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**Conflict resolution as a board's functional emphasis – Empirical evidence in non-for profit riding schools \***

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**ABSTRACT**

The board tend to be characterised with three functional roles, that of monitoring, service and decision making. Considering non-for profit associations where members utilise the associations' products and services, and democratically elect the board of directors, a fourth function, that of conflict resolution becomes manifest. In a sample of 60 associations engaged in the riding industry in Sweden, we identified boards due to their emphasis on conflict resolution. We have inductively found indications on the functional emphasis of conflict resolution.

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The board of the corporation is a very frequent phenomenon, considering all the corporations on the globe. It is a very popular research object as well. Yet, one has to admit that the knowledge about boards is rather rhapsodic and scant (Daily, Dalton & Cannella Jr, 2003; Dalton, Daily, Ellstrand & Johnson, 1998; Huse, 1998; Pettigrew, 1992; Zald, 1969).

One issue of importance concerning boards is the issue of the functions of the board. In main stream research the functions are pretty obvious, them being stated as monitoring, decision making and sometimes added service provision (Johnson, Daily & Ellstrand, 1996, Pfeffer, 1997). The research of boards tends however to be restricted to listed corporations. In these corporations there is a clear separation between the shareholders, the board, the managers and the customers. If focusing on another empirical object, but still observing a corporation with a board, a fourth function becomes strongly manifest. Our empirical object is Swedish democratic associations engaged in the riding industry. In these associations the members are the customers of the association, consuming the services and products produced by the association, as well as influencing the board of directors of the association through them having one vote each. This organisational constellation creates presumably more of conflict in the organisation, which transfers into the board, making it presumably easier to recognise the function of conflict resolution in democratic associations.

The functions of the board are however not always present. Certain boards at certain times will stress one function at the expense of another function. As with all organisations, every activity consume resources and even boards have to economise. And, similar to all organisations, even boards have structural limitations that hinder them from fully realise certain functions. Therefore it can hardly be assumed that all four identified functions can be expected to be present at every board in the world, with the same emphasis on each function. Thus, it can be expected that there are differences between boards in their functional emphasis. The present paper is restricted to the fourth function, that of conflict resolution, and

compare boards with high levels of conflict with those of low levels of conflict resolution. The ambition of the paper is to find reasons and consequences of this particular functional emphasis. Can certain conditions that make a board more prone to emphasise the conflict resolution function be identified? Thus, the overriding aim of the paper is to find out the contingencies influencing the conflict resolution function.

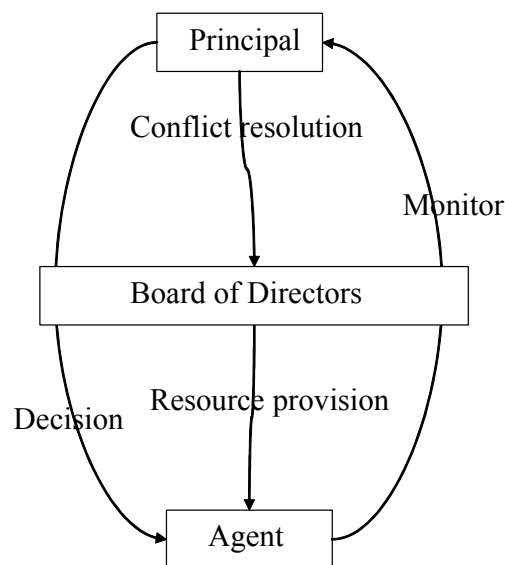
In order to reach the conclusions of conflict resolution functional emphasis, the paper begins with an exposition of the different board functions that have been identified in the literature. The paper focuses on the conflict resolution function and argues that riding school associations are adequate organisations to study in order to reveal this function. Thereafter follows a section describing the riding schools and the industry of riding in order to create a basic understanding of the environment in which the associations of the study are engaged. The methodological approach of the paper is induction, trying to find similarities among the organisations that have high indications on conflict resolution emphasis. The following section describes the utilised data. The dependent variable that is used as an operationalisation of conflict resolution will be described and argued for in the next section and the subsequent section contains the inductive analysis of the data, using a specific model that reveal the relationships between corporate governance mechanisms, corporate entrepreneurship and organisational performance. The paper ends with conclusions that are obtained through the inductive analysis. What we find is indeed reasons to believe that there exists a function of conflict resolution. It is, however, hard to interpret the causal links making it possible to find the reasons to conflict resolution and the consequences of conflict resolution. As can be expected, further research is indeed needed in order to more clearly explicate the specific function.

## THE CONFLICT RESOLUTION FUNCTION OF THE BOARD

The board has been assigned different functions by researchers. The functions can be systemised conceptually through an agency theory lens, assuming that a board has a directed responsibility, which is to mediate between the principals of the organisation and the operationally active agents. Figure 1. is an illustration of this conception.

**FIGURE 1.**

### **An agency theory conception of four board functions**



In an agency theory conception of a corporation, the board is the mediator between the residual claimants, i.e., the share holders, termed the principals, and the agents. The principal includes those participants in the firm who are affected by the success of the firm, i.e., those that make firm-specific investments or have open contracts, implying that part of the claim or the whole claim is residual. The corporation is, according to agency theory, a nexus of contracts, but most and foremost, it is a nexus of investments, encouraging and protecting investments (Rajan & Zingales, 1998). This definition makes it possible to broaden the conception of the principal from shareholders to the variety of stakeholders (Aguilera, & Jackson, 2003; Blair & Stout, 2001), for example identify principals as workers that have a

stake in the firm through them making firm-specific investments and members of an association that have a stake in the firm through them relying on the association for a specific service. The agents are those that operate the firm on a daily basis. The agent is working on behalf of the principal in the sense that the success of the firm influence part or whole of the principal's investments and claims.

The literature focuses mainly on two functions of the board: the monitoring function and the resource provision function (Daily, Dalton & Cannella Jr, 2003; Carpenter & Westphal, 2001; Forbes & Milliken, 1999; Hillman & Dalziel, 2003; Johnson, Daily & Ellstrand, 1996). The monitoring function consists of supervising the performance of the organisation and the actions of the top manager (Baysinger & Hoskisson, 1990). It includes activities such as creating and maintaining control systems, auditing, sanctioning and rewarding the CEO and hiring and firing the CEO (Morck, Shleifer & Vishny, 1989).

The resource provision consists of the supply of resources that the directors deliver through themselves or through using their networks. The resources consists of the individual competence of the directors, of the joint competence created through the interplay between the directors, the relationships and information every individual director brings to the board through being nodes of networks, and finally, the status of the individual board member that contribute to the reputation of the corporation (Certo, 2003; O'Donoghue, 2004; Zald, 1969), and legitimize the corporation (Huse, 1998).

The third function that sometimes is mentioned in the literature is decision making and consists of decisions that deals with the process of strategy (Judge & Zeithaml, 1992). It covers the whole strategic process of the organisation, from the initiation of strategy formation, to the strategy implementation through making decisions about investments and budgets. As with the monitoring function, an input in this function is the interpretation of the goals of the corporation.

The goal formation of the corporation is, however, not a process that has received a marked attention in the board literature. The fourth function is the one that is dealing with this important input of the other functions, namely the identification of the relevant principals and the interpretation of their goals. The activities of the function are coalition formations, voting and consensus building, thus trying to manage or deal with the conflicts between those parties that are the principals of the firm (Zald, 1969). Since the major activities of the fourth function are dealing with management of conflicts, the function is termed conflict resolution, though it could also be termed the function of principal identification.

We claim that an association, democratically organised where members populate the board through democratic elections, i.e., one member having one vote, coalitions are formed in order to realize different member-categories' different interests. Associations can therefore be expected to make the conflict resolution function discernable. With the function observable, then functional contingencies, i.e., those factors that stimulate or restrain the organisation from putting a functional emphasis on conflict resolution can be identified. We will here try to induce those contingences from empirical data. The empirical data is from the riding industry in Sweden, where the most frequent organisational form is the association. Before we describe the collection and coding of the empirical data, we make a short overview of the industry since we do not expect every reader to be acquainted with the industry.

### **RIDING SCHOOLS AND THE INDUSTRY OF RIDING**

In Sweden the dedication and practice of sport had its first breakthrough as popular movement just before the First World War. During the period between the wars the practice of sports developed to a mass movement and appears thereafter as maybe the most dynamic contribution to Swedish's popular movements, with a never-ending increase of members. Different specialized sport-associations are members of the Swedish national sport federation

who are in charge of, as well as distributor of, the contributions from the state. Although Swedish sport equestrian was narrow and dominated by officers until the 1950's it is today seen as equal to other kind of sports and receive contributions from the state. Since 1993 all sport related to riding and equestrian are gathered within the Swedish Equestrian Federation, an organisation with about 220 000 members. The Swedish equestrian sport is characterised by being a big girl sport - 83 percent of its members are girls/women; it is a big youth sport - 65 percent of its members are under 25 years and it is the biggest sport for disabled in Sweden – 4 000 disabled riders are regularly riding for exercise and competition.

A common way to practise riding is to be a member of a riding school and there are about 500 riding schools in Sweden. Before the 1960s, the members of riding schools were mainly men, but at this time women started to visit the riding schools, and today the absolute majority are women, especially girls in their youth. Riding schools sell a service, that of riding a horse. The service may vary as to differently educated horses, differently educated riding instructors, differentiated lessons, private or group lessons. Riding schools do however not only offer the pure lesson of riding a horse. Some examples of other activities are services related to riding and horses, renting boxes to private held horses, arranging competitions, organising summer camps, and having shops selling equestrian equipment.

The most common organisational form of riding schools is that of the non-profit association. Characteristic of this form is its democratic member-governance where members elect the board of directors. One important characteristics of a riding school organised as an association is that the members both have the role of governing as well as buying the services. Except from the board does a non-profit riding school normally have an executive chief, a stable manager and several riding instructors. Riding schools are typically small organisations. Based on our sample, though being restricted as will be explained later, the riding schools have but a few employees and on average 375 members, within the range of 20

members as a minimum, and 876 members as a maximum the year 2002. One has, however, to realise that these average number of members also are the consumers of the riding school services, making it highly probable that each member visits the riding school at least once a week. That is saying that we are far from the Absentee ownership that Veblen wrote about, later popularised with Berle & Mean's statement about separation of ownership and control. The member is present, can monitor, even experience the service of the organisation and can be suggested to become heavily engaged in the organisation and its strategy. It is this intense relationship that the member has with the organisation that makes the riding school association such a good organisation to study when looking for engaged owners, so engaged that they create conflicts in the organisation, which are mirrored and manifested at the board meetings.

## **DATA**

Data has been collected by a survey that was sent to all Swedish riding schools, which amount to about 500 schools. As the Swedish Riding Federation has no clear definition of a riding school, we had to find a way to separate riding schools, i.e., those schools that supply horses and lectures, from other riding associations, for example those only supplying stables or riding lectures. The questionnaire was therefore sent to 1020 addresses and the probability that an address included a riding school, with the core business being that of teaching dressage, jumping and caretaking of the horse, was about 50 per cent. At the covering page it was possible for them without the service riding to put a cross and they were asked to send the questionnaire back. They who had a riding school were asked to continue. From the 1020 addresses, 401 questionnaires were returned. 311 indicated that they did not have a riding school, and 90 indicated that they had a riding school. Out of these 90 did 10 answer that they did not have time or the interest to participate in the survey, and usable questionnaires

amounted to 80. Out of these 80 stated 60 that they were organised as non-profit associations and 14 that they were organised as private riding schools. The riding schools analysed in this paper are represented by the 60 riding schools stating that they are organised a non-profit riding school in the form of a democratic organisation. The questionnaire (available from the authors) includes mainly closed questions which have been formulated with the help of two earlier conducted case studies (one reported in Collin & Smith, forthcoming) and organised according to a theory that will be shortly described when considering the independent variables.

### **THE DEPENDENT VARIABLE OF CONFLICT RESOLUTION**

The board function of being a place for conflict resolution was investigated with a statement asking the respondent to mark on a seven-graded scale to what degree they agreed that the board mainly was a place where the members could air/debate their different opinions. Out of this statement one measure of conflict resolution have been created. It range from 1 to 7 where 1 corresponds to riding schools that do not agree that the board is a place where the members can air their different opinions and 7 corresponds to riding schools that completely agree to the statement.

**TABLE 1. DISTRIBUTION OF CONFLICT RESOLUTION; “THE BOARD IS MAINLY A PLACE WHERE THE MEMBERS CAN AIR/DEBATE THEIR DIFFERENT OPINIONS.”**

<b>Value</b>	<b>Frequency</b>	<b>Percent</b>
1	22	39
2	14	25
3	6	10
4	5	9
5	6	10
6	1	2
7	3	5
<b>Total</b>	57	100

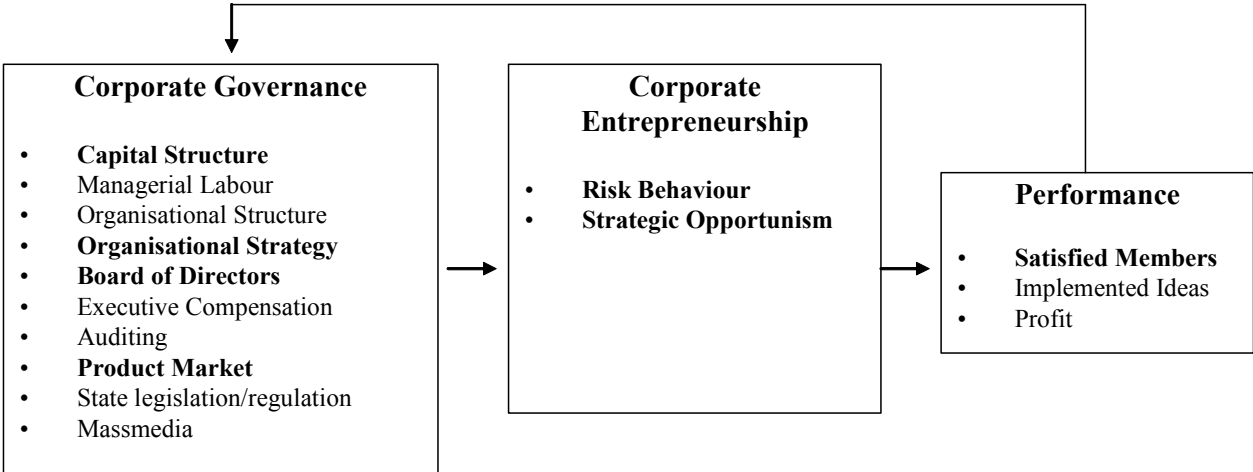
The table shows that most riding schools (74%) do not consider the board as the main arena for membership discussions. 19% declares that the board is an arena for discussions. The following analysis will, however, indicate that these 10 schools have something in common which distinguish them from the schools where the function of conflict resolution is not emphasised.

**AN ANALYSIS OF THE INDEPENDENT VARIABLES FROM THE MODEL OF CORPORATE GOVERNANCE MECHANISMS AND ENTREPRENEURSHIP**

A set of independent variables have been analysed in order to find relationship with the conflict resolution attitude. The set of variables are identified and organised using a model of corporate governance and corporate entrepreneurship that originally was presented in Collin & Smith (2003), and further developed in Collin & Smith (forthcoming). The model (figure 2) claims that the governance of an organisation will influence the developmental activities of the organisation, i.e., corporate entrepreneurship, and thereby create the performance of the organisation.

The model will be explained as we run through the analysis. In figure 2, the variables that we interpret, based on the statistical analysis as influential on the conflict resolution function, are indicated by bold text.

**FIGURE 2. THE MODEL CONSTITUTING THE SURVEY AND ORGANISING THE ANALYSIS**



The capital structure contains equity and debt, and is presumed to be influential on the corporation and its capacity to engage in risky engagement, and thereby to produce financial performance. In the case of the riding schools, we did not get good data on the accounting variables, probably because it would consume too much time for the respondents to get the data. This makes it impossible to analyse the capital structure in its restricted meaning. More broadly thinking about equity, one could include the members' engagement in the association as being part of the association's equity, since it is a resource delivered by the members, to be used in the organisation. There is an indication (spearman correlation being  $-0,275$ , with  $p < 0,05$ ) that more conflict resolution is correlated with less member engagement during the last five years.

The debt considered in a broader category than pure debt could include the association's capacity to get funding. There are weak indications that airing boards are correlated with the attitude of easiness to get municipal support (spearman correlation being  $0,257$ , with  $p < 0,1$ ) and bank loans (spearman correlation being  $0,151$ , with  $p < 0,1$ ).

Summarising the capital structure, we found, using broad categories, that airing boards tend to be present in associations with weak equity and strong potential debt.

The mechanism of managerial labour deals with the recruitment and development of the riding school manager. It is a powerful mechanism since a good recruitment will reduce agency costs and develop the riding school. We found no indications that attitudes on the selection of managers differ, or that there are differences between managers in associations with airing boards compared to board with less functional emphasis on conflict resolution.

The mechanisms of organisational structure consider the distribution of responsibility within the organisation. It could have been expected that airing boards are part of a decentralised organisational structure, forcing the board to become the last resort of coordinating the decentralised ambitions. But no relationship was found.

The mechanism of strategy concerns the aims and resource allocations made by the association. Airing boards tend to belong to associations of strong membership orientation where they put an emphasis on two statements, that their chief task is to deliver riding for everyone and that it is offer activities for everyone (spearman correlation being 0,256 and 0,286, with  $p < 0,1$  and  $p < 0,05$ ). This being the aim, there are however indications that the implementation is problematic since there is a negative relationship (spearman correlation being -0,249, with  $p < 0,1$ ) between airing boards and the statement that the association spend many resources in developing the activities in order to keep the present members.

The board of directors can be analysed through its composition, its task orientation and its functional orientation. The composition did not show any relationship, though composition was observed in heterogeneity of gender, years of experience of the board and the directors' age. The only relationship that emerged was that chairmen with less experience of being chairmen (i.e. fewer years within the position as chairman) were leading more airing boards (spearman correlation being -0,335, with  $p < 0,05$ ).

The task orientation of the board was found to be distinctively different between conflictual and non-conflictual boards. Airing boards were more operational, i.e., they were engaged in the daily activities of the riding school (spearman correlation being 0,363, with  $p < 0,01$ ), had more of the attitude that the task for a board is to make sure that the manager perform well, i.e., the functional emphasis of monitoring (spearman correlation being 0,321, with  $p < 0,05$ ).

Executive compensation concerns all the various methods of compensating the riding school manager. In another paper (Collin & Smith, 2004) we have showed that riding schools, which are chronically poor on financial resources, tend to use managerial discretion as a low cost reward. We cannot, however, find any systematic differences between airing boards and

less conflictual boards. This could be due to the fact that a riding school does not have many alternatives to choose among when it concerns rewarding.

Auditing is a very important mechanism for capitalistic firms, especially listed corporations. In the case of associations, the auditing function has to be considered very weak. Typically they do not use professional auditors, but elect older members of the association, probably a former treasurer. In our survey we did therefore not observe the auditors.

The product market can be claimed to be the one that create the governance problem, since in the perfect market, slack is not possible and not even the price can be influenced. Thus, it is only in imperfect markets where there is a governance problem. In the case of riding schools, we can observe many differences that are related to airing boards. All observations indicate that airing boards are present in associations experiencing a problem with the product market, where the problem is a reduction of demand, reduction of quality of the products and an increase in member dissatisfaction. The utilisation of the main production resource, i.e. the utilisation of ponies and horses has decreased during the last five years (decrease in utilisation of the ponies, spearman correlation being 0,345, with  $p < 0,05$ ; decrease in number of lectures using ponies, spearman correlation being 0,462, with  $p < 0,01$ ; decrease in number of lectures using horses, spearman correlation being 0,321, with  $p < 0,05$ ). But surprisingly enough, the lower utilisation of the horses and the ponies has not made the horses and the ponies life easier since the associations with airing boards does not support the statement that the comfort of the horses is always ahead of the members satisfaction (spearman correlation being -0,234, with  $p < 0,1$ ) and they do not exchange the horses on a regular basis (spearman correlation being 0,229, with  $p = 0,1$ ). The quality of the lectures have decreased during the last five years (spearman correlation being 0,264, with  $p < 0,1$ ). The members satisfaction with the riding schools service has decreased during the last five years

(spearman correlation being 0,318, with  $p < 0,05$ ). Maybe this indicates that associations with airing boards really have reasons to the conflictual orientation of the board since they appear to be riding schools that have problems with their services, which probably lead to decrease in member satisfaction, where the members strategies are either to air dissatisfaction at the board or to leave the association, thus creating a feeling of increased competition.

The other corporate mechanisms, state legislation, mass media, and culture were not investigated since legislation and national culture is invariant for Swedish riding schools, and mass media has not yet been researched in corporate governance studies.

Corporate entrepreneurship is the developmental part of the study, observing entrepreneurial orientation through the concepts of risk, which is the capacity to put the organisation at risk for developmental activities, and strategic opportunism, which is the propensity to find new products and routes of development that is not according to the present strategy. There are a few indications that strategic opportunism exist to a lesser extent in associations with airing boards, since they did not support the statement that the riding industry offer many interesting new lines of developments (spearman correlation being -0.235, with  $p < 0.1$ ), and did not spend much effort in development in order to retain the present members (spearman correlation being -0.249, with  $p < 0.1$ ). No indications of risk differences could be found. These results have especially to be compared with the results from the debt mechanism, where we found indications that they found the municipality and the banks to be supportive. The supporting debt side should induce them to assume more risk, but this does not appear to be the case, and they have less orientation towards strategic opportunism. Thus, the impression created is a paralysed organisation, where present opportunities of development are not cultivated.

The last category in the model is the organisational outcome, i.e., the performance of the organisation. As indicated above, the members have experienced decreasing satisfaction from the riding schools' services during the last five years.

## **CONCLUSIONS ABOUT THE FUNCTIONAL EMPHASIS OF CONFLICT**

### **RESOLUTION IN A RIDING SCHOOL ASSOCIATION**

Conflict resolution appears to be a viable function of a board. Though being based on a very crude operational variable of one survey question, the functional emphasis of conflict resolution could separate statements that created a rather coherent image of an association. A board with a functional emphasis of conflictual resolution is governed by a chairman with few years of experience of chairmanship, in an organisation that first and foremost experience problem with the service and dissatisfaction among members. Since associations per definition have internalised their market, only members are allowed to be customers, they will probably have a tendency to also internalise customer satisfaction. Even if we assume that some members use the exit possibility, which the reduction of riding lectures and utilisation of horses and ponies indicate, there are probably enough dissatisfied members present that force the board to mirror the dissatisfaction.

The other main observation that could be made through the inductive analysis was that the riding board did not engage in organisational development. On the contrary, we found indications that they were more conservative. This is especially surprising since there were indications that they had better opportunities to engage in risky businesses due to support from debt capital. On the other hand, equity, interpreted as member's engagement through voluntary labour, was decreasing. Since equity is the capital that is engaged in risky business when it concerns financial means and capitalistic corporations, maybe it is the same for non-profit associations. Though they have the opportunity to engage in debt evasion,

transferring all business risk on debt capital, it appears that they do not exploit debt capital. And they are as restricted by equity, even if it is in the form as voluntary labour, as a capitalistic firm is restricted by its financial equity.

The conflictual resolution emphasis could be due to a specific mission of the association. It appears that the more the riding school associations emphasised conflict resolution, the more they had the member occupying the seat of honour. It is hard to discern the causal relationship, whether dissatisfaction of members create a member orientation, or it is the high level of member orientation that create dissatisfaction. While the first impression of the ten associations is that they are not performing well, it could very well be the other way around. Due to high expectations, strong engagement, an even small reduction in lectures and a small reduction in engagement of the members will create dissatisfaction. In fact, it can be argued that what we have found is that there is a conflict resolution function, but we cannot conclude whether it is triggered of low performance or high expectations by the members and by the respondent.

Considering the problem of causality, future research should be directed towards finding out the causality. This can be accomplished through archival data spanning over several years or through case studies that try to record historic data.

The limitations of the study are the low number of respondents. Claims towards restricted generalisability can however be dismissed since the overall image that the inductive analysis has created is rather coherent. Statistical artefacts should not be capable of creating such a coherent image. Thus, we believe that we have found empirical reasons to believe that there exists a functional emphasis of conflict resolution.

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