Board of Directors and Firm Performance: Linking monitoring, provision of resources and remuneration to corporate performance

Case Cargotec vs. Konecranes

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Abstract

The objective of the bachelor's thesis was to find out how the board incentives moderate the monitoring function and the provision of resources function and how does the board capital affect these connections.

The research approach was both qualitative and quantitative. The research method was to gather and interpret information concerning the boards of directors from the case companies' 2011-2013 annual reports. The purpose for the information was to link the boards' experience, qualifications, external linkages and remuneration to firm performance. Inspired by Amy Hillman's work, the theory part discusses concepts such as board of directors, resource dependence theory, agency theory and the Sarbanes-Oxley Act which standardized the recommendations concerning corporate governance. The literature review followed by presenting the case companies' (Cargotec and Konecranes) background information and the comparison of their key financials.

The results were presented through figures and tables and they showed that the case companies have increased their board experience, external linkages and incentives but are yet to receive positive results from it. There is a strong negative correlation between the experience and the external linkages, which indicates that the less experience a board possess the more external linkages it will have. The boards vary in the amount of board capital they possess and it can explain the negative correlation.

Despite the results, there is room for further research by adding factors such as history of employment and a longer observation period in order to minimize the amount of unknown factors and to sharpen the focus of the research.

Keywords
Board of directors, agency theory, resource dependence theory, board capital, remuneration, monitoring, provision of resources

Miscellaneous

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Tiivistelmä

Opinnäytetyön tavoitteena oli selvittää, miten hallituksen kannustimet hillitsevät johdon seurantaa ja resurssien jakamista sekä mikä on hallituksen pääoman yhteys edellä mainittuihin.

Tutkimusmenetelmä oli sekä kvalitatiivinen (laadullinen) että kvantitatiivinen (määrällinen). Aineiston keräys toteutettiin etsimällä hallitusta koskevaa tietoa tutkimuksen kohteena olevien yritysten vuosien 2011-2013 vuosikertomuksista. Kerätyn aineiston tarkoitus oli yhdistää hallituksen kokemus, pätevyys, yhteydet yrityksen ulkopuolisiin tahoihin sekä kompensaatio yrityksen tulokseen. Amy Hillmanin tutkimusten innoittamana teoriaosuus käsitteli yleisesti hallitusta, resurssiriippuvuusteoriaa, agenttiteoriaa ja Sarbanes-Oxley Actia, joka standardisoi hyvää hallintotapaa koskevat suositukset. Kirjallisuuskatsausta seurasi tutkimuskohteena olevien yrityksien (Cargotec ja Konecranes) esittely sekä tärkeimpien talouslukujen vertailu.

Kaavioina ja kuvioina esitetyt tulokset kertoivat tutkimuskohteena olevien yritysten kasvattaneen hallituksen kokemusvuosia, ulkoisia yhteyksiä sekä kannustimia, mutta toistaiseksi ilman merkittäviä tuloksia. Kokemusvuosien ja ulkoisten yhteyksin välillä todettiin vallitsevan voimakas negatiivinen korrelaatio. Tämä merkitsee sitä, että mitä vähemmän hallituksella on kokemusvuosia, sitä enemmän sillä on ulkoisia yhteyksiä. Syy negatiiviseen korrelaatioon voi olla hallitusten pääoman vaihtelu.

Tuloksista huolimatta aiheessa on potentiaalia laajempaan tutkimukseen lisäämällä kriteerejä työhistoriasta ja pidentämällä tutkimuksen aikajännettä. Näillä muutoksilla voitaisiin vähentää tuloksien epätarkkuutta sekä tarkentaa tutkimuksen painopistettä.

Avainsanat (asiasanat)
Hallitus, agenttiteoria, resurssiriippuvuusteoria, hallituksen pääoma, kannustimet, seuranta, resurssien jakaminen

Muut tiedot

CONTENTS

1 INTRODUCTION......3

2 THEORETICAL AND EMPIRICAL LITERATURE REVIEW......5

2.1 Board of directors......5
2.1.1 Board composition......6
2.1.2 Board dependence......8
2.1.3 Board remuneration......10
2.2 The Sarbanes-Oxley Act......11
2.3 Resource dependence theory......13
2.3.1 Provision of resources......13
2.3.2 Board capital......15
2.4 Agency theory......16

3 CASE COMPANIES......19

3.1 Cargotec......19
3.2 Konecranes......21
3.3 Financial information of the case companies......24

4 METHODOLOGY......25

4.1 Research questions and objectives......25
4.2 Research design – Research methods and strategy......27
4.3 Data collection and implementation......28
4.4 Research ethics......31

5 ANALYSIS AND FINDINGS......32

5.1 Board experience......32
5.2 Board qualifications......36
5.3 Board's external linkages......38
5.4 Board remuneration......40
5.5 Conclusions......42

6 DISCUSSION......45

REFERENCES......48

APPENDICES......52

FIGURES

Figure 1 Hillman's (2003) integrated model of board functions, antecedents, and firm performance. 4
Figure 2 PwC's 2013 Annual Corporate Directors Survey's findings. 11
Figure 3 Monitoring function based on Hillman's article on boards of directors and firm performance (2003). 17
Figure 4 The external linkages of the case companies' boards of directors. 39
Figure 5 Total remuneration of the case companies' boards of directors. 40
Figure 6 Case companies' average total remuneration/board member. 41
Figure 7 Case companies' PAT figures compared to total sales revenues. 43

TABLES

Table 1 Cargotec's board member attendance to meetins in 2013 20
Table 2 Konecranes' board member attendace to meetings in 2013 23
Table 3 Key financial figures of the case companies. 24
Table 4 Boards experience comparison between Cargotec and Konecranes 2011. 33
Table 5 Boards experience comparison between Cargotec and Konecranes 2012. 34
Table 6 Boards experience comparison between Cargotec and Konecranes 2013. 35
Table 7 Boards' qualifications comparison between Cargotec and Konecranes. 37
Table 8 The correlations between the case companies' qualifications, experience and external linkages. 44

1 INTRODUCTION

Board of directors as a concept has been quite distant for the author for it has not been covered in the bachelor level studies. Perhaps for that particular reason boards and their responsibilities started to be the main interest for the thesis project. It is said that if something is forbidden it will most likely draw attention. Boards of directors are not by any means forbidden but they are surprisingly far away from students reach. Also the positions in boards seemed to be available, at least for the most parts, for the political and the business elite. Only option was to get acquainted with the subject and to figure out whether the boards of directors had room for further research or not. The author found out the research potential of the boards and that the boards are unique constitutions in the business environment. After a while the focus of the thesis was found as well.

The resource dependence theory (RDT) started to stand out from the literature as a refreshing viewpoint to study boards of directors. RDT views the concept of board of directors as provider of resources to the CEO, high executives and the organization as a whole (Pfeffer & Salancik, 1978). The other important aspect for examining the boards came along, the agency theory. The main focus in the agency theory is the relationship between the board incentives and the monitoring function (Fama, 1980; Zahra & Pearce, 1989). The boards of directors are responsible for monitoring the management and making sure they act in favor of the shareholders (Jensen & Meckling, 1976).

This study is based on Amy Hillman’s work on RDT. In Hillman and Dalziel’s (2003) meta-analysis they combine two different paths of measuring boards of directors’ performance and efficiency: the agency theory and the monitoring function and RDT and the provision of resources function. This was the first time they were integrated in a research on board of directors. These two functions (the monitoring function and the provision of resources function) are the key elements in this research along with remuneration. Hillman and Dalziel introduce a new term in their study called board capital which they utilize when forming proposals on how different elements around the topic affect each other.

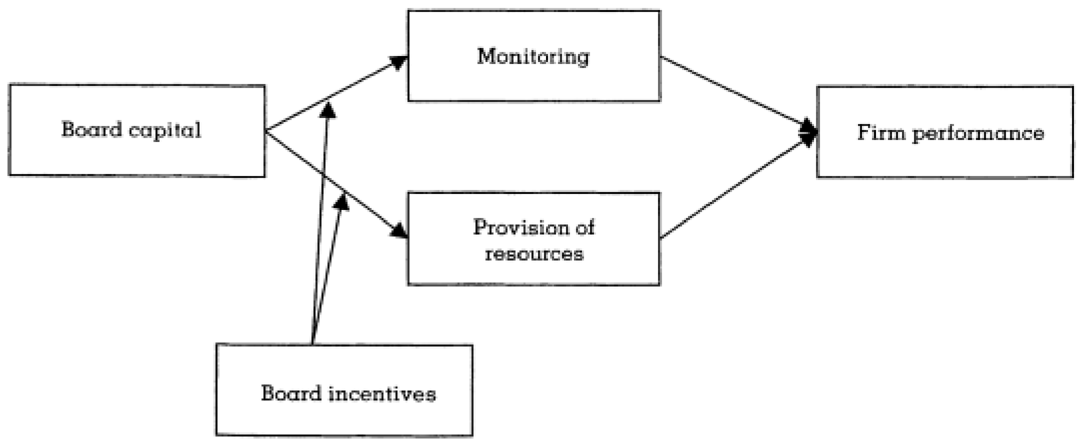

Figure 1 Hillman's (2003) integrated model of board functions, antecedents, and firm performance.

RDT is of interest to the author because its main purpose is to describe the performance of boards of directors. Boards of directors' performance can be measured and interpreted by using qualifications, experience, external linkages and other information of a board in question. The idea of understanding the business environment around boards of directors intrigues the author. Based on the author's own perception a member of board of directors is usually a male in his fifties or sixties, highly educated and a former CEO or high executive of a well-known corporation. However this research is not about answering why people with these qualifications tend to be elected to the boards but to figure out how these qualifications affect the performance of the board.

This research on boards of directors examines the personal qualifications of a board and relates it to firm performance. RDT is the principal theory along with the agency theory used to study the boards selected by the author giving an insight to the provision of resources and the monitoring function. Chapters three and four discuss the details of the study more thoroughly along with the data of the two case companies and their boards.

The case companies under examination, Cargotec and Konecranes are both Finnish. Both the companies originate from KONE, which makes the comparison between them interesting. Although Cargotec and Konecranes have their roots in KONE they are competitors in the industries where they operate. Their main businesses are cargo handling and lifting. The following section will introduce the reader into the theory and the terminology of this thesis, based on which he/she is able to understand and interpret the findings and results made by the author.

2 THEORETICAL AND EMPIRICAL LITERATURE REVIEW

2.1 Board of directors

Monitoring and provision of resources are responsibilities of a board, however this chapter looks into the board of directors' formation, composition, dependence and incentive planning. The author finds it also important to emphasize the legal boundaries that set the limitations for boards in public listed companies. Sarbanes-Oxley Act (SOX) was introduced in 2002 to set limitations for boards and their procedures. Moreover this act is an answer to misusage of power, inside information and relationships by boards of directors (PwC's white paper on Sarbanes-Oxley Act of 2002 and current proposals by NYSE, Amex and NASDAQ, 2003).

Organizations comprise of different constitutions with each of them having a specific task to conduct. One of the most important constitutions of a for-profit organization is its board of directors. Board of directors is the authority between shareholders and management of an organization. Management, and especially CEO, of an organization is responsible for day-to-day operations whereas board of directors make sure that the operations are run in order to fulfil the interests of shareholders (Jensen & Meckling, 1976).

As mentioned, board of directors is one of many constitutions in a public listed company. Boards of directors themselves comprise of different subunits, committees (Haapanen, Lainema, Lehtinen & Lähdesmäki, 2002). Usually a board has two or three committees: audit committee, nomination committee and compensation committee. However, in practice, boards concentrate more than one task under one committee e.g. Cargotec has audit and risk management committee and nomination and compensation committee. Thus it has four tasks under two committees. This may enhance the efficiency of the board but on the other hand it may increase the amount of meetings of the committees and therefore the workload of the members as well. Boards will comprise their committees depending on the objectives, the size and the development stage of the company (Smith, Mitchell & Summer, 1985).

It is important to bear in mind that even though this study focuses on monitoring and provision of resources functions, remuneration and their linkage to performance, boards of directors have other tasks as well. Planning CEO succession (Pitcher, Chreim & Kisfalvi, 2000), evaluating and rewarding top managers (Conyon & Peck, 1998) and monitoring strategy implementation (Rindova, 1999) are constantly on the agenda in boards meetings. The before mentioned tasks, in most parts, belong under the monitoring function but can be defined as fixed or “day-to-day” operations of a board of directors.

2.1.1 Board composition

Board of directors is a crucial tool for the company to build its performance, to monitor the executive directors and to provide resources for the company (Hillman & Dalziel, 2003). Furthermore board of directors is the link between the shareholders and the CEO, making sure that the executive directors act in favor of the company and its owners (Zahra & Pearce, 1989). In order to understand why board of directors is so vital organ for an organization it is important to look into how boards are composed and managed. Furthermore it is important to take into account how the organization as a whole is developing and in which kind of development stage it is at the moment of board’s composition. The author will briefly introduce organization life cycles and path dependence theories for they have proved (Hillman, Golden & Lynall, 2003) to have an effect on board composition and furthermore to performance.

According to Hillman, Golden & Lynall (2003) board composition is more or less about timing. At what point of organizational life cycle the board is formed defines much of the boards’ probabilities to succeed. There are four distinct stages of life cycles according to Quinn and Cameron (1983): entrepreneurial stage (early innovation, niche formation and creativity), collectivity stage (high cohesion and commitment), formalization and control stage (stability and institutionalization) and elaboration of structure stage (domain expansion and decentralization). The key idea behind the organizational life cycle is that in various different points of these stages organizations have different opportunities and challenges concerning their business (e.g. Cameron & Whetten, 1981; Dodge & Robbins, 1992). In the entrepreneurial stage an organization's board would be sales and innovation oriented while in the elaboration of structure stage boards' competences would be knowledge in mergers and acquisitions and in organizational structure for instance.

Path dependence also refers to timing but more directly to characteristics of board of directors that is formed in an early-stage of the life cycle. The theory implies that the chosen characteristics in the early-stage are hard to change over time and that it has negative impact to the functioning of a board. Hillman et al. (2003) brought these theories together and proposed that organizations with boards formed in the stage of the life cycle they are currently in will outperform those with boards formed in other stages.

Besides the life cycle and path dependence theories CEO and external financiers have an impact in board compositions as well. When an organization is without a board, its CEO has great impact on, along with external financiers, to what direction the organization will head towards. Thus it is fairly easy to conclude that the two above mentioned authorities/stakeholders will eventually decide the characteristic and final composition of the board (Mitchell, Agle & Wood, 1997). The question is which one of them possesses the dominant power over the other if either? And most importantly what does it cause if one of the stakeholders has power over the other?

Which one of the stakeholders has power over the other greatly depends on organizational environment and the roles of the two stakeholders. Hillman et al. (2003) use Finkelstein's (1992) dimensions of power (structural, expert, ownership and prestige) to demonstrate the stakeholders influence on board formation. Structural and ownership power depend on the level of involvement of the stakeholder while expert power is up to the knowledge about the industry, and the qualifications of the stakeholders. Even though qualifications are crucial for this particular research the author finds that prestige power has the most influence on board formation. Prestige power and social status of a stakeholder is what attracts talented board members. Moreover board seats are filled with members who at the time fulfil the requirements of the organizational environment but the environment is likely to change as the organization develops (Hillman et al. 2003).

2.1.2 Board dependence

Board dependence concerns the board members' relationships to the host organization. In other words whether they are affiliated with the organization directly, indirectly or not at all. Because this research involves two organizations that are of Finnish origin, it is reasonable to introduce the boundaries set for board independence by Finnish Corporate Governance Code 2010 (FCGC). According to the code a director is not independent of the company, if

a) the director has an employment relationship or service contract with the company;
b) the director has had an employment relationship or service contract with the company in the last three years;
c) the director receives from the company or from members of its operative management not insignificant remuneration for services or other advice not connected with the duties of the board, e.g. consulting assignments with the company;
d) the director belongs to the operative management of another company, and the two companies have, or have had in the past year, a customer, supplier or cooperation relationship significant to the other company;
e) the director belongs to the operative management of a company whose director is a member of the operative management of the first-mentioned company (interlocking control relationship);

f) the director is, or has been in the past three years, the auditor of the company, a partner or an employee of the present auditor, or the director is a partner or an employee in an audit firm that has been the company's auditor in the past three years.

A director is not independent of a significant shareholder, if

g) the director exercises control in the company or the director is a board member or has a relationship such as referred to in sub-sections a) to b) above to a party who exercises control in the company;
h) the director is a significant shareholder or a board member of a significant shareholder of, or has a relationship such as referred to in sub-sections a) to b) above to a significant shareholder of the company. In this recommendation, a significant shareholder is defined as a shareholder who holds at least 10 % of all company shares or of the votes carried by all the shares or who has the right or obligation to purchase a corresponding number of already issued shares.

The FCGC's limitations for board dependence match to those of the SOX's, New York Stock Exchange's, American Stock Exchange's and NASDAQ's combined. There might be minor differences in some nuances but the general picture is the same.

The FCGC recommends that the majority of the board should be independent of the company and furthermore at least two out of this majority should be independent of the significant shareholders of the organization. Complying with these recommendations supports the boards' objectivity in the eyes of the investors and other external organizations and most importantly the boards' ability to act in the interests of the organization and its shareholders.

While it is recommended and partly regulated that boards should be independent there is little evidence supporting the assumption that dependent boards are bad for the organization. According to Hillman and Dalziel (2003) board dependence has negative effects on monitoring but a positive effect on the provision of resources. As dependent or insider boards may not be beneficial for monitoring they are better at providing advice and counsel, legitimacy, channels for communicating information between the firm and external organizations, and assistance in obtaining resources or commitments from important elements outside the firm (Pfeffer & Salancik, 1978). Because dependent boards have established some kind of social relationship to the CEO or management in general it lowers the bar for them to use their external connections in favor of the company or to give personal guidance (Westphal, 1999).

2.1.3 Board remuneration

The scholars who study boards of directors (e.g. Fama, 1980; Zahra & Pierce, 1989; Pfeffer & Zalancik, 1978; Hillman & Dalziel, 2003) usually end up trying to find a linkage to firm performance. Thus finding the motivation for boards to perform better is a key element in their research process. Agency theorists (Fama, 1980; Jensen & Meckling, 1976) argue for a direct link between board incentives and monitoring and therefore firm performance. Hillman and Dalziel (2003) on the other hand assert that the relationship between board incentives and both monitoring and the provision of resources is indirect, grounding their argument on Hunter and Hunter's (1984) meta-analysis where ability is proved to be the single most important determinant of task performance. This implies that no matter how big the incentive is, a person will not perform better if he/she is unskilled for the vacancy (e.g. Vroom, 1964).

Taken the latter into account neither the monitoring function nor the provision of resources function are complete without a properly adjusted remuneration system and skilled board members (Hillman & Dalziel, 2003). When incentives are properly adjusted according to boards' responsibilities, it strengthens monitoring and boards motivation to provide resources (Betty & Zajac, 1994; Zald, 1969).

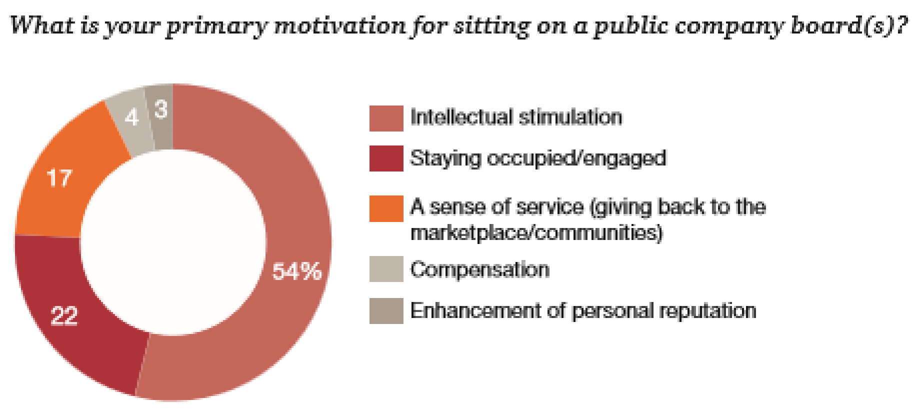

Figure 2 PwC's 2013 Annual Corporate Directors Survey's findings.

PwC's Annual Corporate Directors Survey (2013) points out that only 4% of the respondents think that compensation is the main motivator for them to sit in a board, the big picture is a sum of many concepts. For the author remuneration is a concept to look into more carefully. The author would argue that even though only 4% of the respondents think compensation is the most important motivation to sit in a board, there are a number of people who think it is the second, third or fourth most important reason. When looking incentives in the above mentioned perspective it starts to add significant weight to it.

2.2 The Sarbanes-Oxley Act

As a result of series of accounting and management sccandals revieled in major organizations the United States government passed a legislation called Sarbanes-Oxley Act of 2002 (PwC's white paper on Sarbanes-Oxley Act of 2002, 2003). Sarbanes-Oxley or the SOX is a code of conduct for boards of directors. It consists of legislation and proposals concerning boards' independence, corporate governance, oversight of ethical conduct and compliance and reporting procedures for the public. Besides these implications the SOX has put lots of effort in reforming audit committees and their responsibilities, after all it is in audit committees hands to oversee the accounting and financial reporting processes of an organization. The SOX §301 states:

> *A committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial*

> *reporting processes of the issuer and audits of the financial statements of the issuer; and if no such committee exists with respect to an issuer, the entire board of directors of the issuer.*

SOX inspired many securities exchanges and associations such as Securities and Exchange Commission (SEC), New York Stock Exchange (NYSE), The American Stock Exchange (Amex) and The NASDAQ Stock Market (NASDAQ) to propose their own membership standards (PwC's white paper on SOX, 2003). They are presented in a comparative manner by PwC in Appendix 1. These organizations along with SOX build up the standards for corporate governance and ultimately to board work. When influential organizations demand changes it creates huge collective pressure towards organizations operating under their supervision to take heading into the wanted direction. Let it be mentioned that the regulations set by SOX or the securities exchanges mentioned above do not rule out the law and legislation effective in a country the organization operates (Gorman, 2009). If e.g. a Finnish company listed in NYSE would have a conflict between SOX and the corporate governance legislation of Finland, the latter would apply.

Audit committee has been given significant value in the process of reforming the corporate governance standards. When realizing the committees' responsibilities as a supervisor of any financial activity in an organization it isn't hard to figure out why the audit committee is the fundamental part of the SOX act. The act has two requirements for audit committees, first is that its members have to be independent and second that one of the committee's members has to be a "financial expert" (Gorman, 2009). These terms are quite vague as themselves therefore they need some clarification. Being independent of the organization is explained above in the board dependence section of this research. The recommendations of the FCGC mostly apply in the combination of the SOX, SEC, Amex, NYSE and NASDAQ recommendations. The "financial expert" should be educated and experienced through high financial positions in order to understand the accounting principles and financial statements (SOX Section 407(b)).

2.3 Resource dependence theory

Resource dependence theory (RDT) is mostly based on Pfeffer and Salancik's work on the subject. The publication of The External Control of Organizations: A Resource Dependence Perspective in 1978 made the RDT widely known and is today the fundamental study and reference for further research. From today's researchers Amy Hillman is considered to be the most groundbreaking with her study on integrating agency and resource dependence perspectives.

According to Johnson, Daily and Ellstrand (1996) and Zahra and Pearce (1989) RDT is mostly used in research on board of directors, moreover the theory is supported more often than any other board perspectives. Despite the fact that RDT is much supported in practice, agency theory is more commonly used theory to study boards of directors (Hillman, Withers & Collins, 2009). The fact that RDT is a specific tool for examining boards and that it has plenty of room for further research makes it a perfect theory to apply in this research. Most importantly according to empirical data it is a more successful tool for understanding boards (Hillman et al., 2009).

According to Pfeffer & Salancik (1978) the primary role of a board of directors is to provide resources for the company, either in positive or negative effect. There are four types of resources provided by boards: advice and counsel, legitimacy, channels for communicating the information between the firm and the external organizations, and assistance in obtaining resources or commitments from important elements outside the firm (Pfeffer & Salancik, 1978). These four elements are closely tied to the provision of resources and board capital. The connections are presented in the following sections of this thesis.

2.3.1 Provision of resources

One of boards of directors' responsibilities is provision of resources. Pfeffer and Salancik (1978: 163) give a good introduction to the function:

> *When an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others and will try to aid it.*

Presenting an organization to others is as important as presenting other organizations to the one where the member in question is holding position. In other words members sitting in boards have an expectation, according to RDT scholars, to use their own external linkages in favor of the company.

Among the supporters of RDT the provision of resources is the most important perspective adopted by scholars (e.g. Pfeffer & Salancik, 1978; Boyd, 1990; Hillman, Cannella & Paetzold, 2000). In general, resources can be “anything that could be thought of as a strength or weakness of a given firm” (Wernerfelt, 1984: 172). Provision of resources indicates what external experience, connections and other enhancements can a board member bring into a company. These connections might include previous work experience in the industry, executive level friendships, current positions in other boards and all the human and social capital that the member possesses. Hillman and Dalziel (2003) refer to this human and social capital as board capital. This of course indicates the board and its members to be examined as one unit.

Pfeffer and Salancik (1978) propose four benefits the board can provide: advice and counsel, legitimacy and reputation, channels of communicating information between external organizations and the firm and preferential access to commitments or support from important elements outside the firm. From these benefits it is possible to conclude that first, boards are composed of members who bring specific knowledge and expertise to the firm. Second, the prestige of directors may enhance the value of the organization. Third, board capital can be a tool for providing up-to-date information of the industry and to reduce environmental uncertainties. Fourth and final, a firm can increase its performance e.g. by having representatives of their customers or suppliers in their board of directors.

How these connections, benefits and abilities are linked to performance? There are at least three key factors the resources help to reduce: dependency between the organization and external contingencies (Pfeffer & Salancik, 1978), uncertainty for the firm (Pfeffer, 1972) and transaction costs (Williamson, 1984). With all the three factors fulfilled the firm will have good probabilities to survive (Singh, House & Tucker, 1986).

2.3.2 Board capital

The term board capital is introduced by Hillman and Dalziel (2003) and they explain board capital to "consist of both human capital (experience, expertise, reputation) and relational capital (network of ties to other firms and external contingencies)." Resource dependence theorists have discussed about board capital before but in the terms of expertise, experience, knowledge, reputation and skills (Becker, 1964; Coleman, 1988). Hence Hillman and Dalziel (2003) have combined the antecedents into a concept that excludes the former inadequacies thereby making it a bit more universal.

As the citation above shows board capital is a broad term consisting of personal abilities, the business community's respect and general opinion, and external linkages. Taking the complexity into account Hillman and Dalziel (2003) assert that boards have heterogeneous board capital, thus they vary in their abilities to monitor. When suggesting that boards are heterogeneous in their ability to monitor it also refers to the boards consisting of heterogeneous members each of which brings their own amount of "personal capital" to the board.

Board capital is everything that the board possesses inside the boundaries of the definition, e.g. Carpenter and Westphal (2001) propose that if boards have experience of a particular situation (mergers and acquisitions for instance) which is going to face the firm, they will perform better, improve monitoring and ultimately improve performance. Pfeffer and Salancik (1978) have discussed about four benefits of board capital. Later, the four benefits have been positively associated with board capital. First provision of advice and counsel (Westphal, 1999), second provision of legitimacy and reputation (Daily & Schwenk, 1996), third provision of channels of communication and conduits of information between firm and external organizations (Hillman, Zardkoohi & Bierman, 1999) and fourth acquiring resources from external organizations (Zald 1969). Thus board capital has been positively associated with both the provision of resources and monitoring.

2.4 Agency theory

It was pointed out earlier in the thesis that while RDT is much supported in practice, agency theory is more commonly used theory to study boards of directors (Hillman, Withers & Collins, 2009). More specifically it is a common theory to study the boards of directors and firm performance. The main focus of the agency theory in the current study is the relationship between the board incentives and the monitoring function (Fama, 1980; Zahra & Pearce, 1989) where the boards of directors are responsible for monitoring the management and making sure they act in favor of the shareholders (Jensen & Meckling, 1976).

What the agency theory is all about? In agency theory, there are two distinct factors: principal and agent. To make it simple, the principal is e.g. a person who wants another person (the agent) to perform some activity or service on his/her behalf. Moreover the activity requires that the principle delegates some decision-making power to the agent. The principal expects the agent to perform the activity or service in the best of his/her abilities and bearing in mind the interests of the principal. In order to stop the agent from pursuing his/her self-interests the principal needs to provide some incentives for the agent to act in favor of the principal (Jensen & Meckling, 1976).

The above example presents the theoretical underpinning of the agency theory. In business environment the principal is the owner and the agent is the CEO/top managers. When a task is given to the agent, how can the principal make sure that the agent acts in favor of the principal? This question presents what the agency theorists try to find out and where the board of directors is in a key role. In modern organizations the ownership and control (Berle & Means, 1932) are in most of the cases separated. This indicates that the owners are separated from the management. The board of directors is the link between the shareholders (the principal) and the management (the agent). Therefore the agency theorists see the role of the boards of directors as monitors of the management in order to protect the shareholder's interests (Eisenhardt, 1989; Jensen & Meckling, 1976).

Monitoring

Other equally important function as provision of resources for board of directors is to monitor the management on behalf of the shareholders. The term monitoring function is used by agency theorists (Boyd, 1990; Johnson, Daily & Ellstrand, 1996; Mace, 1971; Pearce & Zahra, 1992; Zahra & Pearce, 1989) who link a board's ability to monitor to firm performance. It is argued that the better the monitoring the better are the chances of the firm to succeed. While this sounds quite straight forward one needs to bear in mind that monitoring consists of different aspects.

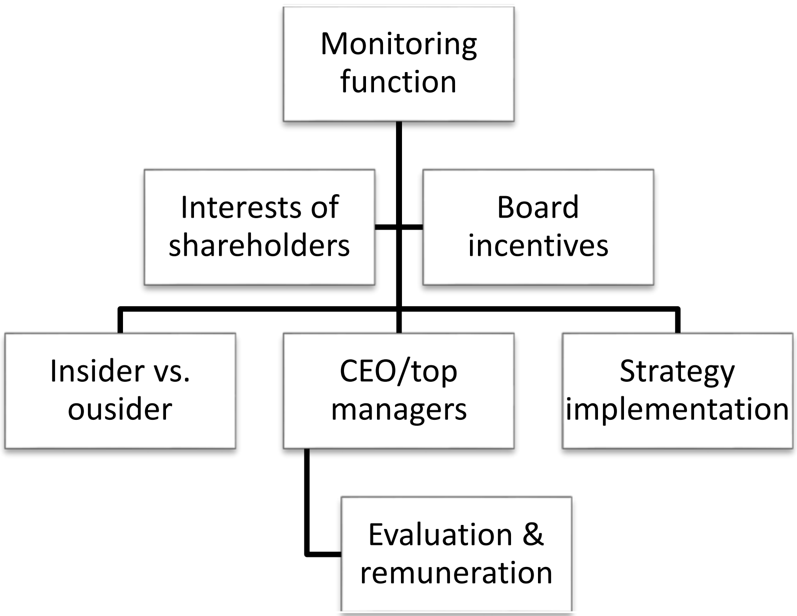

Figure 3 Monitoring function based on Hillman's article on boards of directors and firm performance (2003).

The need for monitoring derives from the separation of ownership and control in organizations', where there, might arise potential conflicts of interests (Berle & Means, 1932; Fama & Jensen, 1983). Separation of ownership and control means that decision management (initiation and implementation) is separated from control management (ratification and monitoring) creating two functions from which the former will be responsible for the decision making and the latter for the controlling and monitoring the consequences (Fama & Jensen, 1983). This proposition suggests that managers may pursue their self-interests at the expense of shareholders and thus creating agency costs. Monitoring is what can reduce managers from pursuing their self-interest. Therefore according to the agency theorists' the boards of directors need independent directors in order to enhance monitoring (Fama, 1980; Zahra & Pearce, 1989).

Today's organizations prefer independent boards instead of dependent boards but what advantages do the dependent boards have compared to the independent ones? Boards with social ties to the CEO will increase the offering of advice and counsel (Westphal, 1999). Not only does the relationship to the CEO increase the offering of advice and counsel but it also increases the frequency of the exchange of them. Westphal (1999) also states that when boards have such ties to CEO the directors feel more comfortable of helping people they know and that they have a feel of being obligated to provide assistance. To conclude, the dependent boards of directors have disincentive to monitor whereas they are generous of providing resources.

Assuming that other factors are in order, what gives the board of directors the motivation to monitor? The agency theorists suggest that the primary antecedent for monitoring is the board incentives and when aligning the incentives with shareholder's interests the monitoring will improve and the effect on firm performance is positive (Fama, 1980; Jensen & Meckling, 1976). The agency theorists also state that the boards vary in their abilities to monitor. Hillman & Dalziel (2003) point out that the basic assumption must be that boards of directors are heterogeneous in their ability to monitor. Each board is individual and therefore composed of individuals with unique qualifications.

3 CASE COMPANIES

3.1 Cargotec

Cargotec is a leading provider of cargo handling solutions. It is a Finnish based company listed on the NASDAQ OMX Helsinki. They operate in more than 100 countries with sales totaling EUR 3.2 billion in 2013. Cargotec has divided its operations in three different business areas: maritime transportation and offshore industry, harbor and port distribution and on-road load handling services. Each of the three business areas has a brand of its own to manage the operations. MacGregor is specialized in maritime transportation and offshore solutions for cargo handling, Kalmar provides cargo handling solutions and services to ports, terminals, distribution centers and heavy industry and Hiab provides on-road load handling equipment and services.[1]

Today's Cargotec is the result of a series of mergers and acquisitions between industry leaders in cargo and load handling business. The businesses within Cargotec have long histories during which their solid market positions have been built. Through strategic and sustainable growth, Cargotec has developed its current level of product and solutions know-how and customer relationships. Cargotec Corporation was formed in June 2005 when Kone Corporation demerged into two companies to be listed, Cargotec and KONE. After the demerger Kone Corporation's businesses MacGregor, Kalmar and Hiab formed Cargotec.

Board of directors

The author refers the people sitting in Cargotec's board of directors simply as "members of the board" or "member X, Y, Z etc." if needed. This arrangement is justified for the sake of being discreet towards the board and the company, moreover names do not have any effect on the results presented in this thesis. Cargotec's board of directors has consisted of seven (7) members for the examination period

[1] The information concerning Cargotec is retrieved from the company's website (www.cargotec.com) and annual reports. These sources are trusted and valid, moreover they are the main source of information for investors.

of 2011-2013. Let it be added that one woman has held a seat for the whole time. During 2011-2013 there has been only one change in the composition of the board. The 2013 annual general meeting selected new member to the board as a long time board member stepped aside. The board can be described active and committed according to their attendance to board and committee meetings over the 2011-2013 time period. There has been 7 non-attendances of the 79 times the board and committees have gathered. In approximately 91% of all the meetings, they have had full attendance.

Table 1 Cargotec's board member attendance to meetins in 2013

Board	Audit and Risk Management Committee	Nomination and Compensation Committee
15/15	7/7	6/6
15/15		6/6
13/13		
15/15		6/6
2/2	1/1	
14/15		6/6
15/15	7/7	
15/15	6/7	

The company assesses its dependence regularly and informs about it in annual reports or through other publications if necessary. The following is going to be a review of the board of directors' dependence during the examination period. In order to avoid confusions and misunderstandings it is correct to use citations from annual reports actual dependence assessments starting from 2011 and ending up in 2013.

> *According to the assessment conducted in March 2011, all members of the Board were independent of the company and, with the exception of member X and member Y, also independent of major shareholders. Member X, Chairman of the Board, is one of the largest owners of Cargotec through the company Wipunen varainhallinta Oy controlled by him, holding over 20 percent of the votes and over 10 percent of the shares of the company. He is also a Board member in two major shareholder companies, Mariatorp Oy and D-sijoitus Oy. Member Y is a Board member of Wipunen varainhallinta Oy and Mariatorp Oy.*

> *According to the assessment conducted in March 2012, all members of the Board were independent of the company and, with the exception of member X and member Y, also independent of major shareholders. Member X, Chairman of the Board, is one of the largest owners of Cargotec through the company Wipunen varainhallinta Oy controlled by him, holding approximately 23 percent of the votes and over 12 percent of the shares of the company. He is also a Board member in two major shareholder companies, Mariatorp Oy and D-sijoitus Oy. Member Y is a Board member of Wipunen varainhallinta Oy and Mariatorp Oy. Member Z, who was appointed as interim President and CEO as of 8 October 2012, was dependent of the company during his position as CEO. During 2012 also member Q worked as a consultant for the company and was not independent of the company.*

> *According to the assessment conducted in March 2013, all members of the Board were independent of the company and, with the exception of member X and member Y, also independent of major shareholders. Member X, Chairman of the Board, is one of the largest owners of Cargotec through the company Wipunen varainhallinta oy controlled by him, holding over 23 percent of the votes and almost 13 percent of the shares of the company. He is also a Board member in two major shareholder companies, Mariatorp Oy and D-sijoitus Oy. Member Y is a Board member of Wipunen varainhallinta Oy and Mariatorp Oy. Member Z, who acted as Interim President and CEO until 28 February 2013, was dependent on the company during his position as CEO.*

From the assessments it can be seen that the board operates inside the boundaries of Finish Corporate Governance Code 2010, with one exception. The exception concerns member Z who at the same time acted as Interim President and CEO and as a member of nomination and compensation committee. This action departs from the FCGC recommendations 29 and 32 which state that managing director should not be a member of neither nomination nor compensation committee due to the nature of matters they deal with. Members X and Y have been independent of the company but not of major shareholders. Finally member Q worked as a consultant for the company during 2012 and thus was dependent of the company.

3.2 Konecranes

Konecranes describes itself as a world-leading group of lifting businesses. They serve a broad range of customers, including manufacturing and process industries, shipyards, ports and terminals. Konecranes provides productivity-enhancing lifting solutions as well as services for lifting equipment and machine tools of all makes.

The company splits is business in two main functions: equipment and service. Konecranes' business area equipment offers components, cranes and material handling solutions whereas the service offers a full range of service solutions, specialized maintenance and modernization services for all types of industrial cranes, port equipment, and machine tools. In 2013 group sales totaled EUR 2.1 billion. Konecranes operates in 600 locations in 48 countries. Konecranes is listed on the NASDAQ OMX Helsinki.[2]

Konecranes' history dates back to early 1900's but it wasn't until 1994 when Konecranes was formed. At the time KONE Corporation listed on the Helsinki Stock Exchange disposing all of its non-elevator business related operations, including Konecranes. This was a strategic move to simplify KONE's structure and governance. Two years after that in 1996 Konecranes took a step forward as it listed on the Helsinki Stock Exchange. After listing into stock markets Konecranes has made several acquisitions in order to grow its business but moreover to receive crucial technological advantage and foothold in new markets.

Board of directors

The author refers the people sitting in Konecranes' board of directors simply as "members of the board" or "member X, Y, Z etc." if needed. This arrangement is justified for the sake of being discreet towards the board and the company, moreover names do not have any effect on the results presented in this thesis. Konecranes' board of directors has consisted of 8 members the whole examination period of 2011-2013. During that time two of those members have been women. The board has experienced two changes in its composition in the given time frame, one in 2011 and the other in 2012. The average attendance in board meetings (excluding

[2] The information concerning Konecranes is retrieved from the company's website (www.konecranes.com) and annual reports. These sources are trusted and valid, moreover they are the main source of information for investors.

committee meetings) during the three years has been 97.7 %. According to the attendance it can be concluded that the board is active and committed to its responsibilities.

Table 2 Konecranes' board member attendace to meetings in 2013

Board Meetings		Audit Committee Meetings		Nomination and Compensation Committee Meetings	
Attendance	Percentage	Attendance	Percentage	Attendance	Percentage
9/9	100%	-	-	2/2	100%
9/9	100%	4/4	100%	-	-
9/9	100%	4/4	100%	-	-
9/9	100%	-	-	2/2	100%
9/9	100%	-	-	2/2	100%
9/9	100%	-	-	2/2	100%
9/9	100%	4/4	100%	-	-
9/9	100%	3/4	75%	-	-

The company assesses its dependence regularly and informs about it in annual reports or through other publications if necessary. The following is going to be a review of the board of directors' dependence during the examination period. In order to avoid confusions and misunderstandings it is correct to use citations from annual reports actual dependence assessments starting from 2011 and ending up in 2013.

> *All other members elected to Konecranes' Board of Directors, except member A, are deemed independent of the company. Member A is deemed dependent of the company based on the Board's overall evaluation relating to his former and current positions in Konecranes, combined with his substantial voting rights in the company. All Board members are independent of the company's significant shareholders.*

> *All other members elected to Konecranes' Board of Directors, except member A, are deemed independent of the company. Member A is deemed dependent of the company based on the Board's overall evaluation relating to his former and current positions in Konecranes, combined with his substantial voting rights in the company. All other Board members are independent of the company's major shareholders except member B, who is deemed to be dependent on major company shareholders based on his current position as the Managing Director of Hartwall Capital Oy Ab. HTT KCR Holding Oy Ab holds more than 10 percent of Konecranes Plc's shares and votes. HTT KCR Holding Oy Ab is a subsidiary of Hartwall capital Oy Ab.*

All other members elected to Konecranes' Board of Directors, except member A, are deemed independent of the company. Member A is deemed dependent of the company based on the Board's overall evaluation relating to his former and current positions in Konecranes, combined with his substantial voting rights in the company. All other Board members are independent of the company's major shareholders except member B, who is deemed to be dependent on major company shareholders based on his current position as the Managing Director of Hartwall Capital Oy Ab. HTT KCR Holding Oy Ab holds more than 10 percent of Konecranes Plc's shares and votes. HTT KCR Holding Oy Ab is a subsidiary of Hartwall capital Oy Ab.

As it is mentioned in the assessments, member A is defined to be dependent on the company because of his former and current positions in the company combined with his substantial voting rights. All other members are independent of the company and its significant shareholders except for member B, who is deemed to be dependent of the company's significant shareholders based on his current position as a Managing Director of Hartwall Capital Oy Ab. A subsidiary of Hartwall Capital Oy Ab holds more than 10 % of Konecranes' shares and votes. Other than that the board operates inside the boundaries of Finish Corporate Governance Code 2010.

3.3 Financial information of the case companies

Even though the case companies and their boards have been introduced separately it is important that their key financial figures are presented in a comparative manner.

Table 3 Key financial figures of the case companies.

	CARGOTEC				KONECRANES			
	PAT	**Total sales revenue**	**EBIT**	**Market capitalization**	**PAT**	**Total sales revenue**	**EBIT**	**Market capitalization**
2013	55.4 MEUR	3,181 MEUR	92.5 MEUR	1,742 MEUR	49.4 MEUR	2,099 MEUR	84.5 MEUR	1,489 MEUR
2012	89.5 MEUR	3,327 MEUR	131.4 MEUR	1,034 MEUR	84.8 MEUR	2,171 MEUR	132.5 MEUR	1,472 MEUR
2011	149.3 MEUR	3,139 MEUR	207.0 MEUR	1,410 MEUR	64.9 MEUR	1,896 MEUR	106.8 MEUR	803 MEUR

Looking at the total sales revenues Cargotec is the bigger company by one billion euros. However the companies are approximately the same size according to the general perception of market capitalization or market cap. Organizations are divided into groups based on their market cap: large-cap organizations (10 billion USD and above), mid-cap (2-10 billion USD) and small-cap (300 million USD-2 billion USD). The 2013 market caps for Cargotec and Konecranes are 2,182 MUSD and 1,865 MUSD respectively. With these values Cargotec would go to the mid-cap category and Konecranes to the small-cap category even though they are pretty much the same size.

Both of the companies are making profits but the trend seems to be decreasing. Cargotec has had approximately the same total sales revenues for the three year examination period but the profits have dropped 62.9 % from 2011 to 2013. Konecranes has had ups and downs in its profits over the three year examination period while the sales revenues have stayed the same or slightly risen. Konecranes made their best result in 2012 by making 3.9 % profit out of the total sales revenues. On the other hand Konecranes' profits have decreased 23.9 % from its 2011 starting over the three years.

4 METHODOLOGY

4.1 Research questions and objectives

In order to familiarize the reader with the research problem and questions derived from the theory, the methodological preferences and with the steps that this research took, this chapter introduces the process in more detail (Kananen 2011, 12). At its best, it enables someone to repeat or replicate the research in the future, and it gains reliability and validity for the present research (Kananen 2011, 79-83). Furthermore in this chapter the author introduces the research questions and defines the objectives of this research. The specified research questions are leading the way to find the best possible strategy to collect the data that would generate the answers to the questions. It will eventually show whether the research generates the wanted information or not (Kananen 2011, 24.).

The theoretical framework that was introduced before generates the material from which the research questions are formed. By answering to those questions the author can generate the needed information for further analysis (Kananen 2011, 12). The current study takes a closer look at the relationship between the boards of directors and firm performance in a specific industry and by using two case companies. The research problem is to find out how the experience, the qualifications, the external linkages and the remuneration of boards of directors of the case companies affect the firm performance. The research questions below try to outline the research problem in a holistic manner in order to get the best possible results by answering to them.

- What are the main differences of the boards of directors of Konecranes and Cargotec?
- How do the different factors (experience, qualifications, external linkages and remuneration) affect each other?
- How are the four factors connected to firm performance?
- What role does the board capital play in the boards of the case companies?
- What are the connections of the four factors to the monitoring and the provision of resources functions?

Based on the research problem and the research questions the objective of the research is to get a holistic understanding of how the board incentives moderate the monitoring function and the provision of resources function and how does the board capital affect these connections.

4.2 Research design – Research methods and strategy

For the research to be valid and having a chance to form reliable results one has to choose an appropriate approach for a research. Moreover choosing the right approach for a research enables one to adopt proper data collection methods, provide understanding about where to gather data from and how to analyze it. In addition, knowledge from different types of research approaches gives better understanding on determining which approach is the most suitable for a certain case. (Saunders, Lewis & Thornhill 2009, 126.)

Business research can be conducted either by qualitative or quantitative methodologies. Rather than pointing out what these terms stand for individually, they should be looked at what they consist of (Eriksson & Kovalainen 2008, 3-4). According to Silverman (2001) qualitative and quantitative methodologies have a lot of internal variety and therefore should not be compared to each other without proper understanding of them.

Eriksson and Kovalainen (2008) describe qualitative methodologies understanding based, interpretive and aiming for a holistic view of the research while quantitative methodologies are more structured and standardized for interpreting the collected data. Among business researchers qualitative research has been in the shadow of quantitative research because it has been seen as a complementary methodology when statistics need some meat over their bones (Eriksson & Kovalainen 2008). Even though these two methods are defined by comparison they can be used in harmonious way if a study in question demands it. The essential thing is to recognize what practice or combination meats the standards of the particular research.

The current research is done by using both qualitative and quantitative research methods. By aiming to produce information on a specific case and by trying to understand the reasons why people with certain qualities and abilities are elected to boards of directors, this can be qualified as qualitative research. On the other hand it is necessary to provide numerical, hard data out of the boards and by that definition this a quantitative research as well. First the author seeks information concerning the RDT, the agency theory, board of directors in general and finally the case companies' boards of directors. In this phase the author uses secondary data in order to form the theoretical base of the thesis. The information concerning the case companies' boards of directors is also secondary data because someone else has gathered that data into e.g. annual reports. The author just construes the right information into right places. In this sense the primary data are the findings from where the author makes his own assumptions and propositions.

4.3 Data collection and implementation

After the research methods and strategy have been introduced, the research will proceed to data collection and implementation. The author carefully poses a strategy to collect useful empirical data. When the data gathering is properly planned and conducted it enables the author to have the best available data at hand and hopefully to answer into the research question(s). In order to gather the right empirical data, two kinds of sources can be distinguished: primary and secondary data. Secondary data is collected by others and can be gathered to other purposes, but can be used for the author's research purposes. Primary data is collected by the author and the purpose is to answer the research question at hand (Ghauri & Grønhaug 2002, 27; 47; 76).

Before collecting the primary data, secondary sources should be thoroughly looked into. Secondary data can help in answering the research questions or solve the research problem. In addition, secondary data can support in problem formulation and creating research questions (Ghauri & Grønhaug 2002, 76-78).

As the case companies have been introduced earlier in the research the logical step forward is to take a look how the data was collected and how it can be measured. These two companies are both major players in the industry and they are both listed in Helsinki stock exchange. Because they are listed companies it gives the author an advantage of retrieving the needed data from the companies' annual reports which are public information therefore accessible for all.

In the current study the author has gathered the primary data out of the secondary data. This means that from the public information the author has brought together the needed information, formed basic assumptions, measured it, compared it with proxies and has come up with proposals. The proposals are the primary data from where the author starts to interpret and make conclusions of.

All the data used in this research was gathered from the websites and annual reports (2011-2013) of Cargotec and Konecranes. Because the companies are both public listed companies all the investor information is accessible through their websites. The primary objective for this research was to find out how the qualifications, experience, external linkages and remuneration of the boards of directors affect the firm performance. For the qualifications the author used the board members' degrees of education and changed the different degrees into a more measurable units. The setup is as follows:

a) 0 = No degree
b) 1 = Bachelor's degree
c) 2 = Master's degree
d) 3 = Licentiate's degree
e) 4 = Doctoral degree
f) 5 = Professor's degree (or above)

If a person had more than one degree, they were measured by the highest degree achieved. If e.g. a member of a board has a master's degree in engineering and a bachelor's degree in economics, the value given to the member's qualification would be 2 according to the list above. By using numerical values which represent different levels of educational degrees it is possible to calculate e.g. averages and medians for a relevant comparison of the boards.

Experience is measured by work experience in years. The assumption here is that one's work experience starts accumulating at the age of 25 after finished studies, army etc. The formula for calculating the experience is *Age – 25 = Experience.* For a

65 year old person the experience would be 65 – 25 = 40. The reason why the author chose the age of 25 as a zero point for the experience is because it appeared to be reasonable. This assumption is based on the authors own empirical experience of the average age of graduation from different universities. The fact that the zero point is the same for the whole set of board members is crucial for producing salient results. In a case where the board of directors have not had any changes in their composition, the experience years are summed up in order to calculate the median values for descriptive statistics. However if there has been changes in the composition, then the experience years of the leaving board member and the joining board member have been averaged.

External linkages are also measured in numbers. The amount of linkages is based on the information of the board members given in the case companies' annual reports. The linkages mentioned in the annual reports may not include the whole list of external linkages of a board member, even though it is the most trusted list at hand. Thus it is used in this research. The external linkages include previous and current work history, board memberships and positions in other organizations. The number of linkages are revised annually in case of new linkages should come up.

The information on remuneration is retrieved from the remuneration statements which are part of annual reports. One of the interesting parts of remuneration is what proportion of the total remuneration consists of fixed and performance based income. The remuneration figures of the companies are presented at board level and at individual level. The figures have been summed up, averaged and compared to one another depending on the use of the information. Year-to-year improvement is also monitored and analyzed, between the companies and separately.

The positivist goal of this study is to represent how the performance of the two case companies from the same industry is measured by examining the different factors of the members of their boards. Sample size is fairly low but what the author wants to point out is, the smaller the size the better are the probabilities of understanding a specific case. More general point of view would need bigger sample from across different industries. In that case the amount of data would grow too big to handle for a bachelor's level research. The current subject provides more than enough for a single research. However the selected sample size and the simplified model of examining the board performance leaves room for future research.

4.4 Research ethics

Research ethics can be fundamentally explained as the difference between 'right' and 'wrong'. Ethical principles give guidelines for the researcher about what can be considered a good scientific practice and what is considered unethical and harmful action from the perspective of scientific communities. Institutions often establish their own set of principles in order to ensure high ethical and scientific standards. Some ethical principles are universally accepted, but some ethical issues are more complex. Nevertheless, some general key elements in ethical guidelines can be highlighted, such as the protection of participants or case companies in the research (Eriksson & Kovalainen 2008 65; 70).

Researchers have moral obligation to inform readers about reliability and credibility of the research, and raise reader's awareness about underlying uncertainties and complexities. The purpose of the research should not cause embarrassment or any other disadvantages for the interviewees, organizations or other constitution under examination. Participants should be informed about the real purpose of the research and therefore enable them to participate on a voluntary basis and give informed consent. Participants should be informed about usage of the technology if e.g. the interviews are recorded, and preserving participant's anonymity and confidentiality should be assured. In addition, participants should be aware of how the collected data will be used. In writing process, the researcher must evaluate if there is enough evidence to draw the conclusions and what are possible bias of the researcher. Plagiarism can be avoided by using citations and references. The researcher should give acknowledgement to other researchers and their work, and not obtain credit for other people's ideas (Ghauri & Grønhaug 2002, 18-20; Eriksson & Kovalainen 2008, 70-75).

According to Eriksson & Kovalainen, credibility of the research have linkage to following the ethical rules, and therefore the researcher should get familiar with them before starting the research process. Often research ethics is linked to interviews and data-collection process. However, research ethics should be present in actual research process from the beginning to the end. This contains starting the relationship between the researcher and the researched and ending to the phase where the report is published (Eriksson & Kovalainen, 2008, 64-65).

5 ANALYSIS AND FINDINGS

This part of the current study provides the key findings of the case companies' boards of directors. Most of the findings are presented in the form of tables and figures in order to give a visual overall picture of the subject in question. The findings are presented in a logical order. Below of each of the tables and figures there is a discussion part or interpretation of the findings. After every discussion part there is a short conclusion of the findings and at the end of this chapter all the key issues are constructed into a conclusion paragraph. By organizing the information into smaller units the reader can process the presented information while going forward. Moreover the reader can organize his/her thoughts after every part.

By the findings and discussion the author aims to answer to the research questions that were presented in the methodology chapter. The answers to the research questions should comprehensively describe the research problem if the questions are properly constructed and if the findings are relevant.

5.1 Board experience

At this point it is relevant to recall that the experience is measured in years and that it starts to accumulate after the board member has turned 25. In the following table the case companies' boards of director's experiences are presented one year at a time starting from 2011. If there is some additional information in the tables it is visibly marked and explained in the footnote.

Table 4 Boards experience comparison between Cargotec and Konecranes 2011.

CARGOTEC Board of directors 2011	Experience	KONECRANES Board of directors 2011	Experience
Member 1	28	Member 1	43
Member 2	34	Member 2	31
Member 3	23	Member 3	32
Member 4	28	Member 4	41
Member 5	42	Member 5	43
Member 6	33	Member 6[3]	27
Member 7	27	Member 7[4]	22
		Member 8	19
		Member 9	31
Median	28	**Median**	31,5

First of all the boards have different amount of members. However the amount of members does not affect the findings because the median value is what we are looking for and it is not dependent on the number of samples. Median is the value that separates the higher half of the sample from the lower half. Median values for the case companies are as follows: Cargotec 28 and Konecranes 31.5. According to the median values, the board of directors of Konecranes is more experienced than the board of Cargotec by 3.5 years. Even though there seems to be less fluctuation in the Cargotec's figures if looking the high and the low values, the experience years all together are lower than the corresponding figures of Konecranes.

There is no radical assumptions to be made based on one year's comparison. On the other hand experience is a crucial part of Hillman and Dalziel's (2003) proposition on board capital. They assert that board capital is positively associated with the provision of resources, which in turn is positively associated with firm performance. In other words board capital is indirectly linked to firm performance. The experience

[3] Member 6 joined to the Konecranes' board of directors after the election was held in Annual General Meeting 31st of March 2011.
[4] Member 7 left his position at the board of Konecranes 31st of March 2011 due to change in composition of the board.

data itself is not enough to propose any significant results, it needs the qualifications, external linkages, remuneration findings and key financial figures from both the case companies in order to make conclusions.

Table 5 Boards experience comparison between Cargotec and Konecranes 2012.

CARGOTEC Board of directors 2012	Experience	KONECRANES Board of directors 2012	Experience
Member 1	29	Member 1	43
Member 2	35	Member 2	32
Member 3	24	Member 3[5]	38
Member 4	29	Member 4[6]	33
Member 5	43	Member 5	42
Member 6	34	Member 6	44
Member 7	28	Member 7	28
		Member 8	20
		Member 9	32
Median	29	**Median**	33,75

Cargotec's median experience has raised from 28 to 29 years due to the annual gain of the experience years and the fact that there has been no changes in the composition of their board of directors. Konecranes on the other hand have gained the experience in the form of annual gain but more importantly because of new, more experienced, member has joined the board of directors. Because of this Konecranes is now 4.75 years ahead of Cargotec in the terms of experience.

[5] Member 3 joined to the Konecranes' board of directors after the election was held in the Annual General Meeting 22nd of March 2012.
[6] Member 4 left his position at the board of directors of Konecranes 22nd of March 2012 due to the change in the composition of the board.

Table 6 Boards experience comparison between Cargotec and Konecranes 2013.

CARGOTEC Board of directors 2013	Experience	KONECRANES Board of directors 2013	Experience
Member 1	30	Member 1	44
Member 2	36	Member 2	33
Member 3[7]	38	Member 3	39
Member 4[8]	25	Member 4	43
Member 5	30	Member 5	45
Member 6	44	Member 6	29
Member 7	35	Member 7	21
Member 8	29	Member 8	33
Median	31,5	**Median**	36

Couple of things to remember when looking at the medians from 2013. First, the median for Konecranes has raised more than the annual gain of the experience years (2.25 instead of 1) because in the year 2012 the joining member's higher (38) experience was averaged with the leaving member's lower (33) experience. Therefore in 2013 the experience of the joined member weighs more in the median value. Second, the median for Cargotec, as well, has raised more than the annual gain of the experience years (2.5 instead of 1), however the actual gain would be seen in the values of 2014 if no other changes should happen. It is the same situation that Konecranes had year before when the joining member's high experience loses its edge to leaving member's low experience.

Over the three year examination period Konecranes has had more experienced board of directors of the two case companies. Three year median averages are 29.5 (Cargotec) and 33.75 (Konecranes). Therefore the board of Konecranes has 12.5 % higher median average and 22 % higher annual gain of the experience years than the board of Cargotec. These figures show that Konecranes has increased its board capital by acquiring more experience in their board of directors. If it is assumed that increasing board capital with the experience years is the goal, then Cargotec would be more satisfied to their board composition than Konecranes. In many occasions,

[7] Member 3 joined to the Cargotec's board of directors after the election was held in the Annual General Meeting 20th of March 2013.

[8] Member 4 left his position at the board of directors of Cargotec 20th of March 2013 due to the change in the composition of the board.

with the experience comes the prestige. Business community's respect towards a board of directors can increase its value and worth (Pfeffer & Salancik, 1978). However, the examination of the other factors is crucial in order to form a general picture of the progress of the case companies.

5.2 Board qualifications

In the introduction chapter the author presented an assumption (based on own empirical experiences) that board members are highly educated men in their late fifties or sixties and former CEO's or high executives of well-known corporations. This chapter will give an answer to the "highly educated" part of the assumption. The answer, of course, presents a narrow proportion of the board of directors as a constitution, whether the findings are significant or not.

Table 7 Boards' qualifications comparison between Cargotec and Konecranes.

CARGOTEC Board of directors 2013	Qualifica-tions	KONECRANES Board of directors 2013	Qualifica-tions
Member 1	4	Member 1	4
Member 2	2	Member 2	1
Member 3[9]	2	Member 3	2
Member 4[10]	3	Member 4	3
Member 5	2	Member 5	2
Member 6	3	Member 6	3
Member 7	2	Member 7	2
Member 8	2	Member 8	2
MEDIAN	**2**	**MEDIAN**	**2**
2012			
Member 1	4	Member 1	4
Member 2	2	Member 2	1
Member 3	3	Member 3[11]	2
Member 4	2	Member 4[12]	1
Member 5	3	Member 5	3
Member 6	2	Member 6	2
Member 7	2	Member 7	3
		Member 8	2
		Member 9	2
MEDIAN	**2**	**MEDIAN**	**2**
2011			
Member 1	4	Member 1	4
Member 2	2	Member 2	1
Member 3	3	Member 3	1
Member 4	2	Member 4	3
Member 5	3	Member 5	2
Member 6	2	Member 6[13]	3
Member 7	2	Member 7[14]	2
		Member 8	2
		Member 9	2
MEDIAN	**2**	**MEDIAN**	**2**

The qualifications or educational degrees during the examination period vary from bachelor's degree (numerical value 1) to doctoral degree (numerical value 4). It can

[9] Member 3 joined to the Cargotec's board of directors after the election was held in the Annual General Meeting 20th of March 2013.

[10] Member 4 left his position at the board of directors of Cargotec 20th of March 2013 due to the change in the composition of the board.

[11] Member 3 joined to the Konecranes' board of directors after the election was held in the Annual General Meeting 22nd of March 2012.

[12] Member 4 left his position at the board of directors of Konecranes 22nd of March 2012 due to the change in the composition of the board.

[13] Member 6 joined to the Konecranes' board of directors after the election was held in Annual General Meeting 31st of March 2011.

[14] Member 7 left his position at the board of Konecranes 31st of March 2011 due to change in composition of the board.

be said that the variation of the qualifications is rather high because the overall scale is from 0 to 5. However there are no differences in the medians between the companies. The median value for both of the companies is 2 in every year of the examination period. Even the calculations of difference between two means did not show that there is any significant difference between the case companies' qualifications.

According to the findings the median qualification for both case companies is the educational level equivalent to the master's degree. It is interesting to know that in order to get into a position as high as board member in a public listed company, one does not necessarily need a higher educational level than the master's degree (if looking only the qualifications factor). This does not mean that a person with a master's degree would automatically end up being a member of board of directors in his/her career. Especially in Finland the business elite is quite small and some might argue that for an "outsider" it is rather hard to penetrate into the community. It is a sum of many factors to succeed and to keep on outperforming the others. The same mentality applies to firm performance as well.

5.3 Board's external linkages

Because the qualifications analysis provided quite little information, excluding the median level of education, it is logical to go forward and start to take a look at the external linkages of the boards. As mentioned earlier in the thesis, the external linkages were measured by the number of connections to other organizations. In addition these linkages were retrieved from the annual reports of the case companies. The main findings are presented in the below figure.

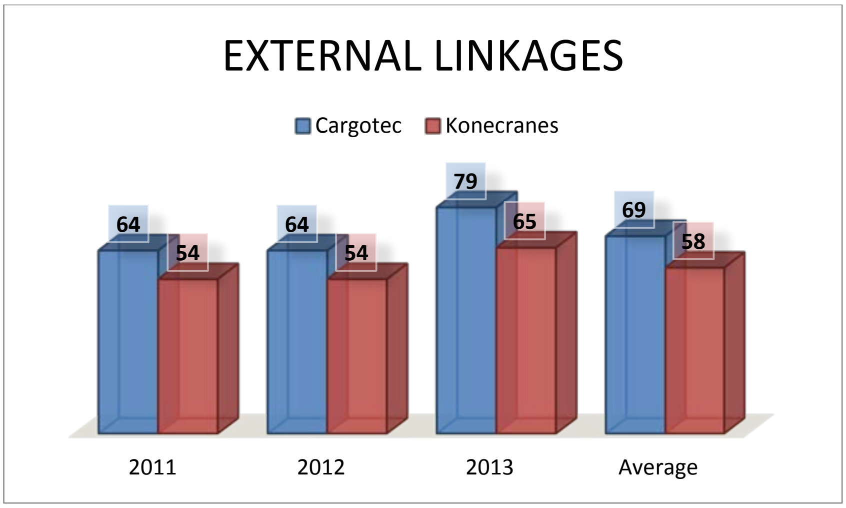

Figure 4 The external linkages of the case companies' boards of directors.

The figure clearly presents that throughout the examination period the Cargotec's board of directors has more external linkages than the Konecranes' board. Cargotec's board averages its linkages to 69 while the Konecranes average is approximately 58. It must be noted that Cargotec has one (1) member less in their board of directors than Konecranes. Furthermore Cargotec has lower experience level in its board compared to Konecranes. Based on that it seems that the board experience does not increase the amount of external linkages. Even the amount of board members does not seem to have major effect on the external linkages. How can it be possible that a board of directors with less experience and less members has higher average in the external linkages?

Based on the findings the focus turns to Hillman and Dalziel's (2003) definition of board capital, which combines both human and relational capital. The board which possesses more board capital is more likely to have valuable external linkages which in turn affects positively to firm performance. In order to figure out whether the external linkages are valuable or not one has to look at the overall firm performance. After the board remuneration findings, all the presented factors (experience, qualifications, external linkages and remuneration) are combined in order to test if there is linkage to firm performance.

There might be many other reasons that are not examined in this study e.g. history of employment and networking skills. The history of employment is an important factor affecting the amount of external linkages. The information of how many employments one has had, where one has worked, for how long, in which positions and with what results is essential for understanding the formation of external linkages. Also the networking skills which can be assimilated with social skills determines how probable it is for a person to network. However the current study relies on its methods and the presented findings, out of which the author suggests propositions and makes conclusions. At the end of the thesis the author goes through the inadequacies the study may have and suggestions for further research.

5.4 Board remuneration

Final factor before concluding the findings chapter is board remuneration. Both the agency and the resource dependence theorists see the board incentives as important tool for improving firm performance. The agency theorists argue that properly adjusted incentive system will improve the monitoring and thus performance as well (Fama, 1980; Jensen & Meckling), whereas the resource dependence theorists assert that the provision resources directly affects the firm performance (Pfeffer & Salancik; Williamson, 1984; Singh, House & Tucker, 1986). The remuneration findings give fundamental value for the conclusion where all the findings are implemented into the theory base.

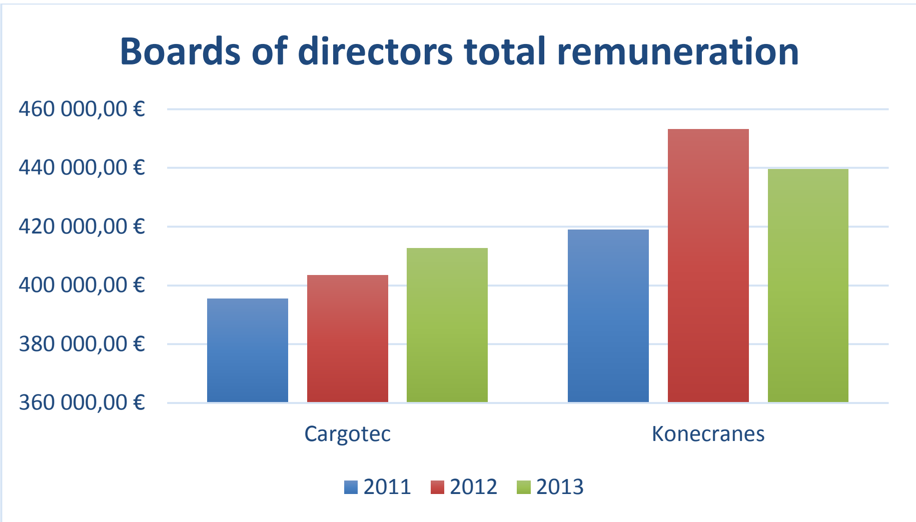

Figure 5 Total remuneration of the case companies' boards of directors.

The total remuneration of Cargotec's board of directors is steadily growing through the examination period starting from 395 TEUR and topping at 412 TEUR. Konecranes' total remuneration figures have a different kind of curve, first it is taking a big leap upwards in 2012 but in 2013 it is already decreasing. The total remuneration of the Konecranes' board is on average approximately 7 % higher than its competitors. There is logical explanation for this 7 % gap, Konecranes has eight members in its board of directors while Cargotec has seven. This gap will most likely turn in the favor of Cargotec as the values are presented per person. In order to the figures to be comparable they need to be examined by the averages/board member.

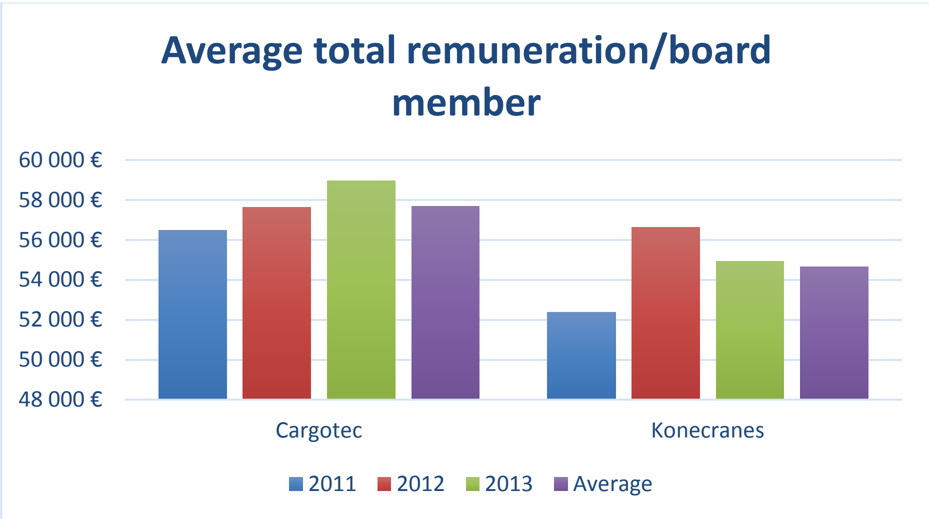

Figure 6 Case companies' average total remuneration/board member.

The averages per board member show that a board member of Cargotec has bigger incomes than their counterparts' in Konecranes. As the author predicted in the paragraph before Konecranes' 7 % lead in incomes turned into a 5.7 % "loss". The averages per board member follow the same curves as the total remuneration figures. The biggest differences between the boards appear when examining how the remuneration is comprised. On average 15.8 % of Cargotec's board remuneration is based on performance and the rest 84.2 % is fixed income. Konecranes' performance based remuneration is 10.2 % of the total remuneration. Thus it is 56 % smaller, on average, than its competitors. The lower amount of performance based income may affect negatively to firm performance because the boards of directors need incentives in order to be effective monitors and providers of resources.

Cargotec's board compensation seems to be better organized and planned because there is no remarkable gaps or fluctuations. It is growing firmly and steadily. Konecranes' board compensation on the other hand seems to be more vulnerable to organizational change. Even though the author described Cargotec's remuneration better planned and organized, it is relevant to ask why the remuneration of the board is growing instead of staying the same. Is the board work becoming more challenging and time consuming? If Cargotec's board remuneration is dependent on the growing workload then is the Konecranes' board remuneration dependent on e.g. firm performance?

5.5 Conclusions

After looking each of the factors individually it is time to combine the findings and link them into firm performance. What similarities do the different factors have? First of all the board qualifications seem to be aligned between the case companies. Both of the companies' median educational level has stayed the same for the three year examination period, moreover there was no significant difference to be found. This indicates that for the qualifications part the boards are equal. Based on the findings the board qualifications is a stable factor and it stays constant. Other factors, however have shown rather mixed results.

In order to make any further assumptions or conclusion it is crucial to take a look at the case companies' performance over the three year examination period. The average profit after tax (PAT) is approximately the same for both companies, however the average does not tell the whole truth. In the chart below one pattern is clearly visible. While the Konecranes' PAT figures are in line with their remuneration figures, the Cagrotec's PAT figures are not. Their board remuneration is steadily growing whereas the organizational profits are decreasing year by year. In the light of this information it is not farfetched to propose that Cargotec's board remuneration is dependent on the challenges in the organizational environment whereas the Konecranes' board remuneration is dependent on firm performance.

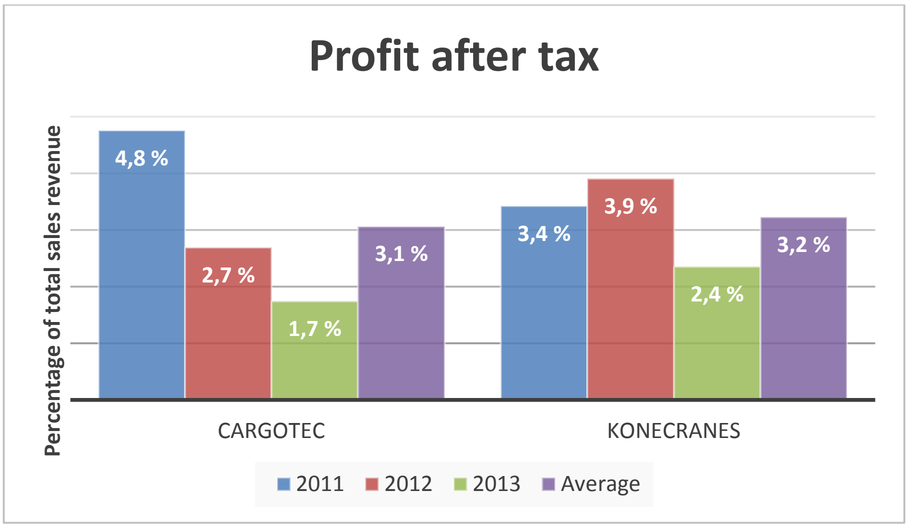

Figure 7 Case companies' PAT figures compared to total sales revenues.

Even though both of the case companies have lots of experience in their boards of directors, Konecranes has a bit more (12.5 % or 4.25 years) based on the results. The difference between the companies is rather large and visible but based on the difference between two means it cannot be interpreted as significant. If the percentage (value got from comparing the two means) is not 10 % (0.1) or under, there is less than 90 % level of confidence to say that the results are significant. This, however does not mean that the already made assumptions or conclusions would be irrelevant or inadequate. The results of the current research are valid for the specific sample, even if they would be inconsistent or not "significant".

As it was presented earlier, the amount of experience does not automatically increase the amount of external linkages of the boards. However, the growth curves for both board experience and boards external linkages resemble each other. They are slightly growing over the examination period which suggests that they are somehow connected. The author suggests that the amount of board experience might have a positive effect to the amount of external linkages. However the board experience is not the dominant factor which affects the amount of external linkages. Because it is not the dominant factor it is possible for board of directors to have more external linkages than its counterpart while having less experience, as it turned out in the case of Cargotec. The experience is a part of board capital which in turn is positively associated with the provision of resources.

The remuneration is harder to link to the board experience because the case companies seem to have quite different remuneration strategies. Cargotec's remuneration appears to follow the same steady growth as their board experience. At the same time Cargotec's profits (firm performance) are decreasing. In the case of Cargotec they seem to acquire more experience to their board of directors in order to respond to the changes in the organizational environment and inside the industry. Because of the challenging environment the workload for the board increases and so does the board's remuneration. Konecranes' situation deviates from Cargotec's situation in the parts of firm performance and the board remuneration. The board remuneration of Konecranes follows the pattern of firm performance quite well. Based on that in formation the author suggests that the remuneration of the board of Konecranes is dependent on the firm performance but as the performance fluctuates they find it important to increase the board's experience. With this action the company relies on veteran businessmen and -women's expertise and practical knowledge.

Table 8 The correlations between the case companies' qualifications, experience and external linkages.

	Qualifications	Experience	External linkages
Qualifications	1	0.254	0.285
Experience		1	-0.56
External linkages			1

The Table 8 above shows the correlations between the different factors of the case companies. The correlations are ranked into four groups based on how strong the correlation is: none or very weak (0-0.1), weak (0.1-0.3), moderate (0.3-0.5) and strong (0.5-1.0). The numerical value 1 means that the correlation between the factors is strong. In this case they represent the same factors e.g. experience compared to experience, thus we can ignore those values. With this introduction it can be said that all the other factors have weak correlation excluding the experience and the external linkages (-0.56), which have strong negative correlation. Strong negative correlation between the experience and the external linkages indicates that the less experience the more external linkages. This is in line with the author's descriptive statistics.

Based on the case companies' degrees of board dependence and the findings of this chapter the author proposes that in this specific case the boards have enough incentives to monitor and enough experience and qualifications to provide resources in order for the companies to succeed. However the trend seems to be that, even though the total sales revenues are fairly stable, the profits are shrinking. The industry they both operate in is producing heavy machinery and services which require large investments from the customers. In the time of recovering from the economic recession (2011-2013) organizations are cautious with their investments. The case companies have increased their board experience, external linkages and incentives but are yet to receive positive results from it. It may be that the surrounding environment is the biggest link to the firm performance.

6 DISCUSSION

The current study on boards of directors started by stating that Hillman and Dalziel's (2003) integration of the agency and the resource dependence perspectives and introduction of the term board capital have been the main motivation and resource in the construction of this thesis. At first the RDT was in the center of attention until the author realized that how deeply the two functions (agency theory and RDT) are interconnected. These two functions have clear main paths inside them which are utilized in this research as well: the monitoring function (agency theory) and the provision of resources function (RDT). The two functions are introduced in the literature review chapter. What these functions have in common is that they both have been linked with firm performance by their respective scholars (e.g. Fama, 1980; Jensen & Meckling 1976; Pfeffer & Salancik, 1978; Singh, House & Tucker, 1986).

The ultimate goal was to get a holistic understanding of how the board incentives moderate the monitoring function and the provision of resources function and how does the board capital affect these connections. The results are somewhat in line with the objectives set for the research. The descriptive statistics show that the different factors (experience, qualifications, external linkages and remuneration) qualified for the research have differences and similarities from which the author could derive results that answer to the research questions.

The boards of directors of Cargotec and Konecranes resemble each other very much by their composition, abilities and resources. However they seem to have different strategies of achieving positive firm performance. Cargotec seems to respond to decreasing performance and challenging business environment by increasing the board incentives and experience in hope for a good return on investment. Konecranes on the other hand has tied the board incentives into firm performance and by this, giving the board a motivation and positive pressure to succeed. The conclusion made from the results are valid and true for the specific sample in a specific time frame. From the conclusions it is possible to compose a sound picture from the case companies’ boards of directors and their linkage to firm performance.

Even though the results were satisfying they are only applicable to this research on boards of directors. Any generalizations would be good guesses at best. Therefore the current study itself leaves some room for further research. With sample size being only two, it would be relevant to include e.g. history of employment and longer observation period than three years. While there is still further research to be done from the current study, there are other possibilities as well. In order to have a general view of e.g. the boards of directors of the Finnish listed companies and their linkages to firm performance, it would demand a bigger and more carefully selected sample and a more specified use of theories. After all, the boards of directors of the Finnish listed companies are not thoroughly examined. For a master’s level research this would be a sound and challenging topic to conduct.

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APPENDICES

Appendix 1 PwC's comparative summary of proposals by NYSE, Amex and NASDAQ.

Proposal	NYSE	Amex	NASDAQ
Board of Directors			
Board must have majority of independent directors (allowing for specified exceptions, e.g., "controlled companies," small business filers).	Y	Y	Y
Director's independence to be determined with reference to tightened Listing Markets' criteria and judgment by the board.	Y	Y	Y
Independent or non-management directors must meet at regularly scheduled executive sessions without management present (Amex – as necessary, but at least annually; NASDAQ – except for "controlled companies").	Y	Y	Y
No Amex employee or floor member may serve on board of any Amex-listed company.		Y	
Company must make timely public disclosure of board changes and vacancies.		Y	
Nominating/Corporate Governance Committee or Equivalent			
Must have committee composed entirely of independent directors ("controlled companies" are excluded).	Y		
Committee must have written charter that addresses, at a minimum: • **Committee's purpose** – identify individuals qualified to become board members; select, or recommend that board select, director nominees (except as provided by law or contract); and develop and recommend to board corporate governance principles for company. • **Committee's goals and responsibilities** – reflect board's criteria for selecting new directors and oversight of evaluation of board and management. • **Annual performance evaluation of committee.**	Y		
Charter should give committee authority to retain any search firm to be used for identifying director candidates.	Y		
Nominating committee of independent directors only or majority of independent directors on board must approve board nominations (allowing for specified exceptions).		Y	Y
Compensation Committee or Equivalent			
Committee must be composed entirely of independent directors ("controlled companies" are excluded).	Y		
Committee must have written charter that addresses, at a minimum: • **Committee's purpose** – discharge board's responsibilities relating to executive compensation and produce annual report on executive compensation for company's proxy statement. • **Committee's duties and responsibilities** – (a) review and approve corporate goals/objectives relevant to CEO compensation, evaluate CEO's performance and set CEO's compensation level based on this evaluation; and (b) make recommendations to board regarding incentive-compensation plans and equity-based plans. • **Annual performance evaluation of committee.**	Y		
Charter should give committee authority to retain any consulting firm to assist in evaluation of compensation.	Y		
Compensation committee of independent directors only or majority of independent directors on board must approve CEO compensation and compensation of other executives (allowing for specified exceptions).		Y	Y

Proposal	NYSE	Amex	NASDAQ
Audit Committee			
Committee must be composed entirely of independent directors (allowing for specified exceptions).	Y	Y	Y
Expand existing requirements for "being independent" (for example, by adding that such a person may not receive fees from the company for other than board and committee service).	Y	Y	Y
Audit committee chairman and/or one or more members must meet financial expertise criteria specified by each of the Listing Markets.	Y	Y	Y
Committee must have written charter that addresses: **Committee's purpose** – at minimum, to: • Assist board oversight of (1) integrity of company's financial statements, (2) company's compliance with legal and regulatory requirements, (3) external auditor's qualifications and independence and (4) performance of external auditor and internal audit function. • Prepare audit committee report required by SEC in annual proxy statement. **Committees' duties and responsibilities** – at minimum, to: • Retain and terminate external auditor (subject, if applicable, to shareholder ratification). • Review, at least annually, external auditor's report describing firm's quality-control procedures, any material issues raised by latest internal quality-control or peer review of firm or any inquiry or investigation by authorities within preceding five years, and any steps taken to deal with any such issues; and all relationships between external auditor and company. • Discuss annual and quarterly financial statements with management and external auditor, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." • Discuss earnings press releases and other financial information and earnings guidance provided to analysts and rating agencies. • Obtain advice and assistance from outside advisors as appropriate. • Discuss policies regarding risk assessment and risk management. • Meet separately, periodically, with management, internal auditor and external auditor. • Review with external auditor any audit problems or difficulties and management's response. • Set clear hiring policies for employees or former employees of external auditors. • Report regularly to board of directors. **Annual performance evaluation of committee.**	Y*	Y**	Y**
* NYSE currently requires audit committee charter but proposes revised, expanded charter as summarised above. ** Amex and NASDAQ currently require charters and propose additional responsibilities summarised elsewhere in this table.			
Committee must be responsible for selecting and overseeing external auditor.	Y	Y	Y
Committee must have authority to engage and determine funding for independent counsel and other advisers.	Y	Y	Y
Committee or another independent body of board must provide oversight for (NASDAQ – approve) all related party transactions.		Y	Y

Proposal	NYSE	Amex	NASDAQ
Corporate Governance Guidelines and Codes of Business Conduct			
Company must adopt and disclose corporate governance guidelines that address: • Director qualification standards, responsibilities, compensation, orientation and continuing education • Director access to management and, as appropriate, independent advisers • Management succession • Annual performance evaluation of board	Y		
Company must adopt and disclose code of business conduct and/or ethics for directors, officers and employees.	Y	Y	Y
Code must require that (1) any waiver for executive officer or director be made only by the board (NYSE – or board committee) and (2) any such waiver be promptly disclosed to shareholders.	Y		Y
Additional Provisions			
Internal Audit Function. Company must have internal audit function. Audit committee should assist board in overseeing this function's performance.	Y		
Disclosure by Foreign Issuers. Listed foreign private issuers must disclose any significant ways in which their corporate governance practices differ from those of domestic companies under applicable corporate governance listing standards.	Y	Y	Y
Certification of Compliance with NYSE Standards. Each company CEO must certify to NYSE each year that he or she is not aware of any violation by company of NYSE corporate governance listing standards.	Y		