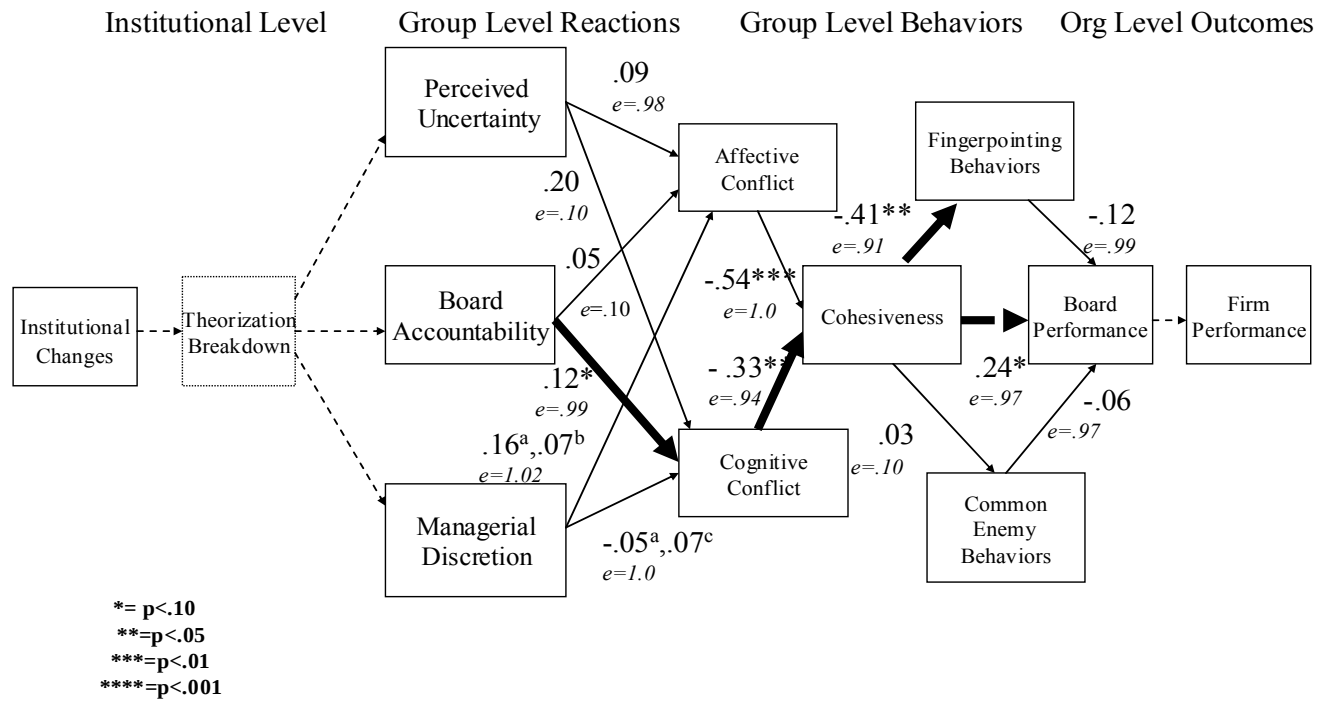
In order to truly assess the implications of governance reforms at executive levels, the challenge of governance researchers will be getting access to directors in the boardroom to assess the processes and behaviors of board of directors and the CEO. However, as boards struggle to conform under scrutiny, researchers may find opportunities for field studies to explore these behaviors, as board members have stories of angst and power struggles in the boardroom. Beyond these behaviors, researchers should begin to look at the temporal nature of sources of institutional norms that have an impact on executive levels. Specifically, because the institutional effects of change involve coercive, mimetic and normative sources of governance, each source of institutional change may have a different impact on the behaviors of board members and managers alike. Finally, further research might explore the positive group-level and executive level behaviors that take place as a result of governance reforms. For example, Sutton & Dobbin (1996) found that diffusion of due-process mechanisms in the American workplace in the 1980's led to over-the-top reforms by human resource professionals that went beyond the new government standards of compliance. It is possible that as the impact of reforms is diffused throughout organizations, across boards and across industries, board members may initiate practices that will address agency and corporate malfeasance problems that are more influential in affecting group level governance behaviors than current legal mandates.

Conclusion

This dissertation moves beyond agency theory issues and board composition to address changing board behaviors that occur following the institutionalization of governance reforms. Since the passage of the Sarbanes-Oxley Act of 2002, boards struggle to define norms of behavior under a variety of new mandates from different sources. In the absence of institutional

logics, the theorization process by which new regulation becomes legitimized and diffused, breaks down. As a result, boards experience greater cognitive conflict, become less cohesive, and engage in “fingerpointing”, with potentially lower board performance. The findings suggest that the institutionalization of new reforms break down when the pressures of accountability lead to changing group behaviors for board members, with negative ramifications for board performance. This study is a beginning point for governance researchers to understand the effects of increased regulation, as well as to look at some of the fingerpointing behaviors that take place between board members as they attempt to manage their increased accountability. While this path analysis is a beginning point to understanding the various group level behaviors, future research should investigate the behaviors of board members under other pressures and contexts.

Theoretical Model with Path Coefficients
Figure 7
The Impact of Institutional Changes on Board Level Behaviors



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Appendix A: Introductory Letter to Board Chairmen

November , 2006

Name

Title

Firm

Address

City, State, Zip

Dear:

I am a fifth year doctoral student at the University of Georgia. I am currently completing work on my dissertation, which examines the impact that recent governance reforms like Sarbanes-Oxley have had on board members. I am asking for your help in completing a short survey related to the functioning of the board. I will be sending surveys to your other board members and I will ask for their help as well.

If you agree to participate, all you need to do is complete the brief survey that is attached to this letter. This should take no more than five minutes, and this would help to further academic research on corporate governance.

Your answers will only be seen by me and will be kept strictly confidential. If you are interested in the results of the study, I promise to send you a copy of any research papers that stem from the administration of this survey. By completing and returning this questionnaire in the envelope provided, you are agreeing to participate in the above described research project.

I hope that you will choose to participate in this study. Please keep a copy of this for your records. If you have any questions, you can contact me at 706-542-4666 or at jillbrown@terry.uga.edu.

Sincerely,

Jill A. Brown
Ph.D. Candidate
University of Georgia

Questions or concerns about your rights as a research participant should be directed to The Chairperson, University of Georgia Institutional Review Board, 612 Boyd GSRC, Athens, Georgia 30602-7411; telephone (706) 542-3199; email address irb@uga.edu.

Appendix B: Follow-Up Letter to Board Members

November , 2006

Name

Title

Firm

Address

City, State, Zip

Dear:

I am a fifth year doctoral student at the University of Georgia. I am currently completing work on my dissertation, which examines the impact that recent governance reforms like Sarbanes-Oxley have had on board members. I have contacted your board chairman to ask for help in completing a short survey related to the functioning of the board. Your chairman agreed to participate in this study.

If you agree to participate, all you need to do is complete the brief survey that is attached to this letter. This should take no more than five minutes, and this would help to further academic research on corporate governance.

Your answers will only be seen by me and will be kept strictly confidential. If you are interested in the results of the study, I promise to send you a copy of any research papers that stem from the administration of this survey. By completing and returning this questionnaire in the envelope provided, you are agreeing to participate in the above described research project.

I hope that you will choose to participate in this study. Please keep a copy of this for your records. If you have any questions, you can contact me at 706-542-4666 or at jillbrown@terry.uga.edu.

Sincerely,

Jill A. Brown
Ph.D. Candidate
University of Georgia

Questions or concerns about your rights as a research participant should be directed to The Chairperson, University of Georgia Institutional Review Board, 612 Boyd GSRC, Athens, Georgia 30602-7411; telephone (706) 542-3199; email address irb@uga.edu.

Appendix C Survey to Directors

Thank you for answering this survey to explore the effects of new governance reforms like Sarbanes-Oxley. Please answer the following questions based on your personal experience as a Board Member:

1. Please rate how much your decision-making authority has changed post-SOX in each of the following areas (1=Less Authority; 6= More Authority)

Changing company by-laws	0	1	2	3	4	5	6
Approving changes in capital structure	0	1	2	3	4	5	6
Decisions about capital expenditures	0	1	2	3	4	5	6
Decisions about future divestments	0	1	2	3	4	5	6
Decisions about future acquisitions	0	1	2	3	4	5	6
Establishing long-term goals	0	1	2	3	4	5	6
Policy formation	0	1	2	3	4	5	6
Planning for top leadership succession	0	1	2	3	4	5	6
Selecting a new CEO	0	1	2	3	4	5	6
Evaluating the performance of key executives	0	1	2	3	4	5	6
Selection of corporate strategy	0	1	2	3	4	5	6
Decisions to adopt new technologies	0	1	2	3	4	5	6
Decisions regarding top executives' compensation	0	1	2	3	4	5	6
Decisions regarding charitable contributions	0	1	2	3	4	5	6
Dealing with external groups	0	1	2	3	4	5	6

Please check this box if you would like a copy of the results of this survey:

☐

If you would like the results of this survey to be sent to an e-mail address, please provide it below:

2. To what extent are you clear on your job duties in the following areas since the new governance mandates (SOX et al)?

Audit functions	1	2	3	4	5	6	7
Selection functions	1	2	3	4	5	6	7
Compensation	1	2	3	4	5	6	7

3. Please circle the point on the scale which most nearly describes the degree of difficulty the board has in accomplishing the following, since the new governance mandates (SOX et al):

Developing new strategies	1	2	3	4	5	6	7
Producing value-added components to the organization	1	2	3	4	5	6	7
Monitoring agents and protecting shareholder interests	1	2	3	4	5	6	7

4. Please check the alternative which most nearly describes the typical length of time involved before feedback is available to you on your decisions in each of the following areas:

Audit issues 1 day__ 1 week__ 1 month__ 6 months__ 1 year__ 3 years or more__
 Selection issues 1 day__ 1 week__ 1 month__ 6 months__ 1 year__ 3 years or more__
 Compensation issues 1 day__ 1 week__ 1 month__ 6 months__ 1 year__ 3 years or more__

5. On a scale of 1 to 7, how beneficial have SOX reforms been to your company in the following areas:

Increasing your corporate reputation	1	2	3	4	5	6	7
Increasing your confidence in your products/services	1	2	3	4	5	6	7
Protecting shareholder interests	1	2	3	4	5	6	7
Increasing investor confidence	1	2	3	4	5	6	7

6. Think of a recent board decision and on a scale of 1 to 5 with 1=none and 5= a great deal, tell us:

How many differences of opinion were there within the group over this decision?	1	2	3	4	5
How much personal friction was there in the group during this decision?	1	2	3	4	5
How much were personality clashes between group members evident during this decision?	1	2	3	4	5
How much tension was there in the group during this decision?	1	2	3	4	5
How many disagreements over different ideas about this decision were there?	1	2	3	4	5
How many differences about the content of this decision did the group have to work through?	1	2	3	4	5
How much antagonism was there among the group over this decision?	1	2	3	4	5

7. Think of a recent board decision where there were differences of opinion about compliance issues, and tell us to what extent.....:

Members of our board worked to overcome compliance issues	1	2	3	4	5	6	7
The board united in trying to comply with SOX et al mandates	1	2	3	4	5	6	7
The board came together because they felt that the reforms were difficult	1	2	3	4	5	6	7
When something went wrong with compliance issues, board members placed blame on others	1	2	3	4	5	6	7
Some committees were blamed unfairly for tasks that are beyond the scope of their mandates	1	2	3	4	5	6	7
Not all board members took responsibility for the compliance issues	1	2	3	4	5	6	7

8. Please rate the extent to which board members:

Are ready to defend each other from criticism by outsiders	1	2	3	4
Help each other on the job	1	2	3	4
Get along with each other	1	2	3	4
Stick together under pressure	1	2	3	4
Are united in trying to reach goals for performance	1	2	3	4
Have conflicting aspirations for board performance	1	2	3	4
Communicate freely about each other's responsibilities	1	2	3	4
Take responsibility for loss of performance	1	2	3	4

9. To what extent has board decision making declined or improved in the following areas post-SOX?:

The overall quality of board decisions	1	2	3	4	5	6	7
Generating and analyzing strategic alternatives	1	2	3	4	5	6	7
The quality of board decisions regarding organizational performance issues	1	2	3	4	5	6	7
The value of the advice and analysis that board members contribute	1	2	3	4	5	6	7
Hiring, firing and compensation decisions	1	2	3	4	5	6	7
Strategic goal setting	1	2	3	4	5	6	7
Providing expert insight during major events	1	2	3	4	5	6	7

Please send survey results in the enclosed envelope to:

Jill A. Brown, Management Dept, Terry College of Business, University of Georgia, Athens, GA 30602-6256. (706) 542-4666

Thank you again for your participation!

Appendix D

Interviews with Directors

How have governance reforms affected board behaviors?

Director	Select Quotes	Suggested Constructs
Director 1 Financial Services February 2006 December 2006	“The SEC is dysfunctional. Companies are fearful of having to report a technical violation” “There are problems with definitions here in SOX and SEC requirements” “The company is tied up in knots of compliance ...report after report....audit committee meetings meet ‘ad nauseum’ and strategy gets sacrificed” “Most people serve on a board as a favor to someone. We are friends, but power has shifted back to the board and that means that the CEO can no longer be a scapegoat for bad decisions. It has changed the nature of relationships between board members.”	Fear, Conflict, Uncertainty Uncertainty, Lack of institutional norms, Conflict Scapegoat, Conflict Cohesiveness Managerial Discretion
Director 2 Textile February 2006 December 2006	“Section 404 has killed us. I have been chairman of the audit committee and I can’t wait to get off. I am tired of being blamed for every little thing, even when it is outside of the scope of audit committee duties.” “SOX has created a fear factor of liability for directors.” “Nevertheless, it will be OK. We will hunker down and beat this thing.”	Scapegoat Fear, Accountability Common Enemy
Director 3 For-Profit Health Care February 2006 December 2006	“Even as a highly regulated industry, we are suffering our knocks. We have several attorneys that now sit on our boards. They are now the ones suggesting more aggressive strategies like M & A.”	Board Discretion
Director 4 Media December 2006	“We had a compliance issue that resulted in one of board members leaving. Although the board member was well qualified to be on audit and compensation committees, she did not want to sign off as an ‘expert’ in those areas. Rather than face the pressures of serving on the board, she chose to resign and leave the board.”	Board Discretion Accountability
Director 5 Veterinary Services December 2006	“I don’t like the idea of independent directors. I like to feel like my director associates are my family. I feel like the board meetings are less collegial. I don’t think that directors should get paid more money, but there is so much more risk these days. The private equities have the right idea....”	Board Discretion Cohesiveness, Conflict
Expert The Directorship	“There is still very little aversion to sitting on boards. Directors choose to serve mostly out of respect for The CEO.” “Symbolic checklisting does take place.” “The liability of taking something public is making some board members stay on or gravitate to private boards, rather than serving on public boards.”	Board Discretion Managerial Discretion Accountability

Appendix E: Content Analysis

Instruction: Please read the four construct definitions closely. Next read each statement and decide with construct the item best represents. Finally, please put the number of the construct in the box to the right of the statement. It is not necessary to match an equal amount of items to each construct.

Constructs:

1. Common enemy—A group behavior reflecting a defensive stance towards something new that results in the group pulling together towards a superordinate goal.
2. Fingerpointing---A group behavior that reflects a displacement of hostility and a causal interpretation of events to others under an attribution of blame.
3. Board performance—This refers to the degree to which a board succeeds in fulfilling their control and service tasks.
4. Cohesiveness---The resultant forces which are acting on members to stay in a group
5. Other—This statement does not represent any of the constructs

	Construct
When something goes wrong, board members place blame on others	
The quality of board decisions	
Members of our board will overcome complex issues	
Our team is united in trying to comply with mandates	
We are united in trying to reach goals for performance	
We communicate freely about each others' responsibilities	
Some committees are blamed unfairly for tasks that are beyond the scope of their mandates	
We all take responsibility for any compliance issues	
The value of the advice and analysis that board members contribute	
We overcome the obstacles of compliance issues	
We have conflicting aspirations for board performance	
We stick together under pressure	
We help each other on the job	
The quality of board decisions given their effect on organizational performance since SOX	
Contribution decisions	
The quality of board decisions relative to their original intents since SOX	
We call come together to deal with the new reforms	
We get along with each other	
Providing expert insight during major events	
We are ready to defend each other from criticism by outsiders	
We take responsibility for loss of performance	
Hiring, firing and compensation decisions	

Table 10

Descriptives Statistics and Correlations

Variable	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8	9
1. Board Accountability	3.26	.55		^a	.59	.36	.02	-.11	.25	a	a
2. Perceived Uncertainty	3.47	.42	-.66**		.04	-.34	.01	.37	-.04	a	a
3. Affective Conflict	1.82	.70	.05	.01		^a	.02	.95	-.36	a	a
4. Cognitive Conflict	2.44	.68	.12	-.33	.63**		.01	.74	-.04	a	a
5. Common Enemy	4.85	.98	.08	.02	.09	.25		^a	.04	-.26	a
6. Fingerprinting	1.75	.75	-.31*	.07	.22	.12	-.05		-.23	-.55	a
7. Cohesiveness	3.36	.28	.15	-.06	-.54**	-.33*	.03	-.41**		.53	a
8. Board Task Performance	4.18	.55	.50**	-.51*	-.10	-.09	-.06	-.12	.24		^a
9. Firm Size	2603.3	5003	.15	-.04	-.22	-.08	.12	.04	.12	.05	
10. Board Size	9.72	3.15	.03	.05	-.20	-.04	.07	-.06	.13	.09	.23
11. CEO Duality	.78	.42	.34*	-.33*	-.05	.01	-.01	-.17	-.02	.26	.09
12. Board Tenure	10.46	5.23	-.07	.32	-.23	-.18	-.16	-.11	.02	-.15	.09
13. CEO Tenure	11.09	8.42	-.16	.15	-.03	-.16	-.13	.05	-.08	-.08	-.2
14. Managerial Discretion	.37	3.84	.02	.04	.17	-.05	.07	-.14	.18	-.02	-.10
15. % Change in Outside Directors	.18	1.09	.03	-.05	.06	.07	.20	-.07	-.12	.15	-.04

Note. *N*=54 **p*<.05. ***p*<.01. Reproduced correlations are in the top right side of the table. ^a Relationship is unanalyzed, so correlation is not reproduced. Table continues on next page.

Table 10 (continued)

Descriptives Statistics and Correlations

Variable	10	11	12	13	14	15
1. Board Accountability	a	a	a	a	.42	.13
2. Perceived Uncertainty	a	a	a	a	.15	-.26
3. Affective Conflict	a	a	a	a	.15	.07
4. Cognitive Conflict		a	a	a	-.02	.08
5. Common Enemy			a	a	.10	.25
6. Fingerpointing				a	-.25	-.14
7. Cohesiveness					-.20	-.27
8. Board Task Performance					-.05	.18
9. Firm Size						
10. Board Size						
11. CEO Duality	-.10					
12. Board Tenure	.18	-.29*				
13. CEO Tenure	-.02	-.03	.17			
14. Board/CEO Tenure	.17	-.22	.24	-.54**		
15. % of Outside Directors	.12	.31*	-.09*	-.19	.06*	

Note. $N=54$ * $p<.05$. ** $p<.01$. Reproduced correlations are on the top right side of the table.