A PROCESS MODEL FOR EXPLAINING AMBIGUITY IN EMPIRICAL RESEARCH ON CORPORATE GOVERNANCE: AN INSTITUTIONAL APPROACH TO THE AGENCY PROBLEM

We integrate agency and institutional theory by applying institutional approaches to the agency problem. Through a survey instrument, it was found that the normative framework of the board acts as a powerful constraint on behaviour of all its members (including the CEO) by informing the membership of what is appropriate and legitimate action, independent of individual distrust of each other and of individual notions of the board’s role. The normative environment of the board, as an institution, constrains the behaviour of its members in ways that affect the outcome of interventions (based on agency concepts such as changes in board structure and process) on firm performance. This effect could account for much of the ambiguity in past empirical work.