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# BOARD CONTROL AND CEO COMPENSATION

BRIAN K. BOYD
*College of Business and Public Administration, Old Dominion University, Norfolk, Virginia, U.S.A.*

*The board of directors has been identified as a key internal control mechanism for setting CEO compensation. Theory suggests that CEOs will attempt to circumvent board control in an effort to maximize salary. This hypothesis was tested using a sample of 193 firms in a cross-section of industries. Corporate governance literature was reviewed to develop a multiple indicator measure of board control. Although, as hypothesized, CEO salaries were greater in firms with lower levels of control, CEO compensation was not significantly related to firm size or profitability.*

A dozen chief executive officers of U.S. firms accompanied George Bush on his trade mission to Japan in 1992. The combined salaries of these CEOs exceeded $25 million, and received extensive criticism by both the domestic and international press. Executives of nonprofit organizations have also come under attack: rapid growth of hospital CEO salaries has prompted reform proposals in several states, and probes by the Internal Revenue Service (*The Wall Street Journal*, 1992a).

Subsequently, the Securities and Exchange Commission proposed a set of new rules designed to facilitate disclosure of executive compensation, and to describe better the criteria used to set compensation (*The Wall Street Journal*, 1992b). CEO salaries have shown limited correlation to firm size or performance, and have grown at a much faster rate than salaries for production workers (*Fortune*, 1985). Total CEO compensation (including cash, stock options, benefits, and perks) is substantially higher for U.S. executives than their counterparts in Europe or Asia—in 1992, for example, the U.S. CEO of a mid-sized firm had an average total compensation of $717,237. CEOs of similar sized firms averaged $439,441 in Britain, and $390,723 in Japan (*The Wall Street Journal*, 1992c). One trend in recent research is to examine the relationship of the board with CEO compensation.

While several studies have addressed the role of the board in setting CEO compensation, these have usually been as part of a larger analysis. Consequently, the unique effect of the board in setting compensation is still unclear. Additionally, studies have used very different measures to operationalize board control, thus limiting generalizability. The following sections develop a conceptual model for measuring board control, and relate that model to levels of CEO compensation. Data on board composition and CEO compensation were collected from 193 firms in a cross-section of industries. Hypothesis testing is followed by implications for future research.

## LITERATURE REVIEW AND THEORY DEVELOPMENT

Research on executive compensation has only recently extended to the field of strategic manage-

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ment. Initial research on the topic focused on the role of firm performance, with disappointing results. While both profitability (Deckop, 1988) and sales growth (Baker, Jensen, and Murphy, 1988) have been linked to CEO compensation, the levels of explained variance have been relatively low. Studies of compensation and stock returns have been equally mixed. Benston (1985), and Kerr and Bettis (1987) both reported no relationship for these variables, while other studies have reported positive effects (Coughlan and Schmidt, 1985; Jensen and Murphy, 1990; Murphy, 1985, 1986). Similarly, studies linking CEO compensation to firm size have yielded conflicting results (Cicsel and Carroll, 1980; Lambert, Larcker and Weigelt, 1991). Other studies have taken a wider focus, and developed frameworks for explaining differences in CEO compensation across firms (e.g., Finkelstein and Hambrick, 1989; Rajagopalan and Prescott, 1990; Zajac, 1990). A recurrent theme in these studies is the role of the board of directors. Agency theory offers a framework for evaluating the effect of CEO/board relations on levels of executive compensation.

**The role of the board under agency theory**

Agency theory evolved from risk sharing research in economics. The unit of analysis is the relationship between a principal and agent, and the theory addresses causes and consequences of goal divergence between the two parties. Consequently, agency theory is a particularly useful framework for addressing CEO/board relations.

An agency problem exists when an agent (e.g., a CEO) has established goals which conflict with those of a principal (e.g., the board). Such problems are likely to occur when a key decision maker has no financial interest in the outcome of his decisions (Fama and Jensen, 1983). A CEO with no or minimal equity ownership, for example, is expected to have substantively different goals than stockholders or a CEO entrepreneur. Carl Ichan (1986: 101), for example, observed that 'The top man. . .usually finds expanding his power more important than rewarding owners (stockholders).' Specifically, the absence of ownership creates 'an incentive to consume more on the job than is agreed in his contract' (Fama, 1980: 296). Thus, the CEO may focus on maximizing his own wealth vs. that of the firm. The first step in pursuit of this strategy is to 'engineer a large fixed salary' (Walsh and Seward, 1990: 432). The net effect is for the CEO to pursue a salary which is higher than would be preferred by stockholders (Hill and Phan, 1991).

The agency problem can be alleviated by separating responsibilities for decision *management* vs. decision *control* (Fama and Jensen, 1983). Control mechanisms can be both internal and external. External controls would include market-based measures such as failure of the firm, or a takeover attempt. The board serves as the representative for stockholders (Fama and Jensen, 1983; Zald, 1969), and is the primary internal control mechanism to better align the different interests of shareholders and top management (Mizruchi, 1983; Walsh and Seward, 1990). A spate of recent shareholder suits has underscored the board's role as ultimate legal responsibility for policy decisions (*Business Week*, 1989). One responsibility of the board is to monitor CEO performance, and determine compensation levels accordingly (Lorsch, 1989). The board of directors of at least one firm, Fairchild, has been sued by stockholders for allegedly overpaying its CEO.

Effective salary maximization requires that the CEO be able to circumvent these control mechanisms—i.e., be able to dominate or co-opt the board (Eisenhardt, 1989; Fama, 1980). Walsh and Seward noted that CEOs have 'no choice but to tamper with the board's ability to monitor and control their performance' (1990: 431) in the pursuit of job security. This rationale suggests that the board of directors plays a major role in setting CEO compensation.

Several studies have begun to explore the role of the board in setting CEO compensation. Tosi and Gomez-Mejia (1989) developed measures of compensation monitoring and influence. They found that monitoring reduced the CEO's influence in the pay process. Hill and Phan (1991) found that CEOs were better able to circumvent board monitoring and incentive mechanisms as CEO influence increased. Finkelstein and Hambrick (1989) reported similar findings, but also observed that extremely long CEO tenure (over 18 years) had a negative effect on compensation. In comparison, Deckop (1988) found compensation to have only a minimal relationship

with CEO tenure. Finkelstein and Hambrick also reported that board vigilance, as measured by stock ownership, was unrelated to total compensation.

It is also important to recognize the overlap of the agency framework with related work on power. Over two decades ago, Zald (1969: 100) observed that boards have many responsibilities, including the selection and compensation of the chief executive. He noted that board effectiveness in the completion of these tasks depended on several factors, including 'sources of board member power *vis-à-vis* executives.' While board power facilitates protection of shareholder interests (Pearce and Zahra, 1991), CEO power can be used to limit and undermine board control (Hill and Phan, 1991; Kimberly and Zajac, 1988). Thus, the subsequent hypothesis (and, in fact, many of the individual variables) could be equally justified from a power perspective.[1]

The control model of CEO/board relations is also consistent with corporate governance research: The broad range of CEO salaries (Conference Board, 1991a) may simply be a function of the highly uneven levels of board control across firms. While there are numerous instances of inert, 'rubber stamp' boards (e.g., Business Roundtable, 1978; Mace, 1971; *The Los Angeles Times*, 1986), evidence would suggest that many boards are playing a more active role in corporate Americca (e.g., Boyd, 1990; Weidenbaum, 1986). Consequently, CEO compensation levels may substantially vary across firms, simply as a function of how well a board fulfils its control responsibilities.

In summary, CEO compensation appears to be only partially driven by firm size or performance. Control models attempt to explain this discrepancy with the following propositions: (1) The CEO will strive to maximize his own self-interest in regards to compensation; (2) His success at maximization is a function of an ability to circumvent or minimize board control. Thus, one would expect that the CEO could command a larger salary when he dominates the board of directors. Stated formally:

*Hypothesis 1: CEO compensation will be inversely related to levels of board control.*

[1] I am indebted to an anonymous SMJ reviewer for this insight.

## METHOD

### Sample

Data were collected from 193 firms in 12 industry groups as part of a larger research project. All data were collected for the year 1980. Industry groups were selected to represent a broad range of market conditions, as measured by Dess and Beard's (1984) environmental dimensions. The sample included most SIC industrial classes, including manufacturing, transportation, minerals, financial services, and retail trade. Industries included in the study are listed in Table 1, along with their respective 4-digit SIC codes, and the number of firms sampled in each industry.

A list of firms in each industry was generated using *Moody*'s manuals. Sample firms were publicly held in 1980, and headquartered in the U.S. Heavily diversified and subsidiary firms were excluded. In smaller industry groups, all firms meeting the selection criteria were included in the sample. In larger industry groups, however, the *N* was sufficient to permit stratified sampling based on size. This sampling design helps avoid limitations identified in other studies of CEO compensation, such as sampling a single industry, or sampling only the largest publicly held firms.

### Measurement

*CEO compensation.* CEO compensation is composed of three elements: base salary, bonus, and long-term or deferred income. Total cash compensation is the sum of salary and bonus, and is the measure used by most studies of CEO compensation. Therefore, total cash compensation was used as the dependent variable in this study. Total cash compensation has been found to be an effective proxy for measures which include deferred income (Lewellen and Huntsman, 1970). Salary and bonus were not coded separately, since less than one-third of the sample reported separate data. As recommended by Finkelstein and Hambrick (1989), the logarithm of compensation was used to reduce heteroscedasticity.

*Board control.* There are several prerequisites for a board to be able to fulfil its control responsibilities adequately. Fama and Jensen (1983) argued that effective control requires that directors have sufficient incentive and are free from collusion or domination by the CEO. Given

Table 1. Descriptive information for sample

| Industry | SIC | *N* | Mean CEO Compensation |
|---|---|---|---|
| Crude oil and natural gas | 1311 | 18 | $149,951 |
| Paper products | 2621 | 15 | $262,450 |
| Book publishing | 2731 | 13 | $158,859 |
| Oil refining | 2911 | 13 | $262,915 |
| Hydraulic cement | 3241 | 15 | $229,368 |
| Steel | 3312 | 14 | $234,403 |
| Electronic computing equipment | 3573 | 12 | $254,061 |
| Semiconductors | 3674 | 12 | $201,215 |
| Certified air transportation | 4511 | 20 | $250,005 |
| Electrical power utilities | 4911 | 21 | $138,584 |
| Department stores | 5311 | 18 | $297,344 |
| National banks | 6025 | 22 | $188,869 |

the many nuances of board control, Eisenhardt (1989) recommended the use of multiple measures in operationalizing this construct. Statistically, multiple measurements are desirable when a construct can be measured in several ways, or in the face of measurement error (James, Mulaik, and Brett, 1982). Thus, a structural model which incorporates multiple measures of board control would offer a more powerful test of the control-compensation model. A review of corporate governance literature suggests several measures of the degree of board control:

First, *CEO duality* exists when a firm's CEO also serves as chairman of the board of directors. Holding the highly symbolic position of board chair would provide the CEO with a wider power base and locus of control (Hambrick and Finkelstein, 1987; Harrison, Torres, and Kukalis, 1988; Patton and Baker, 1987). In contrast, an independent board chair will facilitate objective assessment of CEO and top management team performance (Weidenbaum, 1986). Therefore, CEO duality is expected to have a negative relationship with the degree of board control (Morck, Shleifer, and Vishny, 1989). Data for all board variables were collected from proxy statements and annual reports. A dummy variable was coded as '1' if the CEO also served as board chair, and '0' otherwise.

The *ratio of insiders* on the board has been suggested as a second mechanism to weaken or nullify board control (Alderfer, 1986; Beatty and Zajac, 1990; Schellenger, Wood and Tashakori, 1989), thereby increasing the feasibility of board domination by the CEO (Patton and Baker, 1987). Fama (1980: 293), for example, proposed that inclusion of outside directors would help prevent top management from deciding 'that collusion and expropriation of security holder wealth are better than competition among themselves.' Similarly, Weisbach (1988) found that CEOs of poorly performing firms were more likely to be removed in companies with outsider-dominated than insider-dominated boards. Thus, the ratio of insiders is expected to have a negative relationship with board control. Insiders were defined as directors who are also members of a firm's management. The number of insiders was divided by the total number of board members.

Many critics of corporate governance recommend that outside directors acquire stock of the firms they advise (e.g., *Fortune*, 1991; *Business Week*, 1991). That recommendation is consistent with agency theory, which proposes that *board stock ownership* is a powerful incentive for fulfilling control responsibilities (Beatty and Zajac, 1990; Holderness and Sheehan, 1988; Patton and Baker, 1987; Shleifer and Vishny, 1986; Zald, 1969). Consequently, board stock ownership is expected to have a positive relationship with board control. This variable was measured as the percentage of common stock owned by the board of directors. Stock owned by the CEO was excluded from this measure.

Trends in institutional ownership are also related to board control. One survey found that 20 percent of *Fortune* 500 firms had large-block shareholding by pension and profit-sharing funds,

and an additional 26 percent had large-block shareholding by financial firms (Shleifer and Vishny, 1986). As the magnitude of these large-block holdings increase, it becomes proportionately more difficult to withdraw or transfer holdings across firms. Consequently, institutional owners have assumed more active roles in their investments, often by obtaining seats on the board of directors (Holderness and Sheehan, 1988; *The Wall Street Journal*, 1991). Thus, the *number of directors representing ownership groups* is expected to have a positive relationship with board control (Zald, 1969). The SEC requires disclosure of all sources which own 5 percent or more of a firm's stock. This variable was coded as the number of these owners (or their agents) who sit on the board of directors.

A final variable proposed by agency theory is the *level of director compensation*. Fama and Jensen (1983) argued that the true value of a directorship is the opportunity to develop a reputation as an expert in decision control, thereby increasing the value of an individual's human capital. This perspective has been echoed by numerous writers (e.g., *Business Month*, 1990; Mace, 1971). Fama and Jensen also propose that this reputation building is most credible 'when the direct payments to outside directors are small (1983: 315).' Alternately, high levels of director compensation are thought to undermine the independence and credibility of outside directors (*Business Week*, 1991; Kosnik, 1990; *The Wall Street Journal*, 1991a, 1992d). For example, Baysinger and Hoskisson (1990: 72) commented on a common belief that chief executives 'dominate their boards by using their *de facto* power to select and compensate directors.' This rationale is also supported by anecdotal evidence. F. Ross Johnson, former CEO of RJR Nabisco, for example, justified high levels of director support by stating 'If I'm there for them, they'll be there for me' (*Business Week*, 1991: 94). Similarly, the CEO and Chair of Morton International argued that high levels of compensation compromise a director, with the net result of having 'destroyed his effectiveness' (*The Wall Street Journal*, 1991: B2). Therefore, director compensation is expected to have a negative relationship with board control.

Director compensation is composed of three elements: an annual retainer, per-meeting fees, and committee pay. Director compensation is unique in that levels for individual directors may vary, depending on attendance and committee service. Since not all directors will serve on board committees, most comparisons (e.g., *Business Week*, 1991; *Fortune* 1991; Kosnik, 1987) exclude committee pay when estimating compensation for an 'average' director. In 1990, committee pay comprised a relatively small portion (13%) of total director compensation in manufacturing and service firms (Conference Board, 1991b). Therefore, director compensation was measured in this study as the sum of annual retainer plus per-meeting fees. As with CEO compensation, stock options, insurance, and other benefits were excluded from this measure.

*Firm size*. This variable was measured by the logarithm of net sales. Financial data were taken from the Compustat data base, and supplemented by annual reports as needed.

*Profitability*. This variable was measured by return on equity.

### Statistical methods

The model was tested using LISREL VII (Joreskog and Sorbom, 1988). This methodology is appropriate when studying variables which imperfectly represent latent constructs (Saris and Stronkhorst, 1984). By using multiple indicators, LISREL estimates are free from the biases imposed by measurement error or unreliability (Herting, 1985). The LISREL analysis combined both theoretical and measurement models. It is recommended that multiple criteria be used to evaluate the overall fit of a LISREL model (Bollen, 1989). The overall fit of the hypothesis to the observed correlations was assessed through five methods. First, the significance of the chi-square statistic was examined. Chi-square measures the overall fit of a given model, with a smaller value indicating a better fit. Second, a variant of chi-square which adjusts for degrees of freedom was examined. Third, the goodness-of-fit index (GFI) offers a measure of fit which is independent of sample size, and robust against nonnormality. Fourth, the root mean square residual was examined to estimate the average magnitude of the fitted residuals. Finally, the magnitude of the coefficient of determination for compensation was assessed. The significance of individual paths was assessed using *t*-ratios.

### Statistical controls

As noted previously, studies have reported mixed results for relationships of CEO compensation with firm size and profitability. However, the pervasiveness of this research suggests that these variables should be included in any study of CEO compensation, if only for purposes of replication and control.

## RESULTS

Descriptive statistics and intercorrelations for all variables are shown in Table 2. Point biserial correlations were used to estimate relations involving the dichotomous duality variable. These data indicate that the sample represents a broad range on different board control measures. For example, the average insider ratio was 30 percent, and ranged between 5 percent and 100 percent. Similarly, the proportion of stock ownership by directors ranged from 0 to 71 percent, with a mean of 5 percent. A 'typical' board would also meet seven to eight times yearly, have three board committees, and have one director representing an ownership group. Average CEO compensation was $215,914 and ranged between $56,050 and $654,253.

### Results of measurement submodel

As proposed, CEO duality and total director compensation loaded negatively on board control, and board stock ownership and board representation by ownership groups loaded positively on board control. Contrary to expectations, the insider ratio loaded positively on the board control dimension. A separate confirmatory factor analysis for the board control submodel is reported in Table 3. As expected, the indicators do load very strongly on a single factor: $\chi^2$ adjusted for degrees of freedom is 2.26, and the root mean square residual is 0.05. Overall coefficient of determination for the submodel is 0.80. Of course, the fit statistics do not reflect that, while the insider ratio loaded significantly on this dimension, the direction of loading was counter to expectations. Similar findings have been reported in a replication of the board control submodel in a different sample (Boyd and Carroll, 1993).

### Model summary statistics

The LISREL model used to test the effect of board control on compensation is shown in Figure 1. The $\chi^2$ statistic for the model is 66.82. This statistic is highly sensitive to sample size (Joreskog and Sorbom, 1988), and a recommended alternative is the $\chi^2$/d.f. ratio (Carmines and McIver, 1981). This adjusted ratio is 3.93, and indicates that the model is an adequate fit to the data. The goodness-of-fit index (0.91) and root mean square residual (0.14) also indicate an adequate model. The coefficient of determination, or $R^2$, is 0.63 for CEO compensation. Summary statistics for all models are shown in Table 3.

Table 2. Descriptive statistics for variables

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|
| | 1.000 | | | | | | | |
| | 0.187 | 1.000 | | | | | | |
| | −0.118 | −0.031 | 1.000 | | | | | |
| | −0.287 | 0.190 | 0.337 | 1.000 | | | | |
| | −0.024 | −0.184 | 0.201 | 0.164 | 1.000 | | | |
| | 0.601 | 0.081 | −0.163 | −0.302 | −0.121 | 1.00 | | |
| | 0.618 | 0.152 | −0.207 | −0.267 | −0.173 | 0.64 | 1.000 | |
| | 0.196 | −0.047 | −0.049 | −0.197 | 0.065 | 0.13 | −0.193 | 1.000 |
| Mean | 12.6 | 0.48 | 0.30 | 4.87 | 0.89 | 8536.72 | 5.73 | 0.17 |
| S.D. | 0.53 | 0.50 | 0.16 | 10.68 | 1.28 | 5668.49 | 1.82 | 0.60 |

Variable list: 1. CEO compensation (logarithm), 2. CEO duality, 3. Insider ratio, 4. Percent of stock owned by directors, 5. Number of directors representing ownership groups, 6. Director compensation, 7. Firm size (logarithm), 8. Return on equity.

Table 3. Summary statistics for LISREL models

| Model | $\chi^2$ | $\chi^2$/d.f. | GFI | $GFI_a$ | RMSR | CED |
|---|---|---|---|---|---|---|
| Structural model (17 d.f.) | 66.82 ($p$ = 0.0001) | 3.93 | 0.91 | 0.82 | 0.14 | 0.63 |
| Confirmatory factor model for board control (5 d.f.) | 11.31 ($p$ = 0.046) | 2.26 | 0.98 | 0.93 | 0.05 | 0.80 |

GFI: Goodness of fit index, $GFI_a$: Goodness of fit index, adjusted for degrees of freedom, RMSR: Root mean square residual, CED: Coefficient of determination.

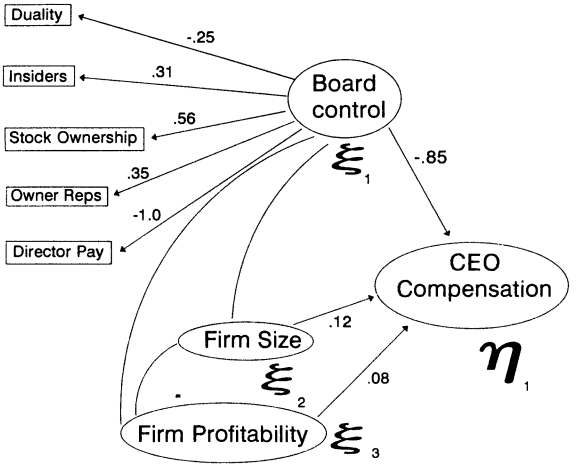


Figure 1. Simplified structural model
Note: Certain parameters (e.g., phi and theta-delta matrices) are excluded from the diagram

The coefficients for control, firm size, and profitability can be interpreted as effect sizes relative to CEO compensation (Hayduk, 1987)—a coefficient nearing 1 means a very large effect size, while a coefficient nearing 0 means a very weak effect. Thus, as shown in Figure 1, board control had the largest effect on compensation with a standardized coefficient of −0.85. Firm size had the next largest effect (0.12), followed by profitability (0.08). The standard errors of parameter estimates for size and profitability were relatively large and resulted in $t$-values of less than 2. Therefore, parameter estimates for these control variables were not statistically significant.

### Hypothesis testing

*Hypothesis 1* stated that CEO compensation will be inversely related to levels of board control. As shown in Figure 1, this hypothesis was supported with a $gamma_{11}$ coefficient of −0.85.

## DISCUSSION

Board control has been included as one component in several models of CEO compensation. This paper proposed that multiple indicators are useful for operationalizing board control. Our model provided a more detailed understanding of board control, and explained a significant proportion of variance in CEO pay. These results support previous analysis describing the board as a key internal control mechanism (Walsh and Seward, 1990). Consequently, management teams may wish to consider strong boards as a 'lesser evil' to the risk of harsher, market-based controls.

Results of the measurement submodel for control also cause us to rethink some assumptions regarding board functions. Contrary to expectations, the ratio of insiders was negatively associated with compensation. The bulk of previous research argued that inside directors were essentially pawns of the CEO. Research presented here supports the work by Mizruchi (1983) and others who argued for a very different role of inside directors. Mizruchi suggested that inside directors will feel as if they are being evaluated by the outside directors. Inside directors, particularly those considered as possible successors to the CEO, may fear the appearance of siding with the CEO, and alienating outside board members. Baysinger and Hoskisson (1990) also argued that legal obligations and concern for professional reputation will cause inside directors to limit their support for their CEO. Additionally, since salaries of the top management team are often closely linked to that of the

CEO, the presence of inside directors may drive down CEO salaries simply to avoid the perception of impropriety or self-serving behavior.

Our analysis is subject to several limitations. As with other studies, only a minority of firms reported separate data for base salary vs. bonus. While the majority of studies use total cash compensation as the dependent variable, this does raise several questions. Finkelstein and Hambrick (1989) reported a significant link between bonus pay and ROE. How does the board moderate this relationship, if at all? Also, agency theory suggests that CEOs will attempt to reduce their own risk via larger base salaries; yet, such a pay structure may be dysfunctional for the organization and shareholders (Walsh and Seward, 1990). One might therefore expect that the ratio of bonus pay to total compensation would increase significantly as does board control. Since only a small subset of firms disaggregate compensation data, future studies on this topic will require a substantially larger sample size to address these kinds of questions.

One direction for future research focuses on the role of the board in the link between CEO pay and performance. Previous agency studies have taken contrary positions on this issue. Eisenhardt (1989: 65) argued that board which fulfils its control responsibilities will have superior information resources. Such information would enable the board to compensate CEOs for 'taking well-conceived actions whose outcomes may be unsuccessful.' Thus, Eisenhardt proposed that active boards would compensate CEOs based on their behavior rather than on balance sheets, thus diluting the pay/performance relationship. In contrast, empirical studies (Hill and Phan, 1991; Tosi and Gomez-Mejia, 1989) suggest that board control would strengthen the pay/performance relationship. An alternate explanation is that board control may qualitatively alter the nature of this linkage: superior board information on CEO abilities may lead to a weakened relationship of CEO pay with short-term performance, but a strengthened relationship with long-term performance.

Additionally, it would be worthwhile to replicate this analysis using CEO long-term compensation as the dependent variable. While Lewellen and Huntsman (1970) reported that cash compensation is an effective proxy for long-term compensation, long-term compensation has become a proportionately more important aspect of executive compensation over the last two decades. Recent changes in the reporting of executive compensation imposed by the Securities and Exchange Commission will substantially improve the feasibility of such research.

The results of the confirmatory factor model support the argument that board control be measured with multiple indicators. As such, it may be overly optimistic to measure board control with single indicators such as stock ownership or the ratio of insiders. Thus, a promising avenue for future research is further effort in conceptualizing and measuring this important variable. Comparison of perceptions of board control with archival measures used here would be an important test of validity, and may also offer some insights regarding potential self-report biases in surveys of senior managers.

Other research may identify additional applications of board control for strategic management research. For example, what are the implications of board control for corporate performance? While greater board involvement may increase the quality of management decisions, it may also complicate and lengthen the decision process. Consequently, board control may be advantageous under certain conditions (e.g., assessing possible actions of competitors) but a hindrance in other conditions (e.g., decisionmaking in high volatility environments).

A final agenda for future research is additional theory building on CEO/board relations. The present study drew primarily from agency theory to build a model of board control. Still, numerous other labels have been used to characterize CEO/board relations, including board vigilance, involvement, monitoring, and influence. Do these different terms draw on the same construct, several overlapping constructs, or entirely different dimensions? For example, as noted earlier, there are many parallels between agency and power perspectives in studying board control and executive compensation. Thus, while power and control would seem to be separate constructs, one can identify many indicators (e.g., duality) which may represent both dimensions. Integration of these diverse approaches to conceptualizing CEO—board relations would be invaluable in future studies of executive compensation.

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