Board-Performance Linkage Revisited: A Relational Pluralistic Perspective

ABSTRACT

This paper seeks to shed light on current corporate governance research by paying nuanced attention to latent board characteristics and obtaining a more comprehensive understanding of the board-performance relationship. I adapt and develop a relational pluralistic view of the board to tactfully incorporate important latent board characteristics, while at the same time, builds upon existing dominating theoretical frameworks such as agency theory, resource dependence theory, and upper echelons theory. Using a more inclusive perspective via a relational lens also provides a much needed response to address the lack of consensus about the relationship between key board characteristics and firm performance. The propositions in this study have potential significance to the literature on board and performance linkage, and could steer future research towards a more interdisciplinary approach to include important theories that were overlooked.

Keywords:

Corporate Governance, Board of Directors, Theory Development

INTRODUCTION

Corporate governance is believed to play the role of safeguarding stakeholders' rights and serve as a system by which business organizations are controlled and directed (Cadbury, 1992). Although the literature has continuously placed importance on defining and developing good corporate governance practices and characteristics, there has not been a universally accepted interpretation on the role and performance effects of boards (Dalton & Dalton, 2011; Zahra, 1996). The lack of clarity persisted due to the interdisciplinary nature of theories that contributed to the development of the corporate governance literature. Main theories that have shaped the field include agency theory (Donaldson & Davis, 1991; Eisenhardt, 1989; Jensen, 1983), resource dependence theory (Hillman & Dalziel, 2003; Hillman, Withers, & Collins, 2009; Johnson, Ellstrand, & Daily, 1996; Pfeffer & Salancik, 2003), transaction cost theory (Coase, 1937; Oviatt, 1988; Williamson, 1981), stewardship theory (Donaldson & Davis, 1991; Muth & Donaldson, 1998), stakeholder theory (Donaldson & Preston, 1995; Hart, 1995), classes hegemony theory (Bazerman & Schoorman, 1983; Zahra & Pearce, 1989), managerial hegemony theory (Clarke, 1998; Mace, 1971), and principal-principal agency theory (Dharwadkar, George, & Brandes, 2000; Renders & Gaeremynck, 2012; Young, Peng, & Ahlstrom, Bruton, & Jiang, 2008). Agency theory and resource dependence theory are by far the most extensively used theoretical perspectives. Agency theory emphasizes the importance of the monitoring and controlling role of boards (Dalton & Dalton, 2011; Daily, Dalton, & Cannella, 2003; Dalton, Daily, Ellstrand, & Johnson, 1998; Eisenhardt, 1989; Jensen & Meckling, 1976), whereas resource dependence theory focuses on the importance of the advisory role (Daily et al., 2003; Zahra & Pearce, 1989). Both theories propose that certain characteristics of boards can and should influence their ability to monitor and guide firm activities, and subsequently affect firm performance. Therefore, understanding the relationship between board characteristics and performance has become a critical research focus.

However, to promote the debate about boards' effect on firm performance, it is important to recognize that idiosyncratic aspects of each board makes it possible to observe differentiated performance implications across firms. So what makes a board truly unique and what makes a board effective? The dominant view in the existing literature states that effective boards and ineffective boards differ in their ability to control and advise management (Adams, Hermalin, & Weisbach, 2010; Post & Byron, 2015). An alternative perspective is that individuals, teams, and organizations derive their distinctiveness from relations with other entities (Shipilov, Gulati, Kilduff, Li, & Tsai, 2014). Using this relational perspective could reveal neglected or overlooked aspects (i.e. board power dynamics, hierarchy, incentive alignment, etc.) of how boards utilize social interactions and how they navigate through social systems that inevitably play a part in their effectiveness. Corporate boards and the organizations they represent, are complex adaptive systems that are embedded in heterogeneous networks consisting of many different kinds of nodes. By shifting towards a relational approach, scholars can obtain insights on new pathways for research in the governance literature (Gulati, Kilduff, Li, Shipilov, & Tsai, 2011; Kilduff, Crossland, Tsai, & Krackhardt, 2008; Shipilov et al., 2014). In addition, applying a relational perspective answers the call for expanding the applicability and relevance of agency theory by examining the influence of the relational factors (social capital, networks, power relations, etc.) on the principal-agent interactions (Wiseman, Cuevas-Rodriguez, & Gomez-Mejia, 2012). The addition of a relational lens could examine social contexts such as director social capital, power relations, and diversity of principals alongside traditional agency problems (Wiseman, Cuevas-Rodriguez, & Gomez-Mejia, 2012). Taking a relational perspective can help scholars with building comprehensive models of relational dynamics and their performance consequences, as well as enriching our understanding of the opportunities and constraints facing organizations and individuals (Shipilov et al., 2014). I propose that the corporate governance literature can greatly benefit from adopting a relational lens, which can supplement existing theoretical approaches. In this paper, I adapt and develop a relational pluralistic view of the board to tactfully incorporate important latent board characteristics, while at the same time, builds upon existing dominating theoretical frameworks, in order to obtain a more comprehensive understanding of the board-performance link.

LITERATURE REVIEW

Main theories that have shaped the corporate governance literature include agency theory (Donaldson & Davis, 1991; Eisenhardt, 1989; Fama & Jensen, 1983), resource dependence theory (Hillman & Dalziel, 2003; Hillman et al., 2009; Johnson et al., 1996; Pfeffer & Salancik, 2003), upper echelons theory (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick, 2007; Hamrick & Mason, 1984), transaction cost theory (Coase, 1937; Oviatt, 1988; Williamson, 1981), stewardship theory (Donaldson & Davis, 1991; Muth & Donaldson, 1998), stakeholder theory (Donaldson & Preston; Hart, 1995), classes hegemony theory (Bazerman & Schoorman, 1983; Zahra & Pearce, 1989), managerial hegemony theory (Clarke, 1998; Mace, 1971), and principal-principal agency theory (Dharwadkar et al., 2000; Renders & Gaeremynck, 2012; Young et al., 2008). Out of these well studied theories, agency theory, resource dependence theory, and upper echelons theory are undoubtedly the most prevalent theoretical perspectives used to explore boards' performance implications. I build an argument for supplementing them with a relational lens, in order to address the lack of clarity in the corporate governance literature regarding board-performance linkage.

Supplementing Agency and Resource Dependence Perspectives

Incorporating a wide range of theoretical perspectives, scholars have produced an impressive body of research over the past four decades on the relationship between board characteristics and firm performance. However, the persistent lack of consensus in the literature may suggest that we need to examine board characteristics through a different lens. Many scholars have noted the importance of supplementing current theoretical frameworks with other perspectives (e.g., Dalton et al., 1998; Dalton et al., 1999; Hillman & Dalziel, 2003). The link between board of directors and performance is perhaps more complicated than the literature suggests, so a direct one on one relationship may not be apparent. As Hillman and Dalziel (2003) recommends, in addition to examining boards' monitoring function and resource provision function, it is necessary to go a step beyond and understand antecedents of these functions in order to sufficiently examine board members' effects on performance.

According to the agency perspective, a primary antecedent to the monitory function is board incentives, when incentives are aligned with shareholder interests, boards will be more effective monitors of management. Board incentives cannot be accurately examined by only looking at board composition based on the presence of independent directors, because the independent label does not guarantee that these directors are without family, social, or business ties with management, which compromises the integrity and motivation behind their monitoring behavior. Therefore, it is important to supplement the examination of board composition with information on directors' additional roles, especially if the directors are also the firm's shareholders (Dalton et al., 2003). The resource dependence perspective of the board can also be enhanced by examining additional latent characteristics, such as board members' human capital, which include director expertise, experience, and reputation (Coleman, 1988). In addition, the sum of tangible and potential resources embedded within board members' relationships and social networks represent board members' relational capital, which is a construct that resource dependence scholars have directed increasing attention to when examining performance linkages. Studying board capital, which encompasses both human and relational capital, is a helpful way to complement the traditional approach to board influence on firm performance (Hillman & Dalziel, 2003).

Board members, each carrying unique relationships and network ties, exhibit multiple forms of connections with other board members and people in their external networks. For example, the configuration of directors' heterogeneous relations in organizational settings could represent a distinctive characteristic of the board that current literature does not carefully examine. What make each individual board different from one another are perhaps the unique combinations of relationships and dependencies that exist between board members. Studying board of directors through a relational lens allows scholars to focus on latent variables that have not garnered sufficient attention. A number of studies have applied a relational perspective to examine performance outcomes across different levels of analysis, for example, studies have looked at work related implications by examining individuals with multiple relationships and roles, (Pratt & Rafaeli, 1997), and how identities affect cooperation and performance between group members (Milton & Westphal, 2005). On the team level, theoretical and empirical research have explored the connection between social and relational structures and team performance outcomes (Oh, Chung, & Labianca, 2004; Roberson & Colquitt, 2005). However, the origins and consequences of having multiple inter-team relations are ignored (Gulati et al., 2011). On the firm level, multiplexity in relationships can affect competition between firms (Baker & Faulkner, 2002) and heterogeneous relations and influence stock market value (Zuckerman, 1999). As suggested by Little (2012, p. 143), "the molecule of all social life is the socially constructed and socially situated individual, who lives, acts, and develops within a set of proximate social relationships, institutions, norms, and rules”, it is important to remember that board members and their behaviors are embedded in a set of social relationships and networks that shape their agency (Westphal & Zajac, 2013), especially when research conducted via this perspective are scant. Therefore, applying a relational perspective developing a relational framework for the corporate governance literature could supplement existing theoretical frameworks by revealing overlooked aspects of the board-performance linkage. The purpose of this paper is to shed light on the performance effect of boards by examining the relational interdependencies within boards through the theoretical perspective of relational pluralism as well as exploring the effects of potential firm level and environment level moderators. This will enhance the current literature by examining both internal and external elements of corporate boards as well as many latent variables that have been neglected by the dominant frameworks.

Supplementing Upper Echelons Theory

Another major theory that has contributed to the understanding of board-performance linkage is upper echelons theory (Hambrick & Mason, 1984). One of the persisting themes in the vast literature under the upper echelons research stream focuses on examining top management team (TMT) characteristics and their influence on strategic decisions and firm outcomes (Carpenter, Geletkanycz, & Sanders, 2004). The emphasis on the effect that top managers have on their firms has led to the development of several specialized fields of research, such as the study of boards and directors, chief executive succession and compensation, and the relationships between the TMT composition and different aspects of the organization (Pettigrew, 1992).

Overall, upper echelons theory focuses on the study of TMTs’ observable characteristics of its members. According to Pfeffer (1983:352), demographic characteristics are the variables of choice due to their "comprehensibility, logical coherence, predictive power, and testability". Observable TMT characteristics are assumed to influence the behaviors and preferences of individuals. These characteristics are mostly used as proxies, because direct cognitive and psychological measures are more difficult to measure and obtain in the context of corporate elites (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick & Mason, 1984). Hambrick and Mason (1984) initially proposed that both psychological and observable characteristics of the upper echelons determine organizational performance through their influence on strategic choices. The observable variables proposed by Hambrick & Mason (1984) included age, functional tracks, career experiences, education, socioeconomic foundation, and financial position. These variables, however, were not meant to be exhaustive and demographic characteristics like race and gender have been included in recent studies of upper echelons as they garner more theoretical attention (Carpenter et al., 2004; Westphal & Milton, 2000). In addition to focusing on demographic characteristics, upper echelons theory also emphasizes the study of an entire group, the TMT (Hambrick & Mason, 1984). Different definitions of this group have been used, and there is still controversy about the boundaries for inclusion of individuals as members of the top management team (Carpenter et al., 2004). More traditional definitions of TMT include only a company's executives, whereas a more broad definition known as supra-TMT incorporates the board of directors as well as the executives (Finkelstein, Hambrick, & Cannella, 1996; Jensen & Zajac, 2004). A number of studies consistently provide support for the upper echelons propositions that focuses on examining a company’s executives (Carpenter, Geletkanycz, & Sanders 2004; Hambrick, 2005), specifically in terms of top executives’ cognitive characteristics, educational level, international experience, and how they relate to firm strategic choice and innovation (Hambrick, 2005), as well as acquisition success (Cannella & Hambrick, 1993) and overall performance (Hambrick & Fukutomi, 1991).

A second line of research extends the existing definition of the TMT to include the board’s effect on firm level strategy (Goodstein, Gautam, & Boeker, 1994; Rindova, 1999). This extension of the upper echelons perspective became the catalyst that initiated a large body of research on studying the role of directors. Following Hambrick and Mason's (1984) upper echelons approach, where "primary emphasis is placed on observable managerial characteristics as indicators of the givens that a manager brings to an administrative situation," TMT studies that include the board use demographic variables proposed by the theory, such as gender, functional background, and age as proxies for the cognitive and psychological models of top managers. Along this line of research, board member demographic characteristics and board composition have been found to affect strategic change (Golden & Zajac, 2001; Goodstein at al., 1994). In addition, Hillman, Cannella, and Paetzold (2000) proposed resource dependence roles of the board using resource dependence theory through the upper echelons lens to better examine the effects of the supra TMT on board and firm strategy. Furthermore, scholars have also drew from theories and findings in the agency perspective of the board to disaggregate the board into executive and non-executive director subgroups, instead of "focusing on the corporate elites as an aggregate whole" (Jensen & Zajac, 2004:521). Along this stream of research, board independence and CEO duality garnered renewed attention, especially in studies that examine firm investment strategy and R&D intensity (Kor, 2006). This inclusion of board of directors in upper echelons theory also broadened its application in the entrepreneurship literature, because in entrepreneurial firms, the activities of executives and directors are more intertwined, and boards often have a dominating affect over firm strategies and performance (Boeker & Wiltbank, 2005; Carpenter, Pollock & Leary, 2003; Kor & Misangyi, 2008).

A review of upper echelons theory by Carpenter, Geletkanycz, and Sanders (2004) emphasizes that the vast literature using the upper echelons perspective mainly focuses on demographic backgrounds as the primary determinants of board behaviors and mindset. Nonetheless, this approach ignores many important structural determinants such as the heterogeneity, compensation, and relational dynamics within each board. The link between the board and firm decision making is founded upon complicated interactions between members of the upper echelon, therefore, studies that examine the effect of boards should pay more attention to the complexity of interactions and decision processes. Studies in executive change demonstrate that latent variables such as political and power dynamics of the TMT can greatly shape major organizational outcomes (Bigley & Wiersema, 2002). Using upper echelons theory alone does not provide sufficient theoretical scope to capture all the necessary factors that contribute to our understanding of the link between boards and firm outcomes. Some scholars have made successful attempts to supplement the upper echelon lens with agency theory (Boeker & Wiltbank, 2005; Carpenter, Pollock & Leary, 2003; Kor, 2006) and resource dependence theory (Hillman, Cannella, & Paetzold; 2000), however, a further push toward a more comprehensive and integrated multidisciplinary theoretical approach is highly encouraged (Carpenter et al., 2004; Strandholm, Kumar, & Subramanian, 2004). By adopting a relational lens, I argue that the board-performance linkage literature can be greatly enhanced by answering the call for a broader and more inclusive approach and examine not only the board characteristics championed by upper echelons theory, agency theory, and resource dependence theory, but also latent board characteristics such as heterogeneity, director network positions, compensation, within board power dynamics and hierarchy. In addition, applying a relational perspective and developing a relational framework to examine the board further expands applicability of existing dominant theories to be used beyond the management discipline.

Interdisciplinary Theoretical Supplementation

Addressing the call for a more interdisciplinary approach (Carpenter et al., 2004; Hillman & Dalziel, 2003; Wiseman et al., 2012), many scholars have expanded their research to include other well developed theoretical perspectives to better explain board effectiveness. Taking a step beyond linking important salient director characteristics such as gender, age, ethnicity, functional background, and experience directly to board performance (Hillman, Cannella, & Harris, 2002; Westphal & Stern, 2007), latent board dimensions such as in-group out-groups (Westphal & Milton, 2000; Zhu, Shen, & Hillman, 2014), faultlines (Kaczmarek, Kimino, & Pye, 2012; Lau & Murnighan, 2005; Li & Hambrick, 2005), social networks (Larcker, So, & Wang, 2013), and power hierarchies (He & Huang, 2011). For instance, to supplement the vast literature that focuses on board demographic diversity, Zhu, Shen, and Hillman (2014) build on social categorization theory (Tajfel & Turner, 1979) and recategorization theory (Gaertner, Dovidio, Banker, Houlette, Johnson, & McGlynn, 2000) to examine board diversity and its effect on director reclassification processes into the in-group. Exploring further into the board demographic diversity literature, several studies draw from faultline theory to examine the boundaries of potential board subgroups based on major background characteristics and how the strength of board faultlines are reduced by board heterogeneity over time (Lau & Murnighan, 2005; Sawyer, Houletter, & Yeagley, 2006). Li and Hambrick's (2005) study on factional groups and demographic dissimilarity also provides foundation for future corporate governance research to explore task, emotional conflict and board behavioral disintegration caused by faultlines.

Another key latent board characteristic that has gathered significant attention is the social capital of board members and how directors use their networks to affect firm outcomes, especially through board interlock (Beckman, Haunschild, & Phillips, 2004; Davis, Yoo, & Baker, 2003; Palmer, Friedland, & Singh, 1986). Interlocking directorate network has been used to answer questions regarding board independence (Bizjak, Lemmon, & Whitby, 2009; Chiu, Teoh, & Tian, 2013), monitoring effectiveness (Core, Holthausen, & Larcker, 1999; Fich & Shivadasni, 2006), firm performance (Larcker et al., 2013), firm financial reporting quality (Omer, Shelley, & Tice, 2014a), and firm value (Omer et al., 2014b). Drawing from social network theory, scholars have examined directors' ability to access information and control information flow (Borgatti & Halgin, 2011; Phelps, Heidl, & Wadhwa, 2012), as well as boards' overall network position and their ability to positively influence firm outcomes (Larcker et al., 2013; Omer et al., 2014). By incorporating the social network perspective, scholars are able to look one step beyond salient director characteristics and obtain a more comprehensive understanding of the board-performance linkage where easily observable director characteristics are supplemented by the latent social capital dimension.

In addition, many scholars suggest that interactions and within board dynamics should be a point of interest in order to truly understand how boards affect firm performance (Carter & Lorsch, 2004; Finkelstein & Mooney, 2003; Johnson, Daily, & Ellstrand, 1996). Many have started to pay attention to the informal aspects of corporate boards such as director relationships and conflicts and their critical role in defining director interactions and decision making (Johnson & O'Leary-Kelly, 2003; Westphal & Stern, 2006). Drawing from a group perspective, directors on a board are expected to automatically sort into an informal hierarchy based on deference that they have for each other's competence and ranking (Gould, 2002; Magee & Galinsky, 2008). When such informal social structures are formed, the implicit hierarchy dictates the power dynamics within the board and orchestrates board interactions, which eventually influences board effectiveness. A board's ranking composition based on members' average rank in the corporate community and the overall power balance between board members are both shown to be important factors in understanding the relationship between boards and firm performance (He & Huang, 2011). Examining within board power relationships and informal structures recognizes and addresses the overlooked fact that boards are fundamentally groups of human individuals, as Finkelstein and Mooney (2003) have pointed out, latent group features and processes such as conflict, teamwork, and comprehensiveness are all vital determinants of board effectiveness. Incorporating a social group perspective can greatly enrich the board-performance linkage literature. Johnson, Schnatterly, and Hill (2013)'s comprehensive review of the board characteristics literature has revealed that the growing literature demonstrating the link between board composition and firm outcomes needs to be extended by paying more nuanced attention to the aggregation of latent board characteristics to obtain more meaningful understanding of the impact of boards on firms. More studies need to analyze the mechanisms underlying the direct composition and performance relationship (Adam, Hermalin, & Weisbach, 2010)

Overall, a relational pluralistic view of the board tactfully incorporates all of the aforementioned latent board characteristics, while at the same time, builds upon existing dominating theoretical frameworks such as agency theory, resource dependence theory, and upper echelons theory. Adapting a comprehensive approach supplements existing literature with latent board characteristics and answers the call for research by numerous reviews (Carpenter et al., 2004; Finkelstein & Mooney, 2003; Hillman & Dalziel, 2003; Wiseman et al., 2013). Using a more inclusive perspective via a relational lens also provides a much needed response to address the lack of consensus about the relationship between key board characteristics and firm performance (Dalton et al., 1998; Dalton et al., 1999; van Essen et al., 2014; Westphal & Zajac, 2013).

THEORY AND MULTIDIMENSIONAL CONSTRUCT DEVELOPMENT

Concept of Relational Pluralism

Examining factors regarding the firm points to the fact that organizations, as complex systems, are entangled in heterogeneous networks consisting of many different kinds of interactive pathways (Kilduff, Crossland, Tsai, & Krackhardt, 2008; Shipilov, Gulati, Kilduff, Li, & Tsai, 2014). Studying these interrelated networks naturally leads to studying the entities (individuals, dyads, groups) involved and opens up opportunities to discover new conduits for research (Shipilov, 2012; Shipilov et al., 2014). Relational pluralism is defined as the extent to which a focal entity (a person, a team, or an organization) derives its meaning and its potential for action from multiple kinds of relations with other entities (Gulati, Kilduff, Li, Shipilov, & Tsai, 2010; Shipilov et al., 2014). For example, the members of a board can have multiple responsibilities to firm's multiple stakeholders (e.g., investors, customers, community, and/or representatives of the parent company), which may influence their ability and incentive to make decisions (Beckman et al., 2014; Lan & Heracleous, 2010). Relational pluralism also helps to highlight the power mechanisms and interdependencies between different types of relationships within a network (Beckman et al., 2014; Ranganathan & Rosenkopf, 2014; Rogan, 2014; Sytch & Tatarynowicz, 2014). From a connectionism and structuralism perspective (Borgatti & Foster, 2003), relational pluralism can be described as a collection of multi-faceted ties that shape organizational decisions via the dissemination of knowledge and influence (Beckman et al., 2014). Recent studies have begun to examine the phenomenon of relational pluralism and its implications (Shiplov et al., 2014). Within this emerging area of inquiry, a noticeable emphasis has been placed on relational pluralism its effect on social identity, where a focal actor's sense of self is dependent on their group memberships (Tajfel, 1979). The pluralistic nature of social relationship leads to multiple ways social ties can form between any entities, and these social ties shape individual realities and behaviors (Simmel, 1955). In the context of corporate boards for example, board composition and power dynamics directly affect directors' ability to advise and monitor executive decision making (Dalton & Dalton, 2011; He & Huang, 2011). On the firm level, both the type of ties between firms and the structure of the firms' networks are found to dictate the opportunities and constraints to the firm (Ranganathan & Rosenkopf, 2013; Shipilov & Li, 2012). However, substantial gaps still exist in the literature regarding the existence and validity of the relational pluralism framework, and significant work needs to be done to enhance our understanding of the relational pluralism framework.

As aforementioned, corporate boards are the perfect research subjects in this emerging literature because boards can be examined as an instantiation of relational pluralism (Beckman et al., 2014). By conceptualizing relational pluralism as a collection of nested ties instantiated in the board of directors, the board performance linkage literature can supplement its focus on the observable characteristics and structural features by delving deeper into the latent dimensions of board member dynamics. Boards are able to demonstrate multiple dimensions of the relational pluralism collective, such as board level heterogeneity, multiplexity, connectedness, and skewedness, through which they shape and regulate the focal firm's behaviors. A relational pluralistic view of the board extends the current understanding of director behavior by aggregating director relationships on multiple relational dimensions to explore nuanced effects on firm outcomes (Beckman et al., 2014). In addition, relational pluralism provides a theoretical framework corporate boards incarnate a collection of relationships that can significantly influence organizational performance.

Dimensions of Relational Pluralism

Gulati et al. (2010) introduced three dimensions of relational pluralism: heterogeneity, multiplexity, and overlap to examine the extent to which an individual, a team, or an organization derives its meaning and courses of action from relationships with other entities. In this paper, the focus is on the board. Heterogeneity is the extent to which a board consists of directors that form connections with others from diverse backgrounds (functional and demographic), multiplexity is the extent to which a board enjoys multiple types of relationships, and overlap is the degree to which the board's relationships are clustered in one group or scattered across different groups. This paper examines all three dimensions, however, the term connectedness is used in place of overlap because the theoretical focus of this paper lies in the board's contribution to firm performance, which means that instead of looking at the distribution of a relationships, it is more theoretically relevant to examine the network position of board members in order to infer the availability and quantity of resources they can bring to the focal firm. Therefore, I choose the term connectedness to describe boards' collective social capital, particularly the extent to which a board occupies central or dominant positions within their networks. A fourth dimension, skewedness, is added to the original three dimensions to more fully represent the effect of board relational pluralism on performance. This dimension focuses on investigating the imbalanced distribution of power and status amongst directors. When the board grants certain individuals significantly more decision power and or resources than others, the power balance is disturbed, which decreases the likelihood that the board can successfully accomplish its advisory and monitoring responsibilities. Following the theoretical footsteps of existing literature on board independence, the skewedness dimension aims to capture the effect of disproportional distribution of power within boards on firm performance. To empirically examine these four dimensions of relational pluralism, multiple facets of director characteristics, ties, identities, power relations, and interlocking directorate networks should be aggregated on the board level to represent their focal firms. Unlike prior studies that mainly emphasize on board structure and observable characteristics, this paper extends the scope of the current literature by supplementing current knowledge with relational dimensions illuminated by the relational pluralism framework.

I propose that a firm's board of directors provides differential benefits/limitations to firm performance outcomes in terms of heterogeneity, multiplexity, connectedness, and skewedness. This paper answers the call for research on relational pluralism (Gulati et al., 2010; Shipilov et al., 2014), in addition to developing theory to motivate and justify a four-dimension model of relational pluralism, which is illustrated in Figure 1.

Insert Figure 1 about here

Board Heterogeneity

The heterogeneity dimension of relational pluralism highlights the importance of relationships formed between individuals with different demographic and or functional backgrounds. This dimension is crucial to the board-performance literature for several reasons. First of all, heterogeneous boards are more likely to have effective problem solving, increased creativity, and a better understanding of the market (Cannella, Park, & Lee, 2008; Carter, Simkins, & Simpson, 2003; Finkelstein & Hambrick, 1996). The existing literature most commonly explores board heterogeneity through the theoretical lens of group membership diversity, where diverse groups have been found to promote the exchange of ideas (Schippers, Hartog, Koopman, & Wienk, 2003). Specifically in the context of board membership and consistent with resource dependence theories, directors with different backgrounds bring varied ideas and viewpoints that are unique to each individual director (Hillman et al, 2002; Lückerath-Rovers, 2013), which provides the board with novel insights and perspectives that could lead to a means of improving organizational value (Carter et al., 2003; Coffey & Wang, 1998), and increases the likelihood that the board will comprise of members who are more capable of representing varied stakeholder interests (Huse & Rindova, 2001). Theoretically and empirically, board member diversity is an aspect of the board that has received rigorous investigation in the corporate governance literature (Cannella, Park, & Lee, 2008; Carpenter, Geletkanycz & Sanders, 2004; Finkelstein & Hambrick, 1996). There has been an increasing public and academic curiosity in the mechanisms of corporate boards and how boards can be used to align shareholders' interests and management strategies (Mueller, 2006). Government agencies, social activists, and shareholder groups frequently advocate for greater heterogeneity among directors based on the assumption that managers and firms benefit from directors with diverse social and functional viewpoints to the boardroom. In addition, corporate governance codes based on the Organization for Economic Co-operation and Development (OECD) model has been adopted and implemented in many developing countries in the past decade (Tsamenyi & Uddin 2008; Soobaroyen & Mahadeo 2008), which has contributed to increasing interest in optimizing board composition and structural design. Therefore, the heterogeneity dimension of relational pluralism plays a key role in understanding the board-performance linkage. Several board characteristics contribute to board heterogeneity, which means that the heterogeneity dimension consists of more than one indicator. According to Kang, Cheng, and Gray (2007), a heterogeneous board composition refers to having diversity amongst board members, and board member diversity consists of observable characteristics such as gender, age, and race, as well as less visible characteristics such as level of education, and functional background (Kilduff et al., 2000; Milliken & Martins, 1996). In the aforementioned board characteristics, gender and functional background diversity have the strongest theoretical and empirical evidence that link them to firm performance.

First of all, in terms of observable board characteristics, management research in the past two decades have begun to focus on gender diversity in top management positions and boardrooms (Bilimoria & Piderit, 1994; Carter et al., 2003; Daily et al., 1999; Kang, Cheng, & Gray, 2007). Gender diversity has repeatedly been shown to positively affect firm value (Adams & Ferreira, 2003; Carter et al., 2003) and firm performance (Catalyst, 2004; Erhardt, Werbel, & Shrader, 2003; Smith, Smith, & Verner, 2006; Van der Walt, Ingley, Shergill, & Townsend, 2006). In addition to observable characteristic, management scholars have argued that director functional diversity is one of the most important non-observable board characteristics that affect firm outcomes (Erhardt et al., 2003; Milliken & Martins, 1996). Diversity in board member functional background refers to the occupational and educational heterogeneity of board members (Murray, 1989). This type of diversity greatly enhances the range and scope of knowledge and expertise that directors bring into the boardroom, which leads to better decision making and greater likelihood for improved performance outcomes (Cannella, Park, & Lee, 2008; Cho & Hambrick, 2006; Finkelstein & Hambrick, 1996; Kim & Rasheed, 2014). Therefore, in the board-performance literature, gender, occupational, and educational background diversity are indicator variables that most accurately capture the heterogeneity dimension of the relational pluralism framework.

Proposition 1: Director gender diversity, occupational background diversity, and educational background diversity make up the first-order latent variable construct – Board Heterogeneity.

Board Multiplexity

Another dimension of relational pluralism is multiplexity, which refers to the extent to which individuals are connected by multiple ties (Gulati et al., 2010). According to Shipilov et al. (2014), members of a group demonstrate the multiplex aspect of relational pluralism by maintaining multiple relations and/or identities simultaneously. For example, one way that multiplex relationships are expressed is when group members hold one shared identity and multiple ties (Shipilov et al., 2014), in an organizational setting, employees can form both informal friendship ties and formal reporting ties with each other while sharing the same identity as supervisors or subordinates (Toegel, Kilduf, & Anand, 2013); interlocking directors between cooperating joint ventures can establish multiple ties within the interlocking network to encourage alliance formation while maintaining a shared identity as collaborating directors

(Beckman, Haunschild, & Philips, 2004; Gulati & Westphal, 1999); coworkers who share common work identities can also form both advisory ties and supervisory ties to satisfy personal and professional needs (Toegel et al., 2013); both competitive and cooperative relationships form among firms in the auto industry (Kim & Tsai, 2012).

On the other hand, multiplexity is represented by having one type of tie and multiple identities (Shipilov, et al., 2014). A firm can form relationships with a supplier as a buyer, but also act as a connector between suppliers to influence formation of relationships. In the example of tie formation between issuers (firms that place stocks in financial markets) and lead underwriters (investment banks hired to underwrite stock issues), the lead underwriter and the issuer form a customer-supplier relationship, but the issuer can also play the role of connector by influencing relationships between investment banks (Shipilov & li, 2012). The issuer may ask the lead underwriter to include in its syndicate specific investment banks with which the issuer has already developed working relationships. Therefore, the issuer in this case, maintains dual identity of customer and connecter while maintaining a buyer-supplier tie with the lead underwriter. In the groups and teams context, group members sometimes form informal ties with each other based on multiple demographic and cultural identities (Mehra, Kilduff, & Brass, 1998). In addition, the most complex form of multiplexity in a group is when members have multiple identities and ties. An example is when there are informal, workflow, and resource sharing ties between employees who have different identities based on race, age, or formal positions (Briscoe & Tsai, 2011). There are many consequences of relational multiplexity (Shipilov, 2009; Ibarra, 1993), such as subsequent alliance formation (Kenis & Knoke, 2002), variety and range of future ties (Lomi & Pattison, 2006), and overall performance in collaborative groups (Provan & Sebastian, 1998).

The multiplexity dimension of the relational pluralism framework is important in the board-performance literature because board of directors often maintain multiple types of ties or identities that influence board effectiveness. Directors serving on the same board often share a common network through the formal appointment to the board, but some directors hold multiple identities and additional relationships outside of the board that could potentially impact firm outcomes. For example, the corporate governance literature differentiates between board members who are insiders, such as directors who are also currently serving as managers or executives, and decision controllers who are outsiders (Finkelstein, Hambrick, & Cannella, 2009; Gulati & Westphal, 1999). Insider directors have shared attitudes, a common identity (McDonald & Westphal, 2010), familiarity of expertise (Zahra & Pearce, 1990), and compatible behavioral styles (Westphal & Stern, 2006), therefore, one type of board multiplexity lies in director independence. In addition, outside directors often represent large shareholders (Hill & Snell, 1988; Qi, Wu, & Zhang, 2000; Peng, 2004; Ramaswamy, Li, & Veliyath, 2002), by having directors who identify with the interests of large shareholders, the collective voice of the board are more likely to be concerned with overall performance in order to maximize shareholder investment (Peng, 2004). Compared to boards solely consisting of inside directors with a uniform sense of identity and ties, multiplex boards that maintain a mix of inside and outside directors are able to provide a more comprehensive assessment of firm wellbeing and CEO behavior, as well as a more representative voice for large shareholders and external stakeholders (Claessens, Djankov, Fan, & Lang, 2002; Dahya & McConnell, 2007; Peng, 2004). Overall, outside directors share a formal tie and identity with other board members, but fundamentally champion additional identities that make them outsiders and shareholder representatives, which contribute to the overall multiplexity of a board.

Furthermore, many directors, both insiders and outsiders are themselves shareholders of the focal company they serve. A multiplex tie is hence created when a board member has an additional point of connection with the firm by being an investor (Gulati et al., 2010). Shareholder directors can potentially bring additional information to the firm through the lens of investors and provide the firm with in-depth knowledge as well as a deeper understanding of the environment. Shareholder directors not only hold shared formal ties and identities with other directors on the board, they also have an extra tie with the firm by having personal stakes in the firm. Therefore, having board members who hold significant amount of the focal firm's stock increases the overall multiplexity of the board.

Another way that board members display relational multiplexity is through maintaining external ties. In the case of boardrooms, directors share a common network with other directors by serving the same board, but some directors also maintain useful external networks that may positively influence firm outcomes. Resource dependence theory argues that directors often utilize their social and/or professional ties between the firm and its external stakeholders to influence decision making (Peng, 2004; Pfeffer, 1972). Conventionally, the board most commonly consists of directors with relevant functional background that is in alignment with the firm's needs, however, an additional group of directors that have garnered increased attention in recent years is those with political affiliations via prior appointments in governmental and political institutions. Directors with political ties serve as conduits of information and grant access to invaluable political resources that are especially beneficial to firms that operate in highly regulated environment (Hillman, 2005). Therefore, besides shared formal ties and identities with other board members, directors with political ties through prior political appointments represent a group of directors that have additional external ties that could benefit firm outcomes. The inclusion of politically connected directors increase the overall board multiplexity.

In summary, the multiplexity dimension of the relational pluralism framework recognizes that directors maintain multiple ties and identities. The multiplexity of boards can influence board effectiveness and is critical to the board-performance literature. The multifaceted nature of director ties and identities are demonstrated by outsider director representation, director stock ownership, and director external political ties.

Proposition 2: Outsider director representation, director stock ownership, and director external political ties make up the first-order latent variable construct – Board Multiplexity.

Board Connectedness

Extended from the overlap dimension of the relational pluralism framework, which refers to distribution of a focal actor's ties and the extent to which these relationships are dense and clustered, the connectedness dimension focuses on directors' contribution to their focal firm's performance, which means that compared to the distribution of a focal director's relationships, the network position of a director is more important when assessing the availability and quantity of resources a director can bring to the focal firm. Connectedness describes boards' collective social capital, particularly the extent to which a board's directors occupy central or dominant positions within their networks. An individual's social and economic networks serve as conduits for interpersonal and interorganizational support, influence, and information flow (Larcker, So, & Wang, 2013). One of the key types of network in the corporate finance literature is the boardroom network formed by shared board directorates. The potential costs and benefits of network connections are well documented by extensive research in the field of organizational sociology, finance and economics.

Board members' formal or professional ties can be proxies for the concept of board connectedness. Although it is likely that directors' networks extend far beyond those associated with formal board appointments and are influenced by informal social connections, it is important to note that formal and informal networks are positively correlated and can be complementary (Hwang & Kim, 2012; Westphal, Boivie, Chng, & Han, 2006). Due to the fact that directors' formal network is substantially more readily observable by market participants than informal ties, focusing on boardroom formal network is more meaningful when examining financial performance. Well connected boards enjoy a greater number of ties and are central to the interlock network's collective flow of information and resources, therefore, should observe performance benefits.

The dimension of board connectedness is inherently multifaceted. Network theory has provided several distinct yet related notions of connectedness, Larcker and colleagues (2013) have suggested that boards' level of connectedness in their interlock network can provide substantial firm level performance benefits. First, a board is considered to be well connected if it has multiple channels of communication that allow it to gather information and participate in resource exchange. Connected boards that enjoy opportunities and alternatives that are otherwise unavailable are often central boards within their board interlock networks. These boards have a higher overall degree of centrality than otherwise comparable firms. Second, a board is also considered to be well connected if it has closer ties to outside boards, therefore making information and resource exchange occur quicker. These boards are able to obtain information and resources more easily and more frequently due the relatively fewer steps between boards in their interlock network. Connected firms enjoy a closeness to outside boards in terms of having more direct access to beneficial resources than their less connected counterparts. Third, a board is well connected if it is positioned in between relatively more pairs of outside boards, which makes such a board an important broker of information and resource exchange. The high level of betweenness in this case provides significant advantages for the focal firm due to its board's ability to control and leverage information flow.

Hence, the connectedness dimension of the relational pluralism framework acknowledges and investigates the extent to which a board can obtain special advantages through leveraging its professional network based on its connections to other boards. The connectedness of a board directly influence its ability to obtain and broker resources, which is highlighted in the existing board-performance literature. The multifaceted nature of board connectedness are demonstrated by degree centrality, closeness centrality, and betweenness centrality to capture different ways in which boards are connected to other boards in their interlocking directorate networks.

Proposition 3: Board degree centrality, closeness centrality, and betweenness centrality make up the first-order latent variable construct – Board Connectedness.

Board Skewedness

The dimension of skewedness refers to the uneven distribution of power and influence amongst board members. When the board grants certain individuals significantly more decision power than others, the power balance is disturbed, which decreases the likelihood that the board can successfully accomplish its advisory and monitoring responsibilities. In a group setting, when one or few individuals have considerably more power and/or status than everyone else, it becomes almost impossible for the majority of the group to give honest opinions and suggestions during problem solving, the weaker majority also do not dare to object ideas and decisions championed by the powerful individuals (Salin, 2003). Power imbalance is extremely detrimental to group effectiveness and commitment because it can lead to workplace bullying and aggression (Ashforth, 1994; Hoel, Einarsen, & Cooper, 2003; Keashly & Jagatic, 2003).

This leads to a phenomenon where one or a few individuals have control and dominance over everyone else, so group decision making only exists on the surface, which greatly diminishes the potential benefits of having a group.

One of the most extensively studied elements of the corporate governance literature regarding power imbalance is the general concern for board independence, which revolves around the common phenomenon of CEO duality, where the positions of CEO and board chairperson are held simultaneously by the same person. The topic of CEO duality has generated an impressive body of literature over the past few decades. Many scholars argue that the role of CEO and chair of the board should not be occupied by the same individual because directors are unable, or unwilling to objectively evaluate the performance and practices of a firm's CEO when that CEO in question is also serving as the chairperson of the board (Conger & Lawler, 2009; Fama & Jensen, 1983; Monks & Minow, 2008). CEO duality presents a fundamental conflict of interest and can be viewed as the functional equivalent of a "CEO grading his/her own homework" (Brickley, Coles, & Jarrell, 1997:190). Advocates of agency theory have argued that having the CEO chair they board which evaluates his/her own work defeats all of which the board stands for (Boyd, 1995; Dalton et al., 2008; Fama & Jensen, 1983) due to the absence of separation of decision management and decision control. When CEO duality is present, the decision power and status of the CEO is drastically increased, this heavily skews the power dynamic of the board and TMT to be in favor with the CEO. The CEO in this scenario is more likely to use the power as board chairperson to pursue personal goals, abuse resources for self-interest, and select directors who are agreeable to the status quo and who are not able to or dare to challenge CEO actions (Conger & Lawler, 2009; Fama & Jensen, 1983; Jensen, 1993; Westphal & Zajac, 1995).

Similarly, an issue of power imbalance arises when controlling shareholders occupy seats on a board. The presence of controlling shareholders creates a new type of agency problem because the interests of controlling and minority shareholders are not perfectly aligned, especially when there is a separation of ownership and control (Bebchuk, Kraakman, & Triantis, 2000; Claessens, Djankov, Fan, & Lang, 2002). Since controlling shareholders often obtain power and ownership through complex pyramid structures, interlocking ownership, and voting pacts that promotes the preserves majority voting rights, they make decisions but do not bear the full cost, therefore, the agency problem is exacerbated (Ben-amar & Andre, 2006). Large shareholders often perform the practice of tunneling, where they create group structures such as pyramids that enable them to transfer profits to other dominated parties (Johnson et al., 2000). Firms with large controlling shareholders, especially in the case of founding families, may forgo maximum profits due to their inability to separate their financial preferences with those of outside owners (Faccio & Lang, 2002; Morck & Yeung, 2000). Controlling shareholders are also able to draw scarce resources away from profitable projects in order to pursue personal endeavors (Demsetz, 1983; Fama & Jensen, 1983), as well as extract private benefits from the firm without considering the wellbeing of other shareholders (Shleifer & Vishny, 1997).

Another way that boards exhibit power imbalance is through informal hierarchy (He & Huang, 2011). Board informal hierarchical order affects firm performance by shaping the board’s group processes. Just like any other human group, an informal hierarchy forms naturally in boards (Gould, 2002; Magee & Galinsky, 2008; Overbeck, Correll, & Park, 2005). According to Forbes and Milliken (1999), boards of directors can be characterized as elite decision making groups that depend heavily on social psychological processes, especially those related to group participation, interaction, informational exchange, and critical discussion. Board members spontaneously form hierarchical social structures based on the comparative number of additional board membership they maintain (D'Aveni, 1990). Directors form inferences about each other's competence to guide their interactions – each director receive different levels of respect from other board members with regard to their views on firm strategic issues (Belliveau, O'Reilly, & Wade, 1996). A high level of informal hierarchy in a board represents a set of implicit rules for its members on when to speak, how to speak, and with whom they can speak, which makes it very difficult for low ranking members to voice their opinion. However, having high informal rank does not automatically translate to being a more effective board member because having multiple additional board memberships sometimes compromises director independence and leads to inadequate monitoring (Core, Holthausen, & Larcker, 1999). Higher ranking directors inherently hold more power and credibility, therefore are able to ignore dissenting views and heavily influence other members' actions (He & Huang, 2011). Therefore, boards with a clear hierarchical structure grants an unjustified amount of power to a minority group of directors.

Boards with CEO duality, controlling shareholders, and high degree of informal hierarchy suffer from a diminished ability to execute their advisory and monitoring functions. The skewed distribution of power in favor of CEO board chairs, controlling shareholders, and high ranking directors leads to agency and power dynamic issues that significantly reduce the effectiveness and usefulness of boards. These represent three major aspects of board skewedness in relational pluralism that deserve attention in the board-performance literature.

Proposition 4: CEO duality, presence of controlling shareholders, and degree of informal hierarchy make up the first-order latent variable construct – Board Skewedness.

Overall, the abovementioned dimensions make up the proposed relational pluralism construct in corporate boards.

Proposition 5: Four dimensions (Heterogeneity, Multiplexity, Connectedness, and Skewedness) together define the second-order latent variable construct – board relational pluralism.

CONCLUSION

This paper is a significant step towards developing a more comprehensive theory of relational pluralism in strategy research. By theoretically developing the relational pluralism framework in corporate boards, this study brings to the attention of scholars the need to consider the entire composition of their boards on both observable characteristics and latent dynamics between board members. Although an enormous amount of research has focused on the direct link between board characteristics and firm performance, inconsistent and inconclusive findings has troubled scholars for decades – one of the most important goals that I hope to accomplish with this study is to motivate future research to steer away from simply linking surface level board characteristics directly to firm outcomes. As many papers have exhibited, examining isolated board characteristics do not often yield meaningful or generalizable results. Therefore, this paper encourages and calls for future studies that empirically examines the construct validity of the proposed four dimensional board relational pluralism framework, as well as studies that utilizes the relational pluralism model to examine firm level performance implications.

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Figure 1 Board Relational Pluralism Theoretical Framework