Source of and power over capital

1. Only the balance — not more than 20 per cent at best — and probably closer this year to 15 per cent — is derived from personal "savings."
2. Since economic theory is in preponderant measure dependent upon assumed motivations, to maintain an unchanged theory must involve assumption that the motivations and possibilities of action thereon are substantially similar under present conditions as those prevailing before its development.

THE SHIFT FROM "CAPITALIST" CONTROL

1. Stockholders physically cannot, and by law are not permitted, to enter the decision-making process.
2. It is maintained, with truth, that the opinions of stockholders do have influence...Yet sporadic and only occasionally effective use of this scrutiny does not add up to "control" or anything approaching it.
3. The writer has not encountered any situations in which a direct decision to apply (or withhold) capital from a given development, or to enter or refrain from entering a new field, has been decided by stockholders.
4. Nor has the situation been materially changed by the practice of endeavoring to make corporation administrators into stock owners through option or other plans.



THE IMMUTABILITY OF CLASSICAL ECONOMIC PRINCIPLES

1. A powerful structure of antitrust law. Federal trade administration, Department of Justice enforcement, and supporting legal rules in many fields does maintain a version of the competitive system (Private enterprises are under a competitive system)

Competition

1. Sometimes it means pricing to assure entry into, or continued holding of, a

16. The length of the agency relationship is positively related to behavior-based contracts and negatively related to outcome-based contracts.

**Agency Theory and the Organizational Literature**

1. Clan control implies goal congruence between people and, therefore, the reduced need to monitor behaviour or outcomes.
2. 

**Table 2**
***Comparison of Agency Theory Assumptions and Organizational Perspectives***

| Assumption | Political | Contingency | Organization Control | Transaction Cost | Agency |
|---|---|---|---|---|---|
| | | | Perspective | | |
| Self-interest | X | | | X | X |
| Goal conflict | X | | | X | X |
| Bounded rationality | | X | X | X | X |
| Information asymmetry | | X | | X | X |
| Preeminence of efficiency | | X | X | X | X |
| Risk aversion | | | | | X |
| Information as a commodity | | | | | X |

**Contributions of Agency Theory**

1. Agency theory reminds us that much of organizational life, whether we like it or not, is based on self-interest.
2. Results from one research area (e.g., vertical integration) may be germane to others with a common problem structure (e.g., compensation)---common problem structure.
3. In agency theory, information is regarded as a commodity: It has a cost, and it can be purchased--organizations can invest in information system in order to control agent opportunism.
4. One particularly relevant information system for monitoring executive behaviors is the board of directors.
5. Outcome uncertainty coupled with differences in willingness to accept risk should influence contracts between principal and agent.
6. Risk-neutral managers are likely to choose the "make" option (behavior-based contract), whereas risk-averse executives are likely to

7. Moreover, when residual claims are restricted to decision agents, it is generally rational for the residual claimant-decision makers to assign lower values to uncertain cash flows than residual claimants would in organizations where residual claims are unrestricted and risk bearing can be freely diversified across organizations.
8. Such a combining of decision and risk-bearing functions is efficient in small noncomplex organizations because the benefits of unrestricted risk sharing and specialization of decision functions are less than the costs that would be incurred to control the resulting agency problems.

Separation of Decision Management, Decision Control, and Residual Risk Bearing

1. Hypothesis: organizations, including large open corporations, large professional partnerships, financial mutuals, and nonprofits, control the agency problems that result from separation of decision management from residual risk bearing by separating the management (initiation and implementation) and control (ratification and monitoring) of decisions.
2. Specific Knowledge and Diffusion of Decision Functions
    2.1. Complex--specific knowledge relevant to different decisions - knowledge which is costly to transfer across agents - is diffused among agents at all levels of the organization
    2.2. This generally means that efficient decision control, like efficient decision management, involves delegation and diffusion of decision control as well as separation of decision management and control at different levels of the organization.
3. Diffuse Residual Claims and Delegation of Decision Control
    3.1. Having many residual claimants has advantages in large complex organizations because the total risk of net cash flows to be shared is generally large and there are large demands for wealth from residual claimants to bond the payoffs promised to a wide range of agents and

**America’s changing corporate boardrooms: the last twenty-five years (Lorsch, 2013)**

CHANGE IN THE NINETIES

1. Boards real power: legal authority; solidarity as a group; the more open the CEO was to the board's ideas, the more opportunity the board had to influence corporate decision-making,
2. Ability limitations: limited time; limited knowledge and information; Information asymmetry; lack of clarity about the goals of boards in general; lack of coalition; countervailing power of the CEO.
3. Over the balance of the 1990s many boards adopted similar ideas (outside directors to be more proactive). These changes developed into a set of widely-recognized best practices.
4. In essence, these best practices enhanced the power of boards in relation to management and other top executives.
5. When such a "quiet approach" to remedying corporate governance sins did not bring results, institutional investors sometimes used a public approach.
6. In the beginning of the new century two different governance-related crises struck the American business scene.
   6.1. Dot com bubble: Many early-stage, newly-listed public companies saw the value of their equity drop precipitously.
   6.2. The second governance failure was the wave of fraud and misleading accounting that occurred at companies like Enron, Tyco, and WorldCom--all featured improper or fraudulent accounting practices and inflation of the earnings of senior managers, and in the case of Tyco, even a so-called independent director.
7. An important question is whether the boards of these companies adopted the best practices described above.
8. These boards mostly followed the traditional approach in which the CEO

1. These differences (among directors) reflect the heterogeneity of resources such as expertise, skill, information and the potential linkages to other external constituencies.
2. While each inside director may have specific types of expertise as well as specific relationships or linkages with environmental contingencies, the primary resource each provides is internally focused. Outside directors, however, primarily provide resources needed to deal with external factors.

Table I. The resource dependence roles of directors

| *Director category label* | *Areas of resource needs provided* | *Types of directors in category* |
|---|---|---|
| Insiders | Expertise on the firm itself as well as general strategy and direction<br>Specific knowledge in areas such as finance and law | Current and former officers of the firm |
| Business experts | Expertise on competition, decision making and problem solving for large firms<br>Serve as sounding boards for ideas<br>Provide alternative viewpoints on internal and external problems<br>Channels of communication between firms<br>Legitimacy | Current and former senior officers of other large for-profit firms<br>Directors of other large for-profit firms |
| Support specialists | Provide specialized expertise on law, banking, insurance and public relations<br>Provide channels of communication to large and powerful suppliers or government agencies<br>Ease access to vital resources, such as financial capital and legal support<br>Legitimacy | Lawyers<br>Bankers (commercial and investment)<br>Insurance company representatives<br>Public relations experts |
| Community influentials | Provide non-business perspective on issues, problems and ideas<br>Expertise about and influence with powerful groups in the community<br>Representation of interests outside competitive product or supply markets<br>Legitimacy | Political leaders<br>University faculty<br>Members of clergy<br>Leaders of social or community organizations |

3.



**Changes in the environment and the board of directors as an environmental link**

1. The composition of the board may be strategically altered in order to provide the benefits of reduced uncertainty for firms in a different environment and to facilitate strategic change.
2. Also, if directors act to link the firm with its external environment and the environment shifts significantly, the effectiveness of linkages may need to be re-evaluated.
3. That is, while the four categories developed above capture the central resources and linkages that contribute to the resource dependence role,

the relative need for directors in each category will vary based on the environment.

4. If the composition of boards is a reflection of the external environment, then, as a firm’s environment changes, board composition should change as well.
5. In addition, if directors serve to reduce environmental uncertainty, the importance of individual attributes will be differentially affected by changes in the environment.

Below, we discuss the implications of deregulation for each of the four categories of directors listed in table I.

1. Insiders
    - 1.1. Hypothesis 1: Under regulation, there is a greater likelihood of replacements to the board of directors being inside decision makers than under deregulation (supported).
2. Business experts
    - 2.1. Hypothesis 2: Under deregulation, there is a greater likelihood of replacements to the board of directors being business experts than under regulation (weakly supported).
3. Support specialists
    - 3.1. Hypothesis 3: Under regulation, there is a greater likelihood of replacements to the board of directors being support specialists than under deregulation (supported).
4. Community influential
    - 4.1. Hypothesis 4: Under deregulation, there is a greater likelihood of replacements to the board of directors being community influentials than under regulation (supported).

Discussion and conclusion

1. The results reported here suggest that as environments change, the

composition of boards will change to reflect the shift in resource needs confronting the firm.

2. Environmental jolts such as deregulation change the nature of the interdependencies a bnd resource needs faced by the firm, thus altering the needs with respect to the extra-governance roles of directors.
3.

leadership across national boundaries.

Personal Leadership with International Investors

1. Anticipating the strategic moves of global competitors is critical, as is understanding how investors evaluate those moves compared with one's own.
2. Company executives also require a capacity to present the company's strategy to a constitutionally skeptical audience.

Organizational Leadership with International Investors

1. Effective leadership with international investors also requires revamping the firm to collaborate better with the investor.
2. Stock analysts and money managers appraise not only the company and its top management team but also its major operating divisions.
3. Organizational leadership requires as well the remaking of the firm to highlight its units' contributions to total shareholder return.
4. International institutions tend to be less risk averse than company managers and domestic owners in many countries, and as firms reach out for global holders, leadership also calls for increasing a company's willingness to take strategic risks.
5. Global investors also like to see top management performance incentivized around shareholder return. This is most often achieved through stock-option based compensation.
6. The ultimate adverse incentive is executive dismissal.

**Corporate convergence**

1. As stock analysts and money managers study their international prospects, they still see a welter of securities laws, reporting requirements, and board structures.
2. Governance systems and investor-corporate relations display as much

2. By "persistent" we mean that network members work repeatedly with each other over time.
3. We use "structured" to indicate that exchanges within the network are neither random nor uniform but rather are patterned, reflecting a division of labor, and we use the phrase "autonomous firm" in order to highlight the potential for each element of the network to be legally independent.
4. "Implicit and open-ended contracts" refers to means of adapting, coordinating, and safeguarding exchanges that are not derived from authority structures or from legal contracts.
5. To enhance cooperation on shared tasks, the network form of governance relies more heavily on social coordination and control, such as occupational socialization, collective sanctions, and reputations, than on authority or legal recourse.

**Exchange conditions for network governance**



1. In the TCE perspective three exchange conditions—uncertainty, asset specificity, and frequency—determine which governance form is more efficient.
2. Frequency is important for three reasons.
   2.1. First, frequency facilitates transferring tacit knowledge in customized exchanges, especially for specialized processes or knowledge.
   2.2. Second, frequent interactions establish the conditions for relational and structural embeddedness, which provide the foundation for social mechanisms to adapt, coordinate, and safeguard exchanges effectively.
   2.3. Third, frequent interactions provide cost efficiency in using specialized governance structures.

Four conditions necessary for network governance to emerge and thrive:

**Form versus Substance: The Implications for Auditing Practice and Research of Alternative Perspectives on Corporate Governance (Cohen et al, 2008)**

In this paper, we provide a more comprehensive view of corporate governance than currently available from the agency literature so often employed in auditing and accounting studies. Specifically, we explore three widely recognized additional theoretical perspectives: resource dependence, managerial hegemony, and institutional theory.

Resource-dependence theory:

1. The implications of this study are that researchers who limit their perspective to the monitoring role of the board based strictly on agency theory may lose some of the richness that alternative roles of governance provide.

Managerial hegemony

1. This is in contrast to an agency theory perspective where emphasis is placed on the board acting as an independent and an effective monitor over management's actions
2. even independent members of a fully "compliant" AC will be under the influence of management and likely to ask very easy and unobtrusive questions of management.
3. Further, this theory implies that the AC will generally act as an ally to management in disputes that the auditor may have with management.

Institutional theory

1. In periods of ambiguous and uncertain environments the board and AC may emphasize ceremonial and symbolic roles (hiring/firing managers, redefining business relationship with auditors)