Shaping the Body & Soul of the Board: The Role of Institutional Pressures

Alfredo Enrione
Fernando Zerboni

Available at: https://works.bepress.com/alfredo_enrione/15/
“SHAPING THE BODY AND SOUL OF THE BOARD: THE ROLE OF INSTITUTIONAL PRESSURES”

Alfredo Enrione
The PricewaterhouseCoopers Professor of Corporate Governance
ESE – Graduate Business School
Universidad de los Andes
Av San Carlos de Apoquindo 2200
Las Condes – Santiago
Chile
aenrione@uandes.cl

Fernando Zerboni
IAE – Graduate Business School
Universidad Austral
Mariano Acosta s/n Ruta Nacional 8
B1629 Pilar Buenos Aires
Argentina
fzerboni@iae.edu.ar
ABSTRACT

The world is witnessing a massive and generalized effort to improve the practices within the board of directors. However, there is still little understanding of the processes by which these new practices or models are adopted. Moreover, there is a growing consensus that the most important challenge is improving not only the more structural and visible attributes of the board but the internal dynamics that are much harder to monitor by a third party. This work seeks to bring some light into this discussion by analyzing the role of the environment in the adoption of specific board features. We propose a model that relates the different institutional pressures to the key observable (body) and non-observable (soul) attributes of a board of directors. A number of practical and research recommendations are derived from the model.

We would like to thank the PricewaterhouseCoopers Corporate Governance Chair for providing the resources for this research. We are especially grateful to Victoria Pino for her intellectual contribution and to Andres Hatum for his comments on earlier drafts. All remaining errors and omissions are entirely our own.
“SHAPING THE BODY AND SOUL OF THE BOARD: 
THE ROLE OF INSTITUTIONAL PRESSURES”

1.- INTRODUCTION

Improving Corporate Governance (CG) is a general claim. Shareholders, regulators, press, academics and prestigious managers are part of the unanimous chorus. The list of references would be interminable. The notoriety and recurrence of corporate scandals, the activism of institutional shareholders and the growing demands of competition are just a few of the reasons behind this imperative. As eloquently described in The Economist (2004):

“The rash of corporate scandals over the past few years has produced not only outrage at the greed and shenanigans of top executives, but also incredulity that their boards of directors went along with their misdeeds… What did directors know and when did they know it? Were they, too, corrupt, or merely incompetent or complacent? These are now the questions being asked in dozens of criminal investigations and scores of lawsuits” (p.14)

Undoubtedly, one impact of the tougher post-Enron environment has been to make boards take their duties more seriously. They are meeting for longer and digging much deeper. Directors have begun to demand better information, and companies are starting to provide it. One reason directors take their duties more seriously is that they have begun to realize the perils of getting it wrong. The OECD is drawing up corporate-governance guidelines for its rich-country members.

As Biggs (2004) points out, serving on a board of directors today is much more difficult than it was five years ago. The increasingly turbulent business environment as a whole has shifted the focus towards the boards of directors, including those of the non-profit organizations. Public-company boards have come under intense scrutiny recently with new requirements by the New York Stock Exchange, Securities and Exchange Commission, NASDAQ, and the passing of the Sarbanes-Oxley Act of 2002.

These initiatives are bringing about some change in corporate governance: in a number of countries and markets the regulations are shifting to consider a compulsory inclusion of independent directors and the formation of auditing committees. Codes of good practices in CG are being written and are enforced in diverse ways. Governance scorecards, rankings and other evaluation mechanisms are being promoted in the media.

1 A search in EBSCO Business Premiere delivered 27,025 references with the term “corporate governance"
The need for better board education is also gaining attention. The creation of institutes for independent directors (as the case of Korea or Indonesia) and the promotion of executive programs for directors are becoming more and more common in the market. Moreover, institutional investors’ activism is leading the way in appointing directors and new tools are used to monitor governance issues, like the balanced scorecard. Regardless of the importance and extent of the changes and policies mentioned above, it is unclear if we are focusing on more than just the crust of the problem.

What do we really know about the aspects that can not be seen by observers outside the boardroom? What about the processes, the personalidades, the commitment or the personal values intervening in the board of directors? It is reasonable to speculate that a young field of research, as the case of corporate governance, will initially focus on the variables that are more intuitive and easier to observe with the “naked eye”. In fact, while regulators and investors seem to be still centred around imposing structural changes on boards, it seems imperative to go beyond that.

Yale’s professor Jeffrey’s Sonnenfeld (2002) has suggested that structural characteristics do not distinguish effective from ineffective boards. What distinguishes the best from the rest is a well-functioning social system in which members trust and challenge one another and engage directly with senior managers on critical issues facing the corporation. However, the path is not easy since interpersonal dynamics cannot be photographed or measured directly (Dierickx, 2003).

In addition, there is a wide gap in research on boards of directors (Daily et al, 2003). After years of practice and theory, there is still very little concluding evidence on the effect of boards on firm performance (see for instance the reviews of Daily et al, 1998, and 1999). We posit that a reason for this is considering mostly boards’ observable attributes as determinants of their impact.

This work attempts to improve our understanding of how the boards’ functioning is affected by the pressures of its institutional environment. We aim to better understand the effect of these forces beyond the external appearances (body) and look into the less apparent realms of the board (soul). To “peep through” the lock of the boardroom’s door, we use a Neo- Institutional approach. That is, the renown framework proposed by DiMaggio and Powell’s (1983).

In our framework, we hypothesize that boards of directors, in their search for legitimacy, are subject to institutional pressures to comply with certain models. In order to comprehend such environmental demands we use DiMaggio and Powell’s (1983) concepts on isomorphism, and then we explain their effects on the board using Zahra and Pearce’s (1989) characterization.

---

2 Sonnenfeld (2004) points out that there are over one hundred educational programs for board members in the world. This is true not only not only in most developed countries but this trend goes as far as India or Chile.
The present work is structured in three sections. The first section deals with the institutional pressures on the board, describing environmental demands on the organization and proposing a model of how institutions shape boards’ behaviour. In the next section we discuss the model and delineate the issues that emerge as important for future research. Finally, in the last section we include a brief conclusion with the most relevant aspects of this framework, and how it could be applied to analyse the corporate governance field.

2. INSTITUTIONAL PRESSURES ON THE BOARD

2.1. Environmental Determinants of Organizational Models

The Neo-Institutional approach moves beyond the mere recognition of the social and cultural foundations of institutions to describe the process by which practices and organizations become institutions (DiMaggio & Powell, 1991). It determines the social and political forces that surround organizations, stating that these must adapt to social values and expectations; thus, other reasons for survival, rather than efficiency itself.

In their seminal work, DiMaggio and Powell (1983), develop a series of propositions that intend to explain the similarity of the structures found in some organizational fields. In “structured markets”, competing firms tend to organize themselves applying the same policies and “ceremonies”, regardless of some idiosyncratic differences such as their resource endowment or their level of competitiveness.

According to this perspective, when a new industry or organizational practice is created—such as corporate governance—firms try to get advantages compared to their competitors and in the quest for leadership they develop multiple organizational forms. However, as markets mature, the firms operating in them tend to concentrate in groups that apply a smaller set of models that have emerged amongst them and that they perceive as successful.

The Neo-Institutional theory suggests that the organizational changes are isomorphic, that is to say “those that generate uniformity within a population, forcing its members to resemble each other” (DiMaggio & Powell, 1991, p.66).

As Kanter, Stein and Jick (1992) conclude,

“Regardless of technical considerations of efficiency, then, organizations adopt new structures and practices because they are socially sanctioned as the “right ones” and transmitted via experts and educators. Whether we see this as change
for the sake of change or what an organization must do because of environmental pressures, a process of emulation guides the change”. (p.30)

Thus, we hypothesize that boards of directors are particularly sensible to institutional pressures. The board is a main corporate governance agent. It is in a central position within the universe of pressures exerted by shareholders, managers, employees and other stakeholders such as the media or the community. In fact, boards today are the target of public scrutiny. It is intuitive to say that boards are not impermeable to these pressures. Therefore, much of their actions, processes and priorities should, at least partially, respond to these pressures.

According to DiMaggio and Powell (1983), there are three kinds of institutional pressures that make firms (and their boards) resemble each other, these are called: coercive, mimetic and normative. It is important to emphasize that this is only an analytical typology, since in practice these isomorphic mechanisms appear simultaneously and therefore can not be fully individualized.

2.2.- Institutional Pressures on Boards: agents and instruments

In the present section, we outline the institutional pressures exerted on the board of directors. For each of the three types of pressures we identify the agents and main mechanisms used to influence the board. After that, we describe how these instruments end up generating isomorphism in the boardroom.

a. Coercive Processes

Coercive processes are derived from formal and informal forces exerted by those organizations that firms are dependent upon, and from the expectations of society. These pressures turn into political influences and reveal the deeper problem of an organization’s search for legitimacy (DiMaggio and Powell, 1983, p.150)

Laws and regulations

Corporate laws, securities regulations, together with accounting and reporting standards are the most obvious coercive instruments in CG. They represent the legal and regulatory mandates of agents like governments or controlling organisms. These instruments are the outcome of political negotiations between social stakeholders.

According to the laws of incorporation, in most countries, boards are legally responsible for the management of a company, being its main duties diligence, obedience and
loyalty (Conger, Lawler & Finegold 2001, pp.7-8). Duty of diligence means that the board is expected to make decisions based on accurate information and acting with honesty, transparency and fairness (McKinnell, 2003). Duty of obedience signifies following the legal requirements and making the organization follow them too. Finally, Duty of loyalty implies avoiding conflicts of personal interests and not making use of the organization’s resources for directors’ own private benefit.

La Porta et al (1998) have examined legal rules covering protection of corporate shareholders and creditors, their origin and the quality of their enforcement in 49 countries. The authors show that common-law countries generally have the strongest legal protections of investors, whereas French-civil-law countries the weakest and German- and Scandinavian-civil-law countries are located in the middle. The authors have also found out that concentration of share-ownership in the largest public companies is negatively related to investor protections, consistent with the hypothesis that small, diversified shareholders are unlikely to be important in countries that fail to protect their rights.

**Codes of good practices**

Codes of Good Practices in Corporate Governance are another type of coercive pressure. Initially, they arose as a response to corporate mismanagement. Put forward by shareholders’ associations, institutional investors or important Corporate Governance associations, they are written by investors themselves, consultants and practitioners. Even international political and economic entities have a saying. For example, the OECD Principles of Corporate Governance, first published in 1999, have been widely adopted as a benchmark both in the OECD countries and elsewhere.

These codes have become critical since the creation of the CG ratings linked to them (e.g. Institutional Shareholder Services (ISS) or Governance Metrics International (GMI). Institutional investors apply these ratings to classify their investments.

**Financial resources: Capital and Debt**

From a purely resource-dependence perspective, we may state that those who own resources that the firm is dependent upon, exert a powerful influence on its governance structures. These are banks, shareholders or institutional investors, who own financial resources – debt and capital.

Moreover, institutional investors like CalPERS or TIAA CREF, have also edited their guidelines for good CG and created their own rating system (Reynolds, 2002).
William Donaldson (2003), former Aetna chairman, now SEC chairman described this “one size fits all” approach in the following terms: “Such a “check the box” approach to good corporate governance will not inspire a true sense of ethical obligation. It could merely lead to an array of inhibiting “politically correct” dictates. Instead of striving to meet higher standards, corporations would only strain under new costs associated with fulfilling a mandated process that could produce little of the desired effect... There are vast differences in the function, structure, and business mandate of the thousand corporations struggling with the issues of good corporate governance... there is no one answering to these hotly debated questions.”

b. Mimetic Processes

Mimetic isomorphic processes are mainly a result of uncertainty. Such can arise when the technologies of an organization are not well understood (March & Olsen, 1976); when there is no perception of the link between practices and results; and when processes are far from practical outcomes. Uncertainty leads to copying.

Furthermore, many organizational systems have ambiguous objectives or are poorly defined, so their impact on the bottom line is, once again, uncertain. This process implies that firms adopt “models” that “mimic” those of organizations that are in the bloody edge of innovation, those that are perceived as modern and applying the newest management concepts.

That said, Corporate Governance and boards of directors in particular, are ideal candidates for mimetic isomorphism: there is little empirical evidence of the impact of boards on results (according to Sonnenfeld (2002) much of this evidence is casuistic or superstitious); there is no publicly diffused job description for directors; and, there are multiple disciplines applicable to the subject and many audiences with particular assessment criteria.

In a recent review, Daily, Dalton and Cannella (2003) describe the present situation of the corporate governance field as being “at a crossroads” after decades of data and dialogue; and then conclude: “Our knowledge of what we know is rivalled by what we do not know.” (p. 371). With all due respect to these reputed authors it is likely that we are still a significant distance to that “halfway” point.

c. Normative Processes

Finally, normative processes are those linked to how a collective of people defines the conditions and methods of their work. Their common professional background and base of knowledge generate a group commitment to all its members.
Normative processes involve both ideas and practices. As regards the ideas, business training is tied to practice and to the management education system.

Managers’ formal training is dominated by the elite of some international business schools. Therefore the source and application of ideas, models and frameworks tend to be monopolized in the hands and minds of a few.

Furthermore, managers who have been trained in those schools end up sharing a common language and mindsets, which they transmit to others - strategy consultants, executive search firms or the business press - in their daily interaction. All of them are nourished from similar models, and their corollaries, which are designed to apply the “state of the art” and to present it better than ever before (Eccles, Nohria and Berkely 1992). Think for example of the diffusion and effect of the classic work by Peters and Waterman (1988) “Search of Excellence”.

Prominent international consulting firms, such as McKinsey, or head-hunters like Egon Zehnder International, have also been relevant agents in proposing ideas and models that are inputs of worldwide management training.

Finally, the practices and habits of entrepreneurs, directors and top executives, may also be considered a source of normative pressure. Besides, directors who participate in more than one board –interlocking directorates – make the pool of directors even smaller than perceived.

In Table 1 below, we show the pressures that a board faces; the resources that agents provide to firms and the instruments they use to exert the different types of pressures.

TABLE 1 SHOULD BE PLACED AROUND HERE
2.3.- How Institutional Pressures Shape The Board

Once we have established the agents and instruments through which pressures are exerted on the organization, it is possible to attempt a description of how these shape the attributes of the board.

a. Coercive pressures and board attributes

We have established that coercive pressures are exerted through mechanisms such as laws, rules, codes, regulation and rankings. What attributes of the board do these really affect?

The basic mechanism of any coercive tool is simple: (1) an agent (regulator) establishes a desirable state for the regulated party; (2) it establishes a mechanism for controlling whether or not this party is complying with the prescribed state; and (3) the regulator sets up a mechanism of enforcing the desired state to the, eventually, non complying party.

Based on the previous ideas, it is clear that any agent that exerts a coercive pressure may not reasonably aspire to prescribe any state that is not directly observable. Otherwise, how could it pretend to monitor or enforce the given pattern of behaviour?

What do the aforementioned coercive instruments prescribe as a desired behaviour or state of things? Most laws, codes or regulation describe a number of mandatory tasks and procedures, a set of obligatory structures and processes, and a number of desired (or prescribed) characteristics of the board individuals and the overall composition.

As a matter of fact, if one examines the laws of any given country or the codes of governance defined by major institutional investors, there are many differences among them but there are also some evident patterns. First, these instruments often define obligatory tasks or processes for the board to perform such as oversight of financial statements, the frequency of meetings and the mandatory reporting of activities and performance information. Second, they prescribe aspects related to the composition of a board such as, a desirable size range for the board or a given proportion of independent directors as well as preferred characteristics of the individuals forming the board, such as their knowledge of finance.

On the other side, rankings, scorecards or agency classification can only be done based on attributes that are directly observable by those that have created them. While the inquiry may be much deeper, ranking companies such as Governance-Metrics are forced to use proxies based on public information. How large is the board? How many
independent directors? How much information do they disclose? What kind of control mechanisms do they report to have in place? These are all questions on reports and observable conducts.

Accordingly, the most typical aspects of a board that could be monitored and consequently enforced are (i) features, such as: the size of the board, the number of independent directors (including a definition of independence), directors’ age, expertise and background; (2) processes, such as the way of appointing or removing a board member, the frequency and formality of meetings, the kind and depth of information disclosed; and, finally (3) structures such as the formal individual and collective responsibilities on specific tasks and committees, the number and diversity of committees and the formal leadership of the board or the committees.

b. Mimetic pressures and board attributes

While mimetic pressures may end up producing the same effects as coercive ones, they intervene in a different way. The compliance of the organization in this case is totally voluntary. Given the pressures on performance and competitive intelligence, nobody wants to be delayed in adopting the schemes and processes that appear to be the winning formula. How do they know that these formulas are correct? Given the uncertainty between cause and effect on performance, firms simply adopt the practices of those players who are doing better in the market.

The previous explanation may sound too simplistic but for decades everybody has imitated the practices of American management just to change a few years later to the business models created in Japan or Germany.

What aspects could be imitated? Obviously only those features that firms can perceive as external observers. Again, we are facing all those attributes that can be monitored, as in the case of coercive pressures. These “formulas” need not be good or directly related to performance, as they are the innovative, high profile recipes used by the stars in the market.

Accordingly, mimetic pressures could explain the free adoption of board composition, directors’ background or committees’ structure in companies that are not directly enforced to do so.

c. Normative pressures and board attributes

Normative pressures have three mechanisms to generate changes in the board. The first one is related to the market for ideas, models and concepts that can be applied to the
board. In this case, models are less specific than those portrayed in coercive mechanisms.

These ideas flow in corporate governance meetings or seminars, magazines and business press. These mental models in fact may constitute the basis of future coercive mechanisms such as laws and regulation. In other fields see Lawless (1992).

Normative pressures exerted by providers of ideas and concepts, will also affect a board’s visible attributes. Agents like Business School faculty describe and aim to find a link between firm performance and composition variables such as size of the board or independence of its members. In the same direction, business consultants or headhunters usually promote and prescribe ideas related to board size and composition.

On the other side, there are another two normative processes that affect board attributes. Most interestingly, they influence mostly the attributes that are less visible to a third party.

The first one has to do with agents that act as viruses. They bring into the board a number of practices and mental models from other institutions. This imitation process is more seamless than the previous mechanisms. Boards apply processes and models that are brought by more experienced and prestigious peers.

Becoming a director is an intuitive process. Despite some educational efforts, the vast majority of appointed directors have never received training in their role. So, they “play by ear”. Besides the fact that some may have better “ears” than others, what is the relevant “music” they learn to play by?

The role model for a director usually responds to what they perceive to be the adequate behaviour. Some of these directors may have experienced the board when they were CEOs. Others may start understanding the role of the board only after careful observation of what their peers do in that specific board. If the company is successful then, most likely, its board will be identified as “good music” to learn from. So this imitation or learning process may prove an important source of isomorphism.

What practices could be affected by this type of institutional force? For instance we could think of visible attributes such as frequency or length of board meetings, committee structure, and the like. It could also influence less visible aspects such as leadership style, work style, the way directors make decisions, the process to reach consensus, the setting of agendas, CEO-Board interaction, etc.

Finally the third normative process is related to the socially accepted values and practices. This has to do with the particular cultural characteristics of the society that are crystallized in the personal characteristics of entrepreneurs, managers and firm
directors. Amis, Slack and Hinings (2002) have investigated the ways in which values affect group dynamics.

It has been well documented that styles and values change from one country to another. In an already classic work, Geert Hofstede (1980) documented national differences in aspects that may have a significant influence on the functioning of a board—for instance, tolerance to uncertainty, degrees of collectivism or individualism, assertiveness, attitudes towards inequality and hierarchy or emphasis on performance.

It is clear that all the abovementioned examples could have an effect on the less visible aspects of a board. How should the board reach a decision? How much discussion is needed? Is it socially correct to openly show disagreement? How should this be done? What is the level of tolerable risk for the company?

Social origin and educational imprint have an impact on an individual’s values, priorities and perspectives. For that reason, it is likely that these aspects also have an effect on the way a person performs individually and collectively.

2.4. How institutional forces shape the board of directors: A preliminary model

From the previous discussion we establish that institutional pressures affect different board attributes. In addition, we acknowledge that some of these attributes are observable to a third party that is not in the boardroom and there are others that are non observable.

We now propose a model of how these institutional forces affect board attributes, based on Zahra and Pearce’s (1989) categories of board attributes: Composition, Characteristics, Structure and Processes, and reviewing relevant literature. We expand Zahra and Pearce’s (1989) original categories to add some board characteristics and we separate those attributes that are observable from those that are non observable to a third party.

Board composition denotes the size of the board and the mix of director types. The main composition variables are: size, type of directors and minority representation. (Zahra & Pearce, 1989). This attribute has been intensely treated by Daily et al. (Daily, Johnson & Dalton, 1999; Dalton, Daily, Johnson & Ellstrand, 1999; Dalton, Daily, Ellstrand & Johnson, 1998) who have concluded that these variables are subject to a poor consistency and serious mismatch in operationalisation, especially in the inside-outside distinction and dependent-independent-interdependent-affiliated distinction.

Board Structure refers to the formal structure of the board. It covers the number of committees, committee membership, the flow of information among committees, board leadership and patterns of committee membership (Zahra & Pearce, 1989).
From the time of Elton Mayo's (1945) work on Organizational Theory it is universally acknowledged that formal structures rarely mirror the real dynamics of organizations. Nevertheless, Corporate Governance is still largely focused on the formal realms of the problem.

Board characteristics consist on directors' background, age, education, values and experience. However, the board as a corporate agent, possesses qualities that transcend those of individual directors and reflect the "personality" of the board as a whole (Zahra & Pearce, 1989).

We believe that the human side of corporate governance can be assessed in quantitative terms, but there are some non-observable fundamental elements that need to be considered when making complex decisions. These are attitudes, personal values, reactions and personal leadership in times of crisis. Finally, another element in this group is group behaviour (Hill, 1995).

Board Process signifies the approach a board takes in its decisions. There is very little literature on this issue, except for Forbes and Milliken (1999). Alongside, Pettigrew (1992) has insisted on calling the attention of his colleagues towards the analysis of CG processes. Finally, we can also mention Sonnenfeld (2004) who is part of this small group of process-centred CG authors.

In this model we propose that coercive and mimetic pressures influence only the observable attributes. As regards non observable attributes, these can be affected by them but only through the interaction with more visible characteristics. For instance, the CEO-Board relationship can be influenced by changing the composition of the board or by bringing industry-specific knowledge into the board; however, we posit it can not be influenced directly by a law or regulation, since it is not visible and, hence, not enforceable.

At the same time, we propose that normative pressures have an effect on both observable and non observable board attributes. This means that normative mechanisms such as mental models or paradigms may influence the very structural characteristics of the board, as well as other more opaque aspects -such as the way the board makes decisions in practice.

Finally, we hypothesize that there will be interaction between the observable and non observable aspects of the board.

A summary of the model is portrayed in Figure 1.

FIGURE 1 AROUND HERE
3.- **IMPLICATIONS FOR THEORY AND PRACTICE**

With the aim of expanding our knowledge of the corporate governance subject, we described the role of different institutional agents and the instruments they use to shape the attributes of the board of directors.

Several theories have put forward the main elements of corporate governance, most of them giving special emphasis to the observable dimensions of either structure or process. We have taken a step further in this direction. We proposed a model that considers not only the observable factors of both structure and process, but also the factors that cannot be assessed from outside the boardroom.

Acknowledging these aspects implies that there is a greater complexity to attain changes in the CG field. In addition, the issue of change processes seems underestimated in the theoretical models and tools developed so far. In fact, some of these less explored variables may explain the weak impact on firm performance of present CG practices and tools.

Accordingly, we recognize the need to refine the model and concepts aforementioned. In the same way it is important, to establish empirically the influence of these agents and instruments on observable dimensions will be the easiest to confirm, since we already possess adequate instruments for their measurement. On the contrary, in the case of non observable attributes we still lack more precise methodologies and instruments.

With the present work we join the group of authors that support the idea of entering the “black box” of boardrooms, as has been eloquently suggested by...
leading researchers like Andrew Pettigrew (1992) and Jeffrey Sonnenfeld (2004).

- Another issue is to address the potential interactions between the observable and non-observable attributes of boards. Accordingly, an interesting question would be to inquire to what extent the observable aspects reflect those that are non-observable. An example of this is the definition of independence and real independence, a key to improve the monitoring and design of boards.

4.- Conclusions

We have remarked an obvious but often forgotten aspect of the phenomenon: there are attributes and processes that are directly observable and there are others that remain within the invisible soul of the board of directors. Interestingly enough, a noticeable discussion in the CG research seems to evolve around the dichotomy of structure and processes. “Structure” is related to the observable aspects of the board; and “processes” refers to the aspects that are harder to monitor and that apparently make the real difference in board performance. In fact, we have shown in this work that such dichotomy is incomplete. There are a number of non-observable aspects in the board context, that are not processes; and there are some processes that may be observable.

If the general claim is to change and improve the practices of the board of directors, our model suggests a number of alternative ways to do so. Today, most change initiatives in corporate governance arise from improvements in laws and regulations, that is to say, in sources of coercive pressures. According to our model such pressure will likely attain changes in board’s observable attributes.

Yet, we are less certain about the present situation of normative pressures. We cannot posit that they are moving at the same speed or even in the same direction that coercive forces. Particularly, normative pressures related to practices and beliefs that are deeply engrained in the minds of stockholders, managers and directors.

If significant improvement in the boardroom is to be attained, then it is necessary to take a more integrative perspective both in theory and practice.

It is important to bring new theories and models into corporate governance research. While no one can question the tremendous contribution of theories such as Agency Theory, it is clear that many issues still remain unsolved. For instance, Agency Theory is based on a model of self-centred individual, and makes predictions on incentives and decision making. The same could be said about other dominant paradigms in corporate governance research. Yet, if we want to understand the dynamics of change, it seems necessary to include other complementary perspectives. Specifically, we should look more into those that encompass sociological or collective models of action.
This is most relevant in a time like ours. While there are different models of governance across countries, all of them are being affected by a globalization sweep. Institutional forces such as major investors, capital markets, growing competition or the business press are turning global. How do they impact corporate governance models? What aspects are likely to converge? and what aspects are less likely to converge?

From a practical point of view, we are witnessing massive changes in coercive mechanisms enforced by regulators, institutional investors and shareholder activism. Hitherto, the results are still far from expectations.

Ignoring the role of mimetic or normative mechanisms may partly explain this gap, as changes may be happening in the external aspects of the board with unclear effects in its soul.

In fact, working on the normative aspects may prove tremendously important. For instance, professionalization of board members using new tools, mindsets and models may be a more effective way of changing what really happens in the boardroom.
References


Comparative Study of Corporate Governance Codes relevant to the European Union and its Member States, European Commission Internal Market Directorate General, 27 March 2002


Global Corporate Governance Codes, IRRC


# TABLE 1

## Agents, Resources and Instruments of Institutional Pressures Exerted on the Board of Directors

<table>
<thead>
<tr>
<th>Agent or market</th>
<th>Provides the firm with</th>
<th>By using the following instrument</th>
<th>Exerting this type of pressure</th>
</tr>
</thead>
</table>
| • International Organizations  
• Governments | • Legal status | • Laws  
• Regulation | • Coercive |
| • Capital Market Authority  
• Risk Assessment Agencies  
• CG Assessment | • Access to financial markets | • Listing rules  
• Regulations  
• Classification  
• Rankings and scorings | • Coercive |
| • Institutional investors  
• Banks  
• Investors | • Financial resources (debt and capital) | • Imposed practices of CG  
• Information disclosure  
• Credit analysis | • Coercive |
| • Consumers  
• Competitors | • Business practices and customer base | • Competitive Analysis  
• Uncertainty | • Mimetic |
| • International Org.  
• Business Consultants  
• Business Schools and Universities | • Business models | • Concepts  
• Theories  
• Best Practices  
• Formal Education | • Normative |
| • Pool of Managers  
• Pool of Directors  
• Pool of Entrepreneurs | • People | • Values  
• Education  
• Board Interlocks | • Normative |