Board-Management Relations in Small Firms: The Paradox of Simultaneous Independence and Interdependence

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ABSTRACT. The author introduces constructs based on neo-classical and socio-economic assumptions, and argues that board-management relations should be characterized by both "independence" and "interdependence". Interdependence is especially important in small firms. The article presents a model of directorates from research about directorates based on agency theory assumptions. This model is supplemented with constructs from the theory of contractual relations. Whilst traditional literature tends to focus upon "independence" from an agency theory perspective, this article argues that it is necessary to use more than one dimension of attributes regarding the board-management relations in order to understand the board's contribution to company performance, and that trust and solidarity is especially important in small firms. Board-management relations described by simultaneous "independence" and "interdependence" are proposed to give the highest contribution to company performance. The theoretical propositions are exemplified and supported by results of a field survey of directorates in small firms.

1. Introduction

Is it possible to attain simultaneous independence and interdependence — distance and closeness? Can Yin and Yang — femininity and masculinity, be integrated? How can this apparent paradox be understood and solved?

The question of solving the paradox of simultaneous distance and closeness, independence and interdependence has been raised in both philosophy and social sciences as well as in economics, organization theory and management (Kenny, 1979; Etzioni, 1988; Wilson, 1989; Granovetter, 1985; Thompson, 1967). In management research and organization theory two main approaches of research seem to appear. One line focusing upon values, processes and human interaction; the other line based on assumptions regarding individual decisionmakers seeking rational solutions to increase their personal welfare (Etzioni, 1988). This article considers the role of boards of directors. The article suggests propositions related to small firms based on both approaches. The two approaches are represented by agency theory (Jensen and Meckling, 1976) and theory of contractual relations (Macneil, 1980).

Most management research is based on single form approaches in understanding managerial behavior (Bradach and Eccles, 1989), and theories based on neo-classical paradigms have dominated research about boards of directors. These studies have focused on board composition attributes such as insider/outsider ratio, board members' stock ownership and board size. Models based on agency theory and legalistic approaches have contributed to the framework for these studies, which mainly discuss the consequences of the board's independence of management in order to be an effective control mechanism (Fama and Jensen, 1983; Zahra and Pearce II, 1989).

Neo-classical assumptions have been severely criticized (Etzioni, 1988), and it is argued that these assumptions should be substituted or supplemented with assumptions based on socio-economic approaches. In neo-classical assumptions, the moral dimension is missing. The moral dimension deals with trust and interdependence as monitoring devices in the relations between the actors. Trust is considered to be the most efficient way of monitoring durable and complex relations,

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especially in small and medium sized firms. This is best exemplified in small firm networks (Perrow, 1991).

This article proposes that plural forms monitoring (Bradach and Eccles, 1989), integrating devices based on both neo-classical assumptions, and devices based on socio-economic assumptions (Etzioni, 1988), gives the largest explanatory power to the understanding of board performance and company results. This article adds a dimension of "interdependence" or closeness to the traditional "independence"-criterion derived from agency theory. Proposals about board-management relationships in small firms are elaborated.

The proposals are illustrated by a field survey of board-management relations in 68 joint stock hotels in Scandinavia with fewer than 50 employees.

2. An agency theory perspective on boards of directors: Independence

In both small and large organizations in which management do not bear a major share of the wealth effects of their decisions, some form of board of directors is the common apex of the decision control system (Fama and Jensen, 1983 p. 311). In most countries this is regulated by law or other constituencies. Such boards have the power to hire, fire and compensate management, and to monitor and ratify important decisions. Boards are usually regarded as tools for the owners (principals) to control management (agents) when there is a separation of ownership and control. In small firms, however, management often owns a major part of the share capital, but there exists other residual claimants, for example, employees, local community and creditors as financial institutions and suppliers. Small firms will also, to a higher degree than larger firms, be characterized by debt financing (Pettit & Singer, 1985).

According to agency theory the board is one of several tools to limit opportunistic behavior of the management. Other mechanisms are the labor market control, the market for corporate control, and the product market control. The effects of these mechanisms depend on efficient markets. This is often not the case for small firms, especially in peripheral areas (Baker, Jensen and Murphy, 1988; Jensen and Rubach, 1983; Pettit and Singer, 1985).

Most observations of boards report that it is a myth that boards are performing roles for the owners (Mace, 1971). Generally they are functioning poorly (Drucker, 1973). The board's passive performance is considered to be a result of the management's control over the selection of board members. "Boat rockers" are not usually the choice of managers with freedom to select their board members (Mace, 1971). Several reforms are suggested to improve board performance. The most frequently cited reforms regard independence in the board-management relationships. The reform movement suggests: (1) Increase the percentage of outsiders or independent directors, (2) separate the positions of CEO and chairperson, (3) require directors to hold substantial amount of stock, and (4) decrease board size (Kesner and Johnsen, 1990).

3. A model of directorates from agency theory based research

Most research about directorates has focused on the relations between the boards and the management in large firms. A review of recent research from this perspective is found as appendix (Tables II to V). Figure 1 presents a model of the role of directorates from an agency perspective elaborated from recent research.

3.1. *Independence measures*

The studies have mainly used insider/outsider measures on the independence in the board-management relationships. Insiders are often measured as the relative number of the board members being part of the company's top management group. The insider definitions vary about whether former employees and the family of employees also belong to this group (Ford, 1988). The outsider definitions also vary. Most of the studies define outsiders as all non-employee board members (Jones, 1986; Kesner, 1987; 1988; Kesner and Johnsen, 1990b; Hermalin and Weisbach, 1988), while other studies separates non-employee board members into quasi-insiders and outsiders. Quasi-insiders are experts and other non-employee board members recruited to serve

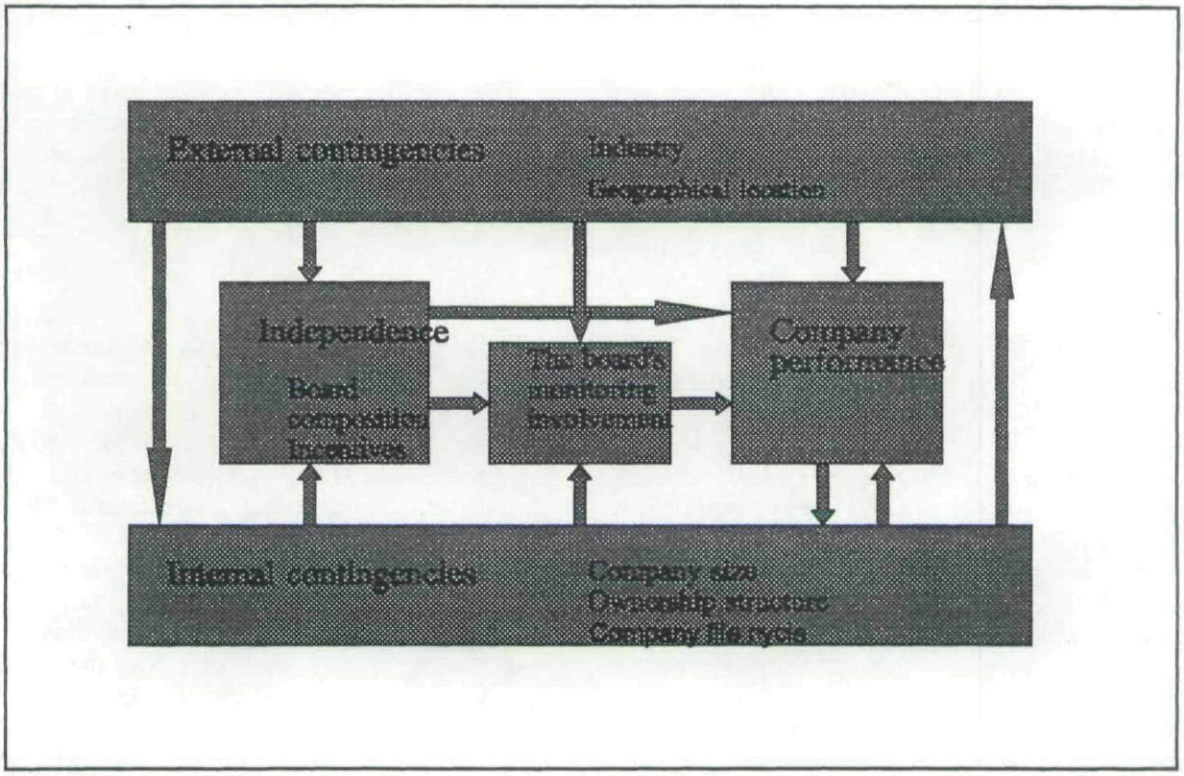

Fig. 1. Model of directorates: Agency theory based research.

management (Baysinger and Butler, 1985; Gilson, 1990). Outsiders will then be non-employees being top managers in other firms. Board members selected from the employees from an employee representation perspective are considered to be outsiders (Gustavsen, 1972; Lundgren, 1986).

Independence has also been measured as to whether the positions of CEO and board chairperson are separated, the number of board members, and whether there are business relations, family relations or friendship relations between the board and management (Chaganti, Mahajan and Sharma, 1985; Kosnik 1987; Singh and Horiantho, 1989b; Huse and Ljunggren, 1992). Some studies have used combined independence measures constructed as indices (Molz, 1988; Pearce II and Zahra, 1991).

Several studies have also used board member incentives to measure independence. The most frequently used measure appears to be financial incentives related to the board members' ownership interests (Kosnik and Bettenhausen, 1990; Kosnik, 1987; 1990; Kesner, 1990; Cochran, Wood and Jones, 1985). The literatures argue also that other kinds of incentives, such as expertise and professional motivation or awareness of the board members liability are of importance (Estes, 1980; Fama and Jensen, 1983; Baysinger and Hoskisson, 1990; Rosenstein and Wyatt, 1990; Kesner and Johnson, 1990b; Borch and Huse, 1991).

3.2. *Contingencies*

Several contingencies seem to be important to understand the role of board-management independence. In addition to criteria regarding top management, the mostly used contingencies in the studies seem to be:

* company size (Cochran, Wood and Jones, 1985; Hill and Snell, 1988; Weisbach, 1988;

Huse, 1990; Rosenstein and Wyatt, 1990; Baysinger, Kosnik and Turk, 1990),

* ownership structure (Kosnik, 1987; Singh and Horiantho, 1989b; Dalton and Rechner, 1989),
* the company's previous performance (Cochran, Wood and Jones, 1985; Jones, 1986; Hermalin and Weisbach, 1988; Gilson, 1990),
* industry (Baysinger and Butler, 1985; Kesner, 1987; Huse, 1990; Pearce II and Zahra, 1990), and
* geographic localization (Kerr and Bettis, 1987; Dalton and Kesner, 1987; Kosnik and Bettenhausen, 1990).

Board composition may seem to have another effect in small firms than in large corporations (Ford, 1988). Where there exist some large stockholders, independence is more likely to occur than when there are many small shareholders. In small firms ownership structure will often be related to whether the manager also is the owner of the company.

There seems to be positive relations between board-management independence and previous negative events. The importance of industry and localization may be related to variations in the markets for control.

3.3. *Company performance*

The studies have used various company performance measures, most of them relating to some kind of return to the stockholders (Baysinger and Butler, 1985; Hill and Snell, 1988; Weisbach, 1988; Schnellenger, Wood and Tashakori, 1989), but operation return criteria have also been used (Kesner, 1987; Rechner and Dalton, 1991). Some studies also use backruptcy to measure company performance (Chaganti, Mahajan and Sharma, 1985; Gilson, 1990; Huse and Ljunggren, 1992). When studying small firms, criticisms have been raised against using "objective" financial performance measures (Dess and Robinson, 1984), and supplementary subjective performance evaluations have been recommended.

Other stakeholders than the owners would use other evaluation criteria of company performance. In that respect criteria relating to company social performance and illegal acts have also been used (Jones, 1986; Kesner, Victor, Lamont, 1986; Zahra and Stanton, 1988).

The direction of the relations between board independence and company performance has not been unambiguous, but to a large extent the studies support the direction predicted from agency theory.

3.4. *Board performance*

Testing the relations between board-management independence and company performance will, according to several researchers, only indirectly indicate whether the boards are attending to their responsibilities (Kosnik, 1987; Kesner and Johnson, 1990b). Evaluations of board roles and board decision making have therefore been used to test the effect of the board's independence of management. This is done by studying the outcome of strategic decisions (Hill and Snell, 1988; Baysinger and Kosnik, 1990), and the outcome of the boards' control involvement (Weisbach, 1988; Kosnik 1987; Cochran, Wood and Jones, 1985; Singh and Horiantho, 1989a). Generally the reasoning from agency theory is supported.

In small firms subjective evaluations of board performance are used (Ford, 1988; Huse, 1990; Huse and Lindberg, 1991). These studies gave no support to agency theory, and some even indicate negative relations. The negative findings may be related to family firms.

4. Theory of contractual relations: Interdependence

Literature emphasizing relational exchange and socio-economics (Ouchi, 1980; Etzioni, 1988; Macneil, 1980; Goldberg, 1980; Granovetter, 1985; Bradach and Eccles, 1989; Sjöstrand, 1991), argue that only using the neo-classical paradigm in understanding organizational effectiveness and processes, is insufficient. The neo-classical paradigm is considered to be utilitaristic and rationalistic-individualistic. It considers people to maximize one utility, that people render decisions rationally, and that the individual is the decision making unit (Etzioni, 1988). These narrow and self-fulfilling assumptions are challenged from observers both within economic organization theory (Arrow, 1985) and organization theory

(Perrow, 1986; Donaldson, 1990). The assumptions about material self interest, search for rationality and opportunism are insufficient for many interpersonal motivational resources (Griesinger, 1990).

In order to get a new understanding of economics (Etzioni, 1988), it will be necessary to include a moral dimension if a balanced picture of reality shall be sustained. This can be achieved by an approach using "the new social contract" (Macneil, 1980; Mahoney and Huff, 1991; Sjöstrand, 1991). Macneil's theory of the new social contract (theory of contractual relations) is considered to be a positively based normative theory (Macneil, 1980, p. 38).

The point of reference for what Macneil calls contractual relations, will be the whole relation between the exchange partners, and how this relation develops. Long term relations between exchange partners, especially under uncertainty, will be best taken care of by relational contracting (Macneil, 1980). Transactions in board-management relations will be characterized to varying degrees by uncertainty, but the relation between board and management will last over some time. Thus the board-management relations should be characterized by relational contracting (Williamson, 1985). Trust and interdependence are central elements of relational contracting. This interdependence is described by the relational norms:

(1) role integrity,
(2) preservation of the relation,
(3) harmonization of relational conflict,
(4) supracontract norms.

Contracts characterized by the relational norms will be relational. Roles in relations also include an element of individual utility enhancement, but they do not normally operate within rigid rules of property and law, except at their extreme boundaries. Relations have intricate interlinkings of habits, custom, internal rules, social exchange and expectations respecting the future (Macneil, 1980, p. 65).

Preservation of the relation emphasizes contractual solidarity. It involves preservation of particular membership in relations, individual as well as collective preservation. Harmonization of relational conflict is important because there are conflicts between the need for precision and focus and the need for flexibility. The necessity of dealing with whole persons is an aspect of harmonization of relational conflicts. Another aspect of harmonization of relational conflict concerns harmonization with the social matrix.

Every social relation generates norms concerning the way by which ends may be achieved. The more complex the social relation, the more complex such principles will be (Macneil, 1983, p. 362). As contractual relations expand, the relations take on more the characteristics of mini-societies, and the whole range of social and political norms becomes pertinent within the contractual relations. There may be norms as for example distributive justice, liberty, human dignity, social equality and inequality, and procedural justice (Macneil, 1980, p. 70).

By introducing the relational norms, Macneil presents governance mechanisms based on common contractual norms characterized by interdependence and trust. The notions of Macneil have so far just to a limited extent been studied, but they seem to be supported empirically (Haugland and Reve, 1988). Even though Macneil considers the relational norms as useful analytical tools, he also considers them ideologically important. However, Macneil fears that the relational contract norms may suffer in large organizations, especially solidarity, reciprocity, and the propriety of means:

> "A deep political concern for all these endangered norms in our present historical circumstances can, in my view, lead in one direction: seeking social and economic smallness, within the relatively narrow limits permitted us by our dependence of sunk capital and existing technology, which are so largely out of our control. . . .
>
> The greatest optimism a realistic believer in small-is-beautiful should permit himself is the possibility of sizeable interstices in the superbureaucratic, superpowerful, yet superweak, inadequately reciprocal, and inadequately solidarity world social structure one sees stretching drearily on into the future. It is just possible that such interstices will provide opportunities for small contractual relations providing reasonably well-served — not just barely served — common contractual norms for some people. It is also just possible that such small structures will be so effective that they might eventually challenge the bureaucratic dinosaur. I am not counting on either event happening, but such directions are the ideological thrust that I would add to power relational contract theory" (Macneil, 1983: 418).

Even though the relational norms are supposed to be the best governance mechanism in both small and large organizations for long term relations between exchange partners, especially under uncertainty, he fears that relational norms only will exist in small businesses.

Figure 2 illustrates the expected contribution from theory of contractual relations. Interdependence and relational norms are the best governance mechanism for modern transactions characterized by uncertainty and frequency. This will also be the case in the relations between the board and management.

5. An integrative model

Two different and apparently contradicting demands on directorates were presented in the preceding sections. Agency theory representing a neo-classical approach, emphasizes independence and distance in the relations between board and management. Theory of contractual relations prescribes closeness and interdependence. How can this obvious paradox be solved? Is it possible to attain simultaneously independence and interdependence — distance and closeness?

Paradoxes may be resolved by opposition, spacial separation, temporal separation or by a synthesis (Poole and Van de Ven, 1989). The separation solution of the independence and interdependence paradox may involve separation regarding contingencies such as:

(1) different ownership structures and company size,
(2) different situations in the firms life cycle (birth phase, growth phase, maturation phase, crisis situation), and
(3) different kinds of organizations (industry, localization, public — private — voluntary organization).

The reviewed research indicated such separations. The paradox may thus be resolved by indicating, for example, that in small firms interdependence is the best monitoring mechanism (Ford, 1988),

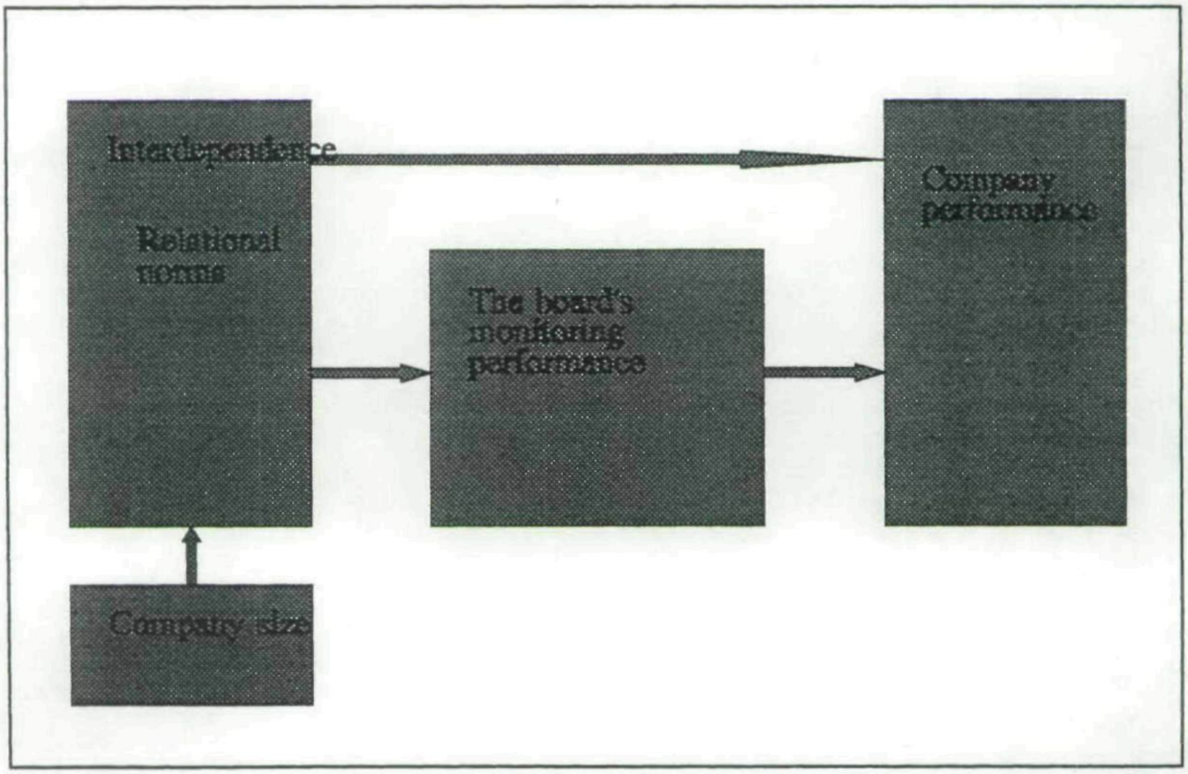

Fig. 2. Theory of contractual relations.

whilst independence is most efficient in large firms (Kosnik, 1987). Independence may be the best mechanism in some phases of the company's life cycle, whilst interdependence in others (Lorsch, 1989; Hermalin and Weisbach, 1988). Independence is best when considering monitoring functions, while interdependence is best when considering strategic or executive functions of the board (Baysinger and Butler, 1985).

The socio-economic literature indicates, however, a synthesis (Etzioni, 1988: 4). Neo-classical approaches make assumptions about human behavior that do not reflect the importance of human interaction, processes and norms. Socio-economics relaxes many of these assumptions and include considerations regarding people seeking more utilities; not just pleasure, but also moral. The neo-classical assumption that people seek rationality is replaced by the assumption that people typically select means, not just goals, on the basis of their values and emotions. Furthermore, the neo-classical assumption that the individual is the decision-making unit, is changed to assume that social collectivities are the decision-makers.

This integration by relaxing on the neo-classical assumptions indicates that interdependence and independence reflect two distinct dimensions. The independence dimension considers mainly compositional aspects of directorates, while the interdependence dimension considers process related aspects. This is illustrated in Fig. 3.

A number of propositions and a research agenda may be derived from Fig. 3 and the previously presented figures.

6. Propositions

6.1. *Proposition based on the neo-classical paradigm*

Agency theory claims that the board will be an effective organization from which to monitor and control the decisions of management (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen,

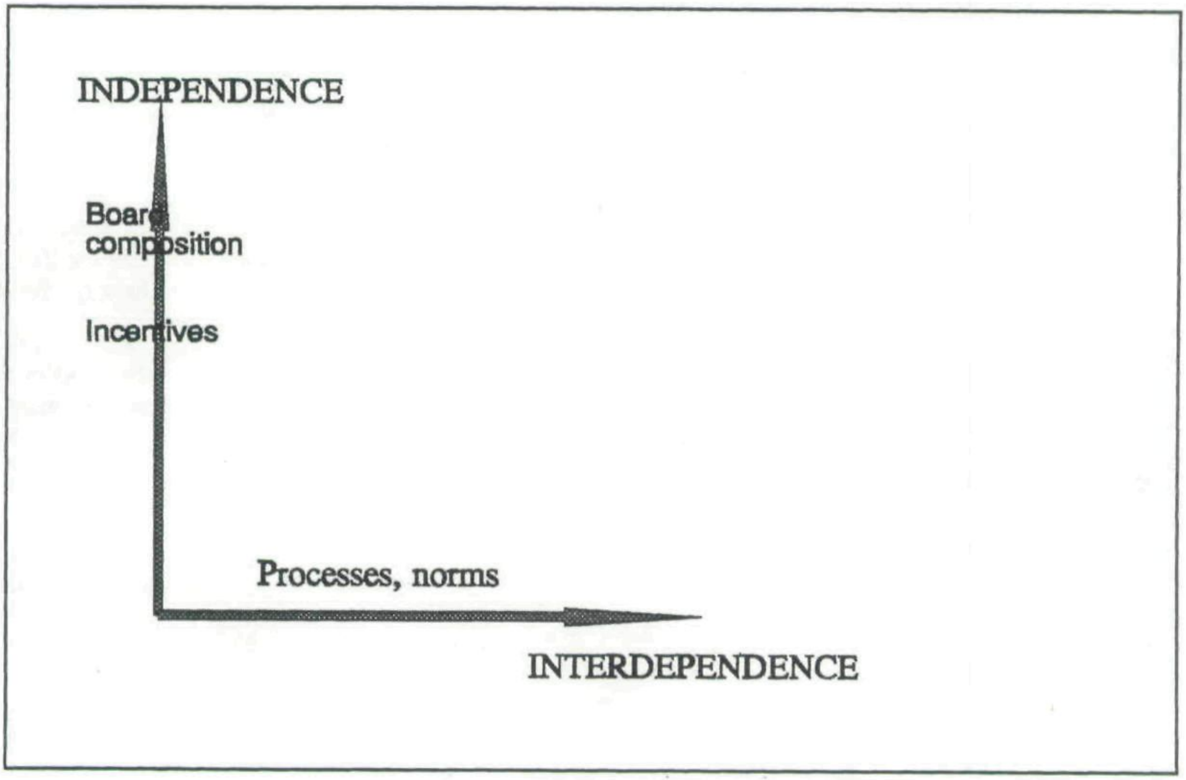

Fig. 3. Integration: Different dimensions.

1983; Jensen and Ruback, 1983). Board effectiveness will, however, to a large extent depend on some conditions (Kosnik, 1987; Tosi & Gomez-Mejia, 1989). These conditions are largely based on board composition and the board's independence in the relations to management. Such compositional criteria are the number of board members, the number of outsiders versus insiders, stock ownership by board members, the number of top executives in the board, etc. Accordingly the following proposition is derived:

> Proposition 1:
> All else being equal "independence" in board-management relations will positively influence company performance.

Company performance is only an indirect measure of board effectiveness (Kesner and Johnson, 1990b). As company performance depends on a large number contingencies and may be evaluated differently by different stakeholders (Huse, 1991), a more direct way to evaluate the importance of board-management independence, would accordingly be to measure the board's monitoring involvement directly.

> Proposition 2:
> All else being equal "independence" in board-management relations will positively influence the board's monitoring involvement.

The theoretical basis for agency theory is the separation of ownership and control (Fama and Jensen, 1983). The studies about board composition in small firms consider to a large extent family firms or owner-manager firms. From an owner-manager perspective board-management independence may be considered as contraproductive. From other stakeholders and in small firms with separation of ownership and control, the literature (Pettit and Singer, 1985) still argue that an agency theory framework is useful. This reasoning lead to proposition 3 and proposition 4:

> Proposition 3:
> "Independence" in board-management relations will positively influence company performance in small firms when considered from other perspectives than the owner-manager.

> Proposition 4:
> "Independence" in board-management relations will positively influence the board's monitoring involvement when considered from other perspectives than the owner-manager.

6.2. *Propositions based on theory of contractual relations*

Theory of contractual relations claims that modern contracts are most effective when they are relational. Modern contracts are described by uncertainty, frequency and transaction specific investments (Williamson, 1986, pp. 105—123). According to Lundgren (1986, p. 418) personal relations in boards and between the board and the management, should be characterized by collegiality. Collegiality or brotherhood is transactions described by trust and interdependence (Collin, 1990). Accordingly, proposal 5 and proposal 6 are elaborated corresponding to proposal 1 and proposal 2.

> Proposition 5:
> All else being equal "interdependence" in board-management relations will positively influence company performance.

> Proposition 6:
> All else being equal "interdependence" in board-management relations will positively influence the board's monitoring involvement.

Some literature focuses upon the observation that relational norms and trust are easier to obtain in small organizations than in large (Macneil, 1983; Perrow, 1991). These considerations may lead to the following specifications:

> Proposition 7:
> "Interdependence" in board-management relations will positively influence company performance in small firms.

> Proposition 8:
> "Interdependence" in board-management relations will positively influence the board's monitoring involvement in small firms.

6.3. *Propositions based on the integrative model*

Simultaneous independence and interdependence seems to be a paradox. This paper proposes to resolve the paradox by means of a synthesis. This synthesis may be possible because of the different assumptions regarding the "independence" and the "interdependence" criteria, and by defining two distinct dimensions in defining the constructs.

By introducting the two distinct dimensions of board-management relationships, we can introduce propositions where the relationships between the board and management simultaneously can be characterized by "interdependence" and "independence". If the board's relations to management are characterized by both "interdependence" and "independence," company performance will be better, than if they are not characterized by both (Bradach and Eccles, 1989).

Similarly, if the board's relations to management are neither characterized by "interdependence" (relational exchange) nor by "independence", company performance will be worse than if they are characterized by a lack of either "interdependence" or a lack of "independence". These relations are illustrated in Fig. 4.

The following proposals are derived from the integrated approach:

> Proposition 9:
> All else being equal simultaneous "independence" and "interdependence" in board-management relations will positively influence company performance.

> Proposition 10:
> All else being equal simultaneous "independence" and "interdependence" in board-management relations will positively influence the board's monitoring involvement.

The preceding arguments may indicate that the top left square in Fig. 4 will have higher performance than bottom right square in large firms, while the bottom right square will have higher performance than top left square in small firms.

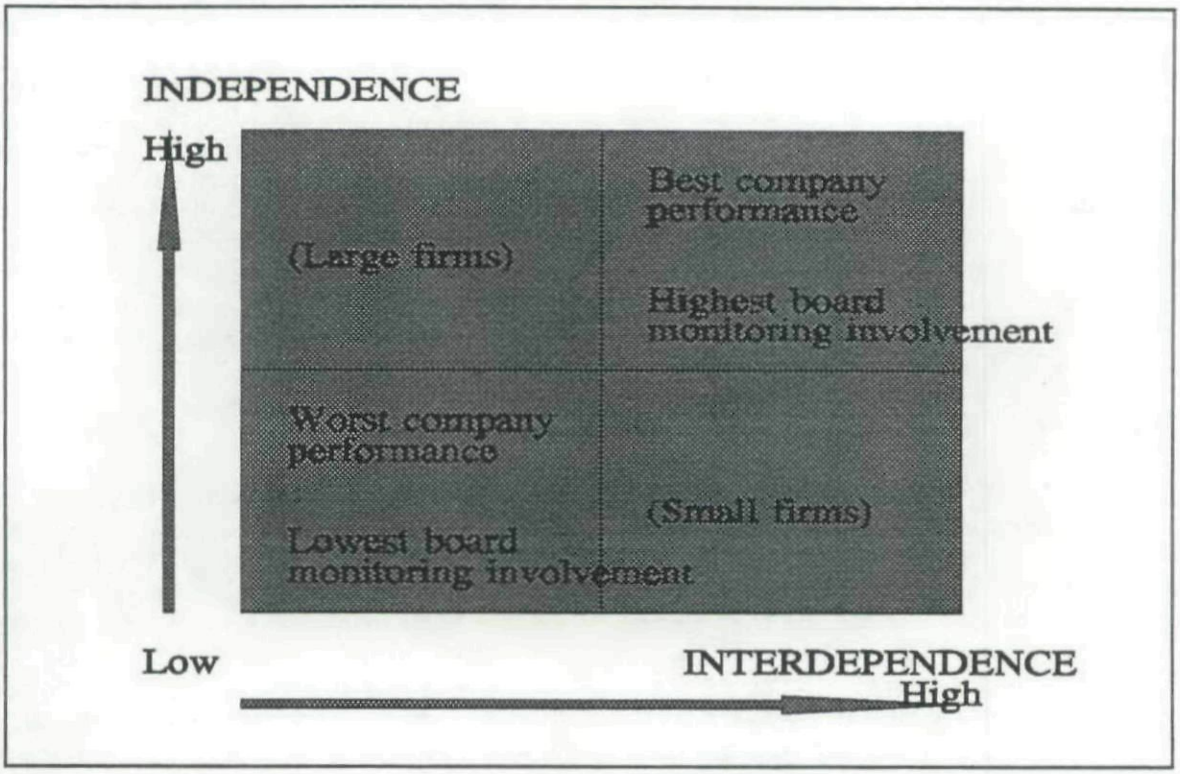

Fig. 4. Both independence and interdependence.

7. Empirical illumination of the proposals

To illuminate the proposals a descriptive study of board-management relations in small firms was conducted. Board performance was used as the dependent variable.

7.1. *Method*

From a survey of boards in hotels in Norway and Sweden (Borch and Huse, 1991), all firms with less than 50 employees were selected. Sufficient data existed for 68 firms. The hotels were all single business units, and they had all dual leadership (the manager was not chairman of the board). The average number of employees was around 20 (both mean and median), and the average number of board members was about four (both mean and median) ranging from one to eight.

Variables

Both independence and interdependence was measured by dichotomized variables in order to relate the results to Fig. 4. The "independence" measure used was the number of board members not being family related with the manager. Boards with three or more independent board members were considered to be independent. "Interdependence" was measured by ratings (on a five point scale) from the manager about the relations between the board and the management. The average of five items corresponding to each of Macneil's relational norms (two items measured preservation of the relation) were used to construct the variable (Cronbach's alpha was 0.77). The variable was considered to measure interdependence when the mean rating of the items was four or higher.

The board performance variable was constructed by the mean of the ratings by the managers of seven items on a five point scale (five highest involvement). The items were related to boards involvement in strategy formation (three items) and control (four items). Alpha was 0.87.

Because the ratings were performed by the managers they therefore only measured the managers' perceptions of "interdependence" and "board performance". A comparison with ratings from a limited number of board chairpersons was conducted. In general the board chairpersons gave higher evaluations than the managers regarding board performance, but all ratings followed the same pattern from both respondents. No significant differences were found regarding the "interdependence"-ratings between the respondents.

7.2. *Findings*

Table I shows the findings of the survey of boards of directors in firms with less than 50 employees.

TABLE I
Simultaneous independence and interdependence

Independence Interdependence	Low Low	High Low	Low High	High High
Number of firms	15	18	17	18
Number of employees (mean)	16	26	19	19
Number of board members (mean)	3.53	4.83	3.11	4.89
Board performance				
Mean	2.75	2.87	3.61	3.69
Standard error	0.20	0.17	0.23	0.21

The table reports significant support to the final proposition (proposition 10) when considering small firms. Simultaneous "independence" and "interdependence" is positively related to the board's monitoring involvement. The main effect is, however, from the interdependence criterion. The impact of the independence criterion was insignificant. These findings corresponded to the reasoning regarding the differences between small and large firms.

7.3. *Discussion*

The reported study considered contingencies as industry, geographic location, and company size. Ownership structure and company life cycle were not considered. These contingencies may increase the importance of the independence criterion. The study was a cross-sectional associative survey, it used only one respondent in the ratings of the variables, and other measures could have been used. Despite these potential flaws, the study illuminated the constructs and the apparent paradox addressed in this article. The study illustrated that it is possible to integrate "independence" and "interdependence" by a synthesis. Furthermore, the study indicated that while agency theory may give an important contribution in understanding large corporations, socio-economics and the theory of contractual relations appears to give a greater contribution in respect of small firms.

8. Conclusions

8.1. *Summary*

The article first presented a model about board-management relationship derived from a review of recent research about directorates using an agency theory approach. Proposals about board-management relationships in small and large firms were derived from the model. Agency theory recommends "independence" in board-management relationships to increase board performance and company performance. Apparently opposing proposals were derived from the theory of contractual relations. This approach recommends "interdependence" in modern contractual relations.

The apparently contradictory proposals were solved by studying the assumptions the different approaches are based on. The "independence"-criterion is based on neo-classical assumptions mainly considering organizational processes and individual norms as a black box. The "interdependence"-criterion opens the black box and focuses on such issues. In that way it was attempted to solve the paradox by a synthesis considering the two criteria as distinct dimensions. This synthesis results in proposals integrating "independence" and "interdependence". The synthesis suggested that highest performance will be achieved with simultaneous "independence" and "interdependence" — distance and closeness.

8.2. *Practical contributions*

The distinctions between the "independence" and "interdependence" criteria may have several practical contributions in evaluating boards in small firms. The dimensions result in a typology of boards based on board-management relations (Fig. 4). The four types may be named (1) the "laissez faire" board, (2) the "independent" board, (3) the "understanding" board, and (4) the "participative" board.

The "laisez faire" board is characterized by low independence and low degree of relational norms. Usually it is a paper board, a vestigial formal body, only functioning as a window display and as a rubber stamp for decisions already made (Mace, 1948; 1971). This board does not represent any stakeholder and is not involved in the affairs of the management. Firms with this type of board will have lower performance than other firms (Pearce II and Zahra, 1991).

The "independent" board has members who are financially and psychologically independent of management. This board is supposed to monitor and control management on behalf of the owners or other external stakeholders. Such boards are often awakened to their legal responsibilities by shareholder activism and increased director liability (Kesner and Johnson, 1990a). The board's role is defined as to hire, compensate and fire management. Such "independent" boards are usually considered to be important when management behavior is assumed to be opportunistic. This type of board is often disliked by management, and mutual accusations of not understanding company affairs may be reported (Ford, 1988). "Independent" boards will, usually, not survive in owner-manager firms. In other firms, management will, if possible, not heed the board's directions.

The members of the "understanding" board share the values and beliefs of management. Their relation is characterized by trust, solidarity and reciprocity. The "understanding" board may consider the management as the main stakeholder in the board's performance. Issues from discussions about interlocking directorates (Pennings, 1980; Davies, 1991) and corporate elites (Useem, 1982) will be relevant to such boards. The boards will support management, but rarely challenge the management's decisions. This is the type of board the owner-manager firms will try to utilize (Ford, 1992).

If the board is to achieve efficient monitoring, board-management relations should be characterized by both "independence" and "interdependence". As "independent"-boards will have problems existing in small firms, and because "interdependence" and relational norms may be easier to achieve in small firms than in large organizations, small firms especially should try to develop "participating" boards. Such boards may both support management in decision-making and networking activities, and monitor management on behalf of other stakeholders. In the owner-manager situation the manager will listen to and heed to the potential critics from the board because of their mutual trust. The boards will in this situation also be able to take care of the interests of other stakeholders.

The immediate stakeholders in a firm are usually considered to be the shareowners. There are, however, other important stakeholders, also in the owner-manager firm. These may be financial institutions, and other creditors, employees, governmental bodies and local communities. These stakeholders will often have direct or indirect means for influencing board-management relations. These stakeholders should emphasize the importance and contribution of "participating" boards in setting up and evaluating directorates.

8.3. *Directions for future research*

The article has presented a number of proposals for small and large firms which may constitute an agenda for future empirical research.

There are, in general, few studies of boards of directors in small firms. The relations in the models presented in this article need to be studied further. The importance of the contingencies relating to small firms are issues which also need to be studied. Example of such research questions may be:

* What effect has industry on the role of directorates?
* What are the role of directorates in peripheral firms relative to centrally located firms?
* What are the importance of directorates in privately owned firms?
* What are the importance of directorates in the owner-manager firms?
* What effect has company life cycle on the role of boards of directors?

The importance of other stakeholder perspectives is also focused on in recent literature (Useem, 1982; 1990; Zahra, 1989; Demb and Neubauer, 1989). This literature emphasizes the importance of company social performance when understanding the importance of board-management relations. Such issues should also be considered further in future research.

Small firms lack an overall theoretical framework. Therefore, it is important to find theories which are valid in small firm situations. Agency theory may be one. Research efforts should therefore be placed to investigate whether agency theory can be applied to small firms. Board-management relations are at the heart of agency theory, and should therefore be an important and interesting issue to study empirically in small firms. Studies of Macneil's theory of contractual relations in intraorganizational relations are novel. Any contribution to verify Macneil's promising and challenging constructs should therefore be encouraged.

This article started with the far reaching question as to whether it was possible to attain simultaneous dependence and independence — closeness and distance, whether Yin and Yang — femininity and masculinity, could be integrated. The article has discussed this question related to board-management relations, focusing on boards in small firms. Independence and neo-classical approaches are often considered to be related to masculine management values, while interdependence and trust relate to so called feminine management values (Hofstede, 1983). This contribution will hopefully raise the question as to whether the paradox can be understood in similar ways in other settings, for example in other intraorganizational relations such as manager-subordinate relations, or in other situations where the paradox of distance and closeness — masculinity and femininity — have been introduced.

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APPENDIX, TABLE II
Recent research relating board-management independence and company performance

Authors	Independent variables	Dependent variables	Control variables	Findings
Baysinger & Butler 1985 JLEO	Board composition Monitoring (outsiders)	Company fin. results RFP (ROE)	Industry	Relations, but with a lagged effect
Chaganti, Mahajan & Sharma 1985 JMS	Board size outsiders CEO = chairm.	Company results Bankruptcy	Industry Company size	Board size positive
Cochran, Wood & Jones 1985 AMJ	Insider ratio Board members' stockhold. Company size Financial res. ROA ROE Op. res/sales Excess value Debts	Existence of golden parachutes		Size − F. res − (ins −)
Jones 1986 RCSP	Board comp. Number Outs. ratio Lawyers Auditing com.	Shareholder suits	Profit margin	Number U-form Outsider − Lawyers +
Kesner, Victor & Lamont 1986 AMJ	Insider/ outsider CEO = Chairman	Illegal acts		No relations
Henke 1986 JBS	Board roles in strategy init/appro. Man. level part. Corporate Intermediate Productline Functional Activity Mission/LTP /analysis/strategy	Way of involvement Committee Whole board No board	Outsider/ insider Frequency of meetings	Lack of strategy particip.
Kerr & Bettis 1987 AMJ	Board independence	CEO compensation/ company performance	Extraordinary return Market movements	Board not independent
Kesner 1987 JM	Board members' stock Insiders	Company perf. Profit margin ROE ROA EPS SP RI	Industry growth rate	Stockholding important

APPENDIX, TABLE III
Recent research relating board-management independence and company performance

Authors	Independent variables	Dependent variables	Control variables	Findings
Kosnik 1987 ASQ	Ins/outsider B. memb. stockh. Executives Family rel. Friendship rel. Business rel.	No resistance to greenmail	Ownership structure CEO resist.	Outsiders + Stockholding − Executives − Family − Friends − Bus. rel +
Dalton & Kesner 1987 JIBS	Japan USA England	Outsiders CEO duality Numbers		Differences
Ford 1988 ETP	Insider/ outsider	Evaluation of the impact of boards regarding different issues	No of outsiders	Outsiders −
Hermalin & Weisbach 1988 RJE	CEO succession Comp. res.	Board-composition Outsiders Board size		Relations Res − O
Weisbach 1988 JFE	Outsiders Company fin. results Stock returns Earnings	CEO turnover	Board memb. stockh. Industry Company size	OUT + T/O
Hill & Snell 1988 SMJ	Outsider/ insider ratio Owners. stru. CEO stockh.	Strategies Innovation Diversific. Company fin. results (ROA)	Company size (ln)	O/I − S Own + S CEO S + S O/I + ROA Own + ROA
Zahra & Stanton 1988 IMJ	Board comp. Outs. ratio Minor. ratio Number	Company Strat. perform Fin. results Social perf.		O/I + Str O/I + Sco.
Kesner 1988 AMJ	Board committees Importance	Board compos. Tenure Sex Insider/outs. Number		Tenure + Females − Outsider + Executives +
Zahra 1989 EMJ	Board compos. Outsiders Profession Ownership Heterogenity Processes	Company social perf. Charity Index		Outsiders + Profession − Ownership +
Singh & Horiantho 1989a SMJ	Board size Outsider rat. Owners. struc. CEO tenure	Use of golden parachutes	Earlier take-over threats	Outsiders −

APPENDIX, TABLE IV
Recent research relating board-management independence and company performance

Authors	Independent variables	Dependent variables	Control variables	Findings
Singh & Horiantho 1989b AMJ	CEO tenure Owner. stru. Board comp. Earlier takeover threats	Golden parachutes Number Size	Non-GP firms = 0 Comp. size	Two differ. dep. variab. Supporting agency theory
Dalton & Rechner 1989 JBE	CEO duality Insiders Num. large stockholders Stockholding by board + CEO	Severance agreement (golden parachutes)		Robust discriminators *Large st. *St. board + CEO
Baysinger & Kosnik 1989 Unpubl.	Stockh. influ. Instit. inv. Ind. owners Insider/outsider ratio	R&D expendit.	Technological opportunities Funds available Product diversity Market concentr.	All +
Schnellenger, Wood & Tashakori 1989 JM	Outsiders	ROA ROE RET ("ROI") RET/STD	Risk adjustment	Out + RET Out + RET/STD
Huse 1990 ERD	Comp. size Ownership structure	Board composition	Industry	Variations
Zahra & Pearce II 1990 EMJ	Outsiders Expertise Efficiency Independence Role focus Pref. gap	Board strategy involv. Mission Formulation Implement.	Industry	(Out − Strat) Exp. + Strat Eff + Strat RF + Strat
Kosnik 1990 AMJ	Outsider attributes Homogeneity in boards	Resistance to greenmail	CEO owners. Owners. cons. Industry Outsider rat.	Board. tenure+ Bo. Eq/comp high+
Kosnik & Bettenhausen 1990 Unpubl.	Compensation Wages/stock Board control Labor market competition	Opoportunism Pers. gain Total level		Varied
Pearce II & Zahra 1990 Unpubl.	Strategy Environment	Board size Outsiders (Fin. results) Subject.-ind Object-index		Bsize + Res Out + Res Also other relations
Kesner & Johnson 1990b SMJ	Outsiders	Legal suits	Prev. suits Prev. perform. Industry Merger inv. Comp. size	Outsiders −

APPENDIX, TABLE V
Recent research relating board-management independence and company performance

Authors	Independent variables	Dependent variables	Control variables	Findings
Gilson 1990 JFE	Financial crisis	Board composition Ownership structure		Investment bankers + Workout specialists +
Rosenstein & Wyatt 1990 JFE	Increase of outsiders without ownership interest selected of management	Wealth effects	Company size	Financial institutions + Executives 0 Consultants +
Baysinger Kosnik & Turk 1990 AMJ	Ownership structure Insider ratio	R&D costs/ employees	Industry Company size Diversific.	Insiders +
Pearce II & Zahra 1991 SMJ	CEO influence Board influ.	Board charact. independence Expertise Role involvement Represent. Ethical conduct Board processes Board effectiveness Company fin. res.	Industry	4 board types Caretaker Statutory Proactive Participative These were distinct
Rechner & Dalton 1991 SMJ	CEO duality	ROE ROI Profit margin		+ for all measures
Huse & Ljunggren 1992 Unpubl.	Board composition Number CEO duality CEO board membership	Bankruptcy	Small firms Industry Geograph. location	Number − Duality 0 CEO as board member (−)

Journal:
AMJ = Academy of Management Journal
ASQ = Administrative Science Quarterly
EMJ = European Managment Journal
ERD = Entrepreneurship and Regional Development
ETP = Entrepreneurship Theory an Practice
IMJ = International Management Journal
JBE = Journal of Business Ethics
JBR = Journal of Business Research
JBS = Journal of Business Strategy
JIBS = Journal of International Business Studies
JFE = Journal of Financial Economics
JLEO = Journal of Law, Economics and Organization
JM = Journal of Management
JMS = Journal of Managment Studies
RCSP = Research in Corp. Social Performance and Policy
RJE = Rand Journal of Economics
SMJ = Strategic Management Journal