Theorising director task performance over time: insights from capture theory

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Abstract: We develop a conceptual framework in which we show how a non-executive director's task performance may change over their life cycle on the board. We adopt a three-stage process to examine the task performance of a non-executive director: independence stage, engagement stage and relationship renewal stage, and use capture theories of regulation to develop a number of testable propositions. We argue that capture theory allows us to explain how a non-executive director's task performance can change from one where monitoring and control is high and strategy and service is low to the reverse over their period on the board.

Keywords: non-executive director task performance; capture theory.

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1 Introduction

Board of director effectiveness is a topic that has attracted considerable attention from academics, board practitioners, regulators, and the public in general, fuelled by repeated corporate failures. Research on board effectiveness has progressed from the traditional approach that studied how board composition proxies for monitoring and control (proportion of non-executive directors and CEO chair duality) or resource provision (board interlocks) affected firm performance (Dalton et al., 1998; Dalton et al., 2003; Johnson et al., 2004). More recent attention has been directed at studying actual board behaviour and explaining how board processes, such as conflict, effort norms, trust and the use of knowledge and skills have affected board tasks, including control and monitoring, resource provision, strategy, advice and networking (Forbes and Milliken, 1999; Huse, 2005; Machold and Farquhar, 2013; Minichilli et al., 2009, 2012; Ruigrok et al., 2006; Van den Heuvel et al., 2006; Van Ees et al., 2008; Zahra and Pearce, 1989; Zona and Zattoni, 2007). However, one limitation of these studies is that they have largely used the board as their unit of analysis as opposed to the individual director.

Accordingly, researchers have identified the need to study boards at an individual director level to enhance our understanding of the antecedents of board effectiveness

(Hambrick et al., 2008; Hillman et al., 2008; Roberts et al., 2005), and scholars have started to empirically test individual directors' task performance (Veltrop et al., 2012). We agree that such research is necessary to have a fuller understanding of the antecedents of board effectiveness (Pye and Pettigrew, 2005). However, studies of both board and directors task performance have to recognise that the degree of involvement in tasks is neither static nor homogeneous. In recent findings from a longitudinal study, Machold and Farquhar (2013) for example show that board task performance varies over time depending on boards' sensitivity to environmental and firm-specific contingencies. Thus to better understand processual dimensions of task performance a dynamic framework of analysis is required to extend the content-focused, cross-sectional approach typically adopted in the board composition and board process literatures.

In order to examine individual directors' contribution to board effectiveness, Hillman et al., (2008) developed a framework that models how individual directors' multiple identities affect their ability to carry out their monitoring and resource provision tasks. This multiple identity approach has considerable potential in helping our understanding of antecedents of board effectiveness, however the framework does not explain how director identities may change through their life cycle on the board. Theories of economic regulation, such as capture theory, life-cycle theory, interest group theory and other similar regulatory capture theories posit that regulators become captured by the firms and industries that they are regulating (Bernstein, 1955; Peltzman, 1976; Posner, 1974; Stigler, 1971). Whilst Hillman et al. (2008) contend that directors' multiple identities affect their ability to carry out their monitoring and resource provision tasks, in this paper we use capture theories of regulation to provide a framework to explain how directors' identities may be captured and changed throughout their tenure on a board, along with the subsequent effects of such capture on directors' task performance.

The aim of this paper is to provide a dynamic framework in which to examine how non-executive directors' behaviours and task involvement may change over time. Theories of economic regulation (Bernstein, 1955; Peltzman, 1976; Posner, 1974; Stigler, 1971) suggest that initially regulators take on monopoly firms and attempt to control price rises and other practices that are deemed to be against the consumer interest. However, according to Posner (1974) and Stigler (1971), over time the regulated firms have the power to capture the regulators so that the regulators act in the interest of firms. In carrying out their governance role, non-executive directors may be viewed as the equivalent of regulators. Given this analogy, capture theories can provide unique and relevant insights into how non-executive director identities and task performance change through their life cycle on the board.

In this paper, we extend the use of economic theories of regulation to examine the dynamics of individual director behaviour. Specifically, this framework examines how non-executive director identities may be captured over time, which in turn affects the salience of the non-executive's task performance. In sum, we seek to contribute to the literature on boards by advancing an alternative theoretical perspective that extends knowledge on individual directors task performance in an evolutionary tradition (Gabrielsson and Huse, 2004). The rest of this paper follows in four sections. The first section outlines the background to the paper and details why an alternative framework to examining non-executive behaviours and task performance is necessary. The second section provides an overview of economic theories of regulation. The third section will

utilise these regulation theories to provide a framework for future empirical research on boards. The final section draws out key implications and offers concluding remarks.

2 Background

Interest in corporate governance and the activities of the board of directors has risen substantially over the past four decades since the empirical work of Mace (1971) who contended that boards were largely rubber-stamps for senior management's decisions. The wider public interest has largely resulted from a series of worldwide financial scandals over the past ten to fifteen years (e.g., Enron, WorldCom, Parmalat, Royal Bank of Scotland). This increasing attention has also been replicated in academic research in corporate governance with a vast amount of literature on boards of directors, and especially the role of non-executives, emerging during this period (Daily et al., 2003; Hambrick et al., 2008; Roberts et al., 2005; Westphal and Zajac, 2013). Whilst this research has shown that many boards are far more active than Mace (1971) suggested (Hendry and Kiel, 2004), recurring corporate scandals and the recent financial crisis have heightened both investors and the general public's concerns with boards of directors. These concerns have led to calls for greater regulation and the development of corporate governance codes across the globe (e.g., the United Kingdom's Combined Code, Sarbanes-Oxley Act in the United States, or the King Report in South Africa).

A common feature of these codes globally is their emphasis on the importance of non-executive directors to board effectiveness (Aguilera and Cuervo-Cazzurra, 2009; Zattoni and Cuomo, 2010). As 'outsiders' to the firm and its top management team, non-executive directors are essential to 'good' board governance by virtue of their ability to provide resources and by exercising control over management (Hillman and Dalziel, 2003). Since uncontrolled managerial excesses and/or malfeasance were often seen to be the root cause of corporate scandals, governance codes were developed to guard against such failures by recommending not only an increased presence of non-executives on boards in general and key committees in particular (e.g., audit, remuneration), but also by strengthening processes related to director appointment and development (Financial Reporting Council, 2012). In essence, corporate governance codes globally promulgate what Johanson and Ostergren (2010) called a 'board independence norm' central to which is the non-executive director who without fear or favour exercises oversight. However, evidence from many of the companies involved in financial scandals led scholars to question the extent to which placing such an important 'regulatory' task in the hand of non-executive directors is actually working (Finkelstein and Mooney, 2003). Companies beset by scandals, including Enron, WorldCom, or Royal Bank of Scotland, all had boards with a majority of non-executive directors. Empirical research on the effects of board independence is also equivocal (Bhagat and Black, 2001). This raises two interesting questions. The first is why, given the evidence of the failures of non-executive directors to control the economic activities of these companies, do corporate governance codes place such importance to their role. The second question, and the one we are interested in this paper, is when and why might non-executive directors fail in their oversight duties. This question may usefully be addressed using capture theories of regulation (Posner, 1974; Stigler, 1971). The following section will provide an overview of these capture theories of regulation.

3 Theories of economic regulation

Theories of economic regulation have been developed to explain government intervention in the economy. Posner (1974) usefully suggested that the term economic regulation refers to implicit or explicit legislative and administrative controls over various aspects of economic activity. Examples of economic regulation include controls over privatised utilities, the level of the minimum wage, occupational licenses, such as lawyers, accountants and doctors. Two primary theories that explain the need for economic regulation are public interest theory and capture theory. Public interest theory maintains that the government generates regulation in order to protect the public from unacceptable levels of potential harm (Posner, 1971; Roberts and Kurtenbach, 1998; Stigler, 1971). Alternatively, capture theory holds that politically effective groups acquire regulation and regulation is formulated in their interest (Posner, 1971, 1974; Stigler, 1971). The basic ideas of capture theory can be seen in a number of similar theories, including life-cycle theory (Bernstein, 1955), interest group theory (Peltzman, 1976), and predatory capture theory (Becker, 1986; Peltzman, 1984). All these theories in some way posit the notion that dominant interest groups capture regulation or regulators. Given that a board of directors typically consists of two groups, the executive and the non-executive, the application of capture theory may be useful in explaining the behaviour of these different types of director and how their involvement in board tasks may change over time.

Capture theory, developed primarily through a set of case studies, suggests that regulated groups are able to control or 'capture' the agencies that regulate them (Bernstein, 1955; Stigler, 1971). According to Stigler (1971), regulation is acquired by an industry and designed and operated primarily for its benefit. Assuming that the political system and process are rational, Stigler (1971), using a cost-benefit approach, demonstrated that there are potential gains for an industry in demanding regulation. Through influencing political decisions, powerful industry groups or firms are able to influence the nature of the regulation and reduce the costs of the regulation to the industry. Using evidence from US regulatory commissions to support his argument, Stigler (1971) contended that powerful firms and industries divert regulators to their own purposes. In a further development of this general idea, Posner (1974) suggested that regulation is supplied to interest groups who provide benefits, such as votes and political funding, to elected politicians. The term 'capture' is used to describe the range of economic theories of regulation where interest groups are thought to be able to capture government's powers for private gain (Bernstein, 1955; Posner, 1974; Peltzman, 1976).

The underlying notion of capture theory is the interest group theory of the state and this was extended by Peltzman (1976) who argued that whilst capture by producer interests is not inevitable, the regulator is the fulcrum upon which contending interests seek to exert leverage [Peltzman, (1976), 212]. Bernstein's (1955) life-cycle theory of regulation shares a similar conception of an agency pressured by external factions, dependent on public support to avoid regulatory capture. Bernstein (1955) contended that the creation of a regulatory agency is characterised by a struggle between a diffuse majority favouring regulation, the public, and a powerful minority resisting regulation, the regulated group. Once the regulation is in place and an agency is created, the public loses interest, content in the knowledge that the threat to the 'public interest' has been averted. In contrast, the regulated group maintains interest, because it has a more specific stake in the outcomes from regulation. Consequently, when faced with concerted group

action, the regulatory agency over time changes from defending the public interest to defending the regulatory group. Bernstein's (1955) life-cycle theory clearly posits the view that regulatory agencies become captured by those group interests to whom they were originally set up to control.

A number of studies of professional regulation found evidence that capture led to increases in the prices charged and the incomes earned by affected professional groups (Benham, 1972; Benham and Benham, 1975; Shepard, 1978). However, capture was not found to exist in all studies (Peltzman, 1976, 1984; Becker, 1986). This led to the development of a predatory capture theory (Peltzman, 1976, 1984). Predatory capture theory adds to capture models by recognising that regulatory agencies will not serve a single economic interest. Peltzman (1976, 1984) argues that interest groups' demand for regulation may conflict and force them to compete for favourable regulation. In a refinement of Peltzman's interest group theory of predatory capture, Becker (1986) includes the public as a competing interest group. According to Becker (1986), the calculus of decisions regarding regulation involves balancing the interests of competing groups in order to optimise politicians' chances for re-election. Findings in a study by Roberts and Kurtenbach (1998) on state regulation and professional accounting educational reforms in the USA provide empirical support for predatory capture theory. Their results indicated that differences in levels of professional regulation across states could be explained by the strength of the economic interests and demands from the accounting profession, relative to competing interest groups.

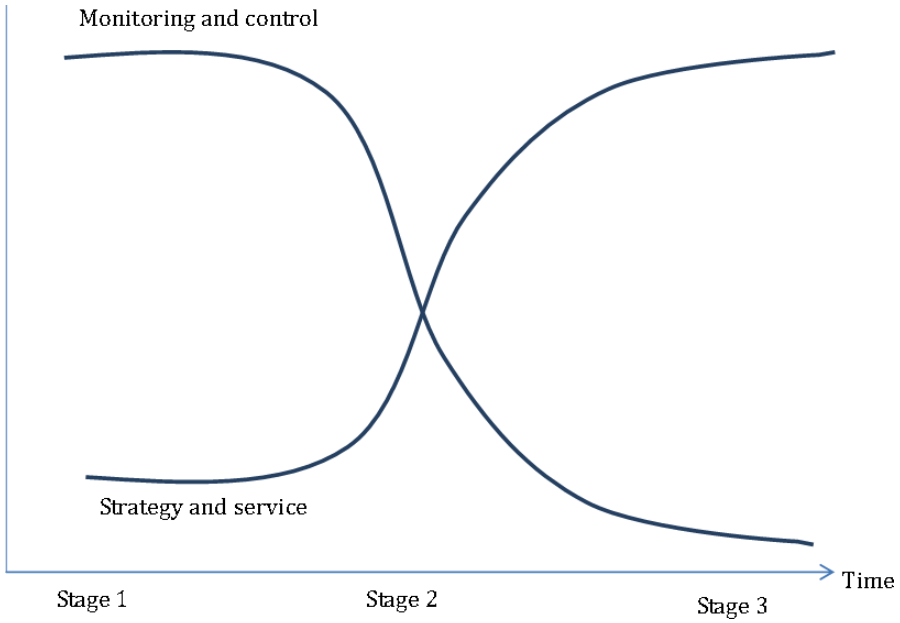
These capture-based theories of economic regulation suggest that regulators behaviours change through time and alter from being pro-consumer to being pro-firm or industry. The next section will develop a framework using capture theories of regulation to explore how the task performance of non-executive directors may change over their time on the board.

4 A dynamic framework to explore changes in non-executive directors' task performance over time

Capture theories of regulation were developed to explain the behaviours of independent industry regulatory bodies. These independent bodies were established through legislation that gives the regulatory bodies responsibility for the oversight of specific industries. In carrying out their duties, the regulatory body acts both as an independent monitor of the behaviours of the firms within the industry and as an advisor to the firms through ongoing discussions. Such a dual role paradox is similar to that of a non-executive director in a boardroom context (Sundaramurphy and Lewis, 2003; Hillman and Dalziel, 2003). In carrying out their independent monitoring and control, service and strategy tasks non-executive directors may be viewed as analogous to the role of regulators as both monitor and advisor. As identified by Aguilera and Cuervo-Cazurra (2009) and Zattoni and Cuomo (2010), many worldwide codes of corporate governance highlight the importance for the need for independent non-executive directors to act as both monitors of and advisors to the board. Given this analogy, we suggest that capture theories can help our understanding of how non-executive director identities (either monitor, advisor or both) and associated task performance change through their life cycle on the board.

Our framework has two dimensions – the time that the non-executive director has served on the board (x-axis), and the degree of involvement in monitoring and control, and strategy and service tasks respectively (y-axis) – see Figure 1. From the time of appointment of the non-executive director to the board, we propose that he/she traverses through three distinct stages each of which is characterised by a task performance profile shaped by the degree of 'capture'.

Figure 1 Non-executive director task performance over time (see online version for colours)



In stage 1, the newly appointed non-executive directors identify themselves with the shareholders (Hillman et al., 2008) and are largely independent of the executives. Agency theorists propose that the board's fiduciary duty is to shareholders and this will motivate non-executive directors to act on behalf of shareholders (Jensen, 1993). Having received their mandate from shareholders, the non-executive directors will initially be inclined to act as a controller of shareholders' interest. Moreover, a number of countries' legal requirements of directors and codes of corporate governance highlight the important fiduciary duty of a non-executive director (Aguilera and Cuervo-Cazurra, 2009; Zattoni and Cuomo, 2010). Thus, as a newly appointed board member the non-executive director is likely to be conditioned to identify him/herself with the shareholders. In this Independent stage, the non-executive directors thus demonstrate independence from the CEO and protect shareholders' interests through stringent monitoring and control of the management.

Whilst resource dependency theorists suggest that non-executive directors are important providers of advice and counsel, such advice and counsel is going to require the development of personal relationships based on trust and respect (Ruigrok et al., 2006; Westphal, 1999). Such relationships are not likely to develop in the short-term;

rather they are conditioned by complex social interactions unfolding over time (Westphal and Zajac, 2013). In addition, it will take time and sustained interaction with other board members for the non-executive directors to obtain the detailed knowledge of the organisation necessary for them to contribute to strategy development (Machold et al., 2011). Consequently, in the early stages on the board the non-executive director is likely to be limited to their monitoring and control task.

Proposition 1 In the early stage of their tenure on the board, the independence stage, the non-executive director's control and monitoring task performance will be high, whilst their strategy and service task performance will be low.

Once the regulation is in place and an agency is created, the public loses interest, content in the knowledge that the threat to the 'public interest' has been averted (Bernstein, 1955). In contrast, the regulated group maintains interest, because it has a more specific stake in the outcomes from regulation. With an increased proportion of independent, outside directors, shareholders' interests are defended through stringent monitoring of management. However, similar to Bernstein's proposition regarding the public's loss of interest, once the shareholders appear content that the board is now acting in their interest, they lower their active concern. As Hart (1995) observed, monitoring has the characteristics of a public good: if one shareholder's monitoring leads to improved company performance, all shareholders benefit [Hart, (1995), p.681]. As monitoring is likely to be costly, both financially and in time, Hart (1995) suggests that each shareholder is likely to free-ride in the expectation that other shareholders will do the monitoring. This is likely to mean that no, or virtually no, monitoring will take place. Consequently, as we elaborate later this is likely to mean that, over time, the non-executive directors change from defending shareholders interests to defending management interest. Thus, in stage two, the non-executive directors become engaged with the organisation and the executive, their director starts to identify themselves less with the shareholders and more with the executives and the organisation. In this Engagement stage, the CEO begins to capture the non-executive directors.

Analysing the potential costs facing non-executive directors, who continue to demonstrate independence from management, we can identify why the CEO is able to capture the non-executive directors. Westphal and Khanna (2003), using survey data from a sample of directors and CEOs at Forbes 500 companies, found that directors who participate in governance changes that threaten managerial interests experience a higher level of social distancing on other boards, particularly when they have low to medium status in the corporate elite. Furthermore, directors are less likely to participate in such changes if they have recently experienced social distancing.

The potential costs facing non-executive directors can be influenced by a variety of factors in addition to those resulting from the social distancing identified above. Literature taking a social psychology and social network perspective (Gulati and Westphal, 1999; Johnson et al., 1993; Westphal, 1998, 1999; Westphal and Khanna, 2003) provides some helpful insights into the development of this argument. The first factor relates to non-executive directors appointed during the current CEO's term. Whilst recognising that they must act in the shareholders interests initially, after a period of time they might consider that their appointment had been partly due to the CEO. This could leave them feeling some obligation to shift their support to the CEO and management (Johnson et al., 1993; Westphal, 1999). Secondly, over time, non-executive directors are

likely to develop relationships with other board members, including the executive and the CEO. This may be through specific tactics by the CEO to ingratiate him/herself with the new independent board members (Westphal, 1998), or through actions by the non-executives to develop trust on the board (McKnight et al., 1998). Once these personal ties are developed, breakdowns in the relationships are likely to be at some cost to the non-executives. Again, borrowing from the terminology of Hillman et al. (2008), the non-executive directors' identification with the executives and the organisation is likely to increase over time as their engagement with the senior management in the boardroom becomes more sustained. Stronger identification with the CEO and executive board members is likely to lead to greater empathy with management (Hillman et al., 2008) and leaves non-executives more open to capture by the CEO. This can have a number of effects. Non-executive directors will become less likely to criticise management, undertake less stringent oversight of senior management and have lower incentives to monitor (Hillman et al., 2008; Westphal and Kanna, 2003; Westphal and Zajac, 1995). In addition, identification with the CEO is likely to enhance the willingness of non-executive directors to make better use of their social capital and offer support and advice to the CEO (Baysinger and Butler, 1985; Pfeffer and Salancik, 1978; Westphal and Zajac, 2013). This provision of advice and counsel is helped by the greater trust built up through the working relationship during the engagement stage (Westphal, 1999).

Finally, during the engagement period non-executive's identity may be shaped by concerns for a second term in office. Corporate governance codes typically stipulate an initial term of office subject to annual approval at the company annual general meeting, with the possibility of a second term. If we assume that the non-executive director wishes to undertake a second term, then application of predatory interest theory might be useful to explain their potential conflicts of interest. Predatory capture theorists contend that interest groups' demand for regulation may conflict and force them to compete for favourable regulation (Becker, 1986; Peltzman, 1976, 1984). According to Becker (1986), the calculus of decisions regarding regulation involves balancing the interests of competing groups in order to optimise the regulators' chances for re-election. In this illustration, the non-executive director can be seen as weighing up the competing interest groups of shareholders and management. During this stage, the non-executive's identity with the CEO and executives is likely to increase, as they perceive them to be important for their re-election to the board. Whilst the costs to the non-executive (or indeed the CEO) as a result of removal by the shareholders at the company annual general meeting is likely to be significant, it will require action by the shareholders who, as Hart (1995) suggests, are unlikely to take an active interest unless there is serious concern regarding the company's financial position. This suggests that whereas the potential costs of removal are significant, the risk of removal is relatively low as long as the company financial performance is improving from the previous period. Reinforcing this, the non-executive director is likely to consider the CEO as important to his/her chance of a second period on the board. Following this logic, the non-executive director is likely to view the costs of defending shareholders' interests as being lower than the costs of defending management interests. Consequently, the intensity of their capture by the CEO is likely to increase, as they get closer to the time of re-election.

Proposition 2 After the non-executive director has been on the board for period of time, the engagement stage, the CEO will start to capture the non-executive director and the non-executive director's control and

monitoring task performance will decline, whilst their service and strategy task performance will increase.

After re-election to the board for a second term, we enter the stage 3 process, the relationship renewal stage. Here, the non-executive directors are likely to perceive their ties to the CEO and the executive as being increasingly important factors in enhancing their marketability as directors for other companies. Thus, maintaining a position of independence from management may be at some cost to their reputation for the service role that resource dependency theorists, such as Hillman et al. (2000) suggest non-executive directors provide. A reputation for opposing management in a situation where CEOs have extensive social network ties is likely to reduce future benefits and by implication raises costs for non-executives. CEOs of other firms are unlikely to want directors who are constantly challenging and opposing the management position on their boards. Consequently, non-executives wishing to enhance their opportunities for future directorships are likely to be fully captured by the CEO.

The non-executive director will identify himself or herself with the CEO and the executives and identification with shareholders' will become very low. In examining how regulators' behaviour changes over time, Bernstein (1955) suggests that the dominant interest group will fully capture the regulator. In addition, Posner (1974) suggests that regulation is supplied to the interest groups who provide benefits to the regulator. Using the analogy of the non-executive director as the regulator, board interlock research suggests CEO-board cooperation is an important factor in non-executives being able to extend their network relationships and enhance their prospects for future directorships (Gulati and Westphal, 1999; Mizruchi, 1996; Mizruchi and Stearns, 1994). Through their social networks, CEOs can influence other CEOs perceptions regarding the trustworthiness of non-executives. Future job prospects for non-executives are likely to depend on their reputation in supporting management interests as well as the financial performance of the firm. Support for this argument can be found from sociological perspectives on boards of directors. Researchers in this tradition have long argued that boards are a locus of social control, protecting the ruling managerial elite (Palmer and Barber, 2001; Useem, 1982). To the extent that these can be seen as benefits for the non-executive director, then they are likely to enhance non-executive capture, and strengthen the position of the CEO.

Proposition 3 In stage 3, the relationship renewal stage, the non-executive director will become fully captured by the CEO and thus their control and monitoring task performance will be very low, whilst their strategy and service task performance will be very high.

5 Discussion and conclusions

Scholars have identified a number of tasks board members undertake and how board processes and behaviours influence task performance, but less is known about how task performance changes over time. Equally, most studies have examined board level processes and board task performance, but there is a dearth of studies regarding the factors influencing individual director task performance, and how directors' identities may shape their involvement in tasks (Hillman et al., 2008). We have developed a theoretical framework that provides a more dynamic insight into board behaviours and

non-executive director task performance. This framework uses capture theories of economic regulation to develop a number of propositions relating to changes in a non-executive director's task performance over time. We contend that we can divide a non-executive director's time on the board into three stages, the independence stage, the engagement stage, and the relationship renewal stage. Through this three-stage process we develop propositions that help to provide new insights into how non-executive directors' involvement in, and attitude towards their control and monitoring task, and service and strategy task, can change as they develop relationships with the CEO and other executives on the board over time.

The theoretical arguments we advance here contribute to existing literature in several ways. First, whilst Shen (2003) uses an evolutionary perspective to explore changes in CEO behaviour over their period of tenure, this paper argues that it would also be useful to examine how the behaviour of non-executive directors changes over time. In this respect, our approach is similar to Shen (2003) in recognising the dynamic nature of boards and director behaviour. The recognition of board dynamics develops from the attention paid by researchers to board behaviour and process (Huse, 2005; Minichilli et al., 2009, 2012; Ruigrok et al., 2006; Van den Heuvel et al., 2006; Van Ees et al., 2008; Zona and Zattoni, 2007) and the socially situated nature of directors' behaviour and attendant performance (Westphal and Zajac, 2013).

Second, we partly borrow from Hillman et al. (2008) in arguing that the task performance of a non-executive director varies with the director identity and identification with differing stakeholder groups in the firm, primarily shareholders, the CEO and executives, and the organisation. However, we add to the literature by arguing that non-executive identities may change over their period on the board and specifically that they increasingly identify themselves with the CEO and executives, and decreasingly with shareholders.

Third, our framework uses the individual non-executive director as its unit of analysis. The majority of previous studies on task performance use the board as the unit of analysis rather than the individual director. We agree with Veltrop et al. (2012) that it is important to have a greater understanding of the factors that influence the individual director's performance as part of the board.

Fourth, we contribute to understanding board behaviours by advocating the need to examine the changing attitudes to control and monitoring that the non executive(s) might adopt and the differing ability of the non-executive to contribute to strategy and provide service to the executive over time. To our knowledge, there have been no studies utilising theories of economic regulation to understand attitudes and behaviours of non-executive directors. We propose that a non-executive director's task performance changes through their life cycle on the board. We suggest that initially a non-executive director takes an active role in monitoring the CEO and the executive, and thus control and monitoring task performance is high. However, over time the non-executive director's active role changes from control and monitoring the executive to one of provision of strategy and service. We argue that this is due to capture by the CEO, which alters the relative costs and benefits of a non-executive director in undertaking their control and monitoring task relative to their strategy and service tasks. In the early stages of their period on the board, the benefits of rigorous monitoring of the CEO considerably outweigh the costs of monitoring, with the consequential effect of reducing the time and effort spent on their strategy and service task. As the non-executive remains on the board for a period of time,

we suggest that the cost-benefit equation from active monitoring alters. In this case, the cost of monitoring increases relative to the benefits, with a resultant reduction in the amount of time and effort spent on control and monitoring compared to that spent on strategy and service.

Fifth, we use arguments from social psychology theory and social network theory to explain the reasons why a non-executive director may be liable to capture by the CEO. The relationship between the CEO and a non-executive director is rightly regarded as being of the utmost importance to the effective workings of any board and our paper attempts to explain the dynamics of this relationship.

Sixth and finally, the framework we propose might help further the understanding of the reasons for the lack of equivocal empirical support for the relationship between board composition and structure and firm performance (Lynall et al., 2003). The dynamics of the relationship between the CEO and the non-executive directors, where the former might capture the latter, provides a possible explanation why board structure is less important then agency theorists advocate. Equally, notions of director capture are important to understanding how individual director task performance may change over time. The outcome of capture resulting in lower levels of monitoring and control task performance and higher levels of strategy and service task performance. Our theorising thus provides an economic rationale for understanding why most non-executive director dominated boards are not the vigilant monitors that the requirements of corporate governance codes require or the public expects.

A practical implication that can be drawn from our theoretical insights is the suggestion that regulators should consider whether non-executive directors should have a limited time period on the board if they are to fulfil their requirements laid down in corporate governance codes. Moreover, shareholders may wish to be cognisant of potential capture effects when re-appointing directors. However, it must be recognised that these arguments are merely a first attempt at providing a better understanding of non-executive behaviours over their time on the board. The next step is to empirically verify capture propositions put forward in this paper.

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