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Dysfunctional Dynamics on Dutch Public and Semi-Public Supervisory Boards: A look inside the Boardroom

Student: Tim Buitenhuis

Student ID Number: 508862

Supervisor: Mr. Dr. J.L.M. Hakvoort

2nd reader: Ms. Dr. M.A. Beukenholdt –ter Mors

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Preface

The study that lies in front of you has been the result of several months of contemplation and hard work. This thesis marks the completion of my Master's degree in Public Administration – Public Management at the Erasmus University in Rotterdam. The original idea of the focus on Boardroom Dynamics originated from the courses I took during the first semester of my degree as well as from my time as a Junior Associate with the Netherlands Foreign Investment Agency (NFIA) in New York. I would therefore like to thank the NFIA team in New York for their support and insights during the first phase of this thesis.

I would also like to thank all the respondents that have participated for freeing up time in their busy schedules. This study would not have been possible without your contributions and I have learned a great deal from you. It has been a pleasure interviewing you all and gaining insights in your daily activities as members of managerial and supervisory boards within the Dutch public -and semi-public sector.

I would also like to thank Mr. Dr. Jan Hakvoort for his pragmatic and straight-forward approach and guidance throughout the process of writing this thesis.

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Abstract

Even though there has been a considerable amount of research devoted to describing boardroom dynamics and illustrating its importance, there is still more to discover about the dynamics on boards and the impact on organizational performance. In this thesis I will be studying the impact and origins of dysfunctional dynamics within supervisory boards of public -and semi-public organizations in the Netherlands, and their impact on the task effectiveness of these boards. Recent public scandals concerning public -and semi-public organizations, such as the near collapse of one of the biggest housing corporations, in the Netherlands have raised questions concerning the supervision of these organizations. This study will therefore focus on supervisory boards of these public -and semi-public organizations in the Netherlands

This research will gain theoretical and practical knowledge and contribute to the existing literature about boardroom dynamics by gaining insights from directors that operate on supervisory and managerial boards. Their expertise and experience will be used to formulate conclusions that will provide insight into dysfunctionality on boards and the consequences for the task performance of supervisory boards.

Keywords

Boardroom dynamics; governance; interactions; dysfunctionality; diversity

Overview of Abbreviations

BOD – Board of Directors

CEO – Chief Executive Officer

NFIA – Netherlands Foreign Investment Agency

OECD – Organization for Economic Co-operation and Development

PSO – Public Sector Organization

SEC - Securities and Exchange Commission

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1 Introduction

The key issue that will be covered in this study, is the lack of information that is currently available on the dynamics that take place on boards of organizations. Because of the nature of these dynamics, that most frequently take place behind closed doors, little is known about 'what really happens inside the boardroom' as stated by Lockhart (2006). These interactions that take place inside the boardroom may be of particular interest due to their influence on decision-making and organizational performance.

High profile corporate collapses, public scandals and organizational ineffectiveness highlight the enormous implications of governance and government failures and its potential for destruction of shareholder wealth, decrease of public trust and lack of performance (Ingley & van der Walt, 2003). In recent years, the Dutch public and semi-public sector has not been unaffected by such scandals. The "Vestia-Affair" is a prime example where a lack of checks and balances almost resulted in the downfall of the housing corporation while endangering the remaining Dutch housing corporations (Goodijk, 2013). The result: €2,7 billion to be paid by Vestia and the other housing corporations to several banks, the sale of 30.000 of Vestia's 90.000 houses and the lay-off of 30% of Vestia's employees (NRC, 2018). Another case, the diploma fraud at the "Hogeschool InHolland", highlights not only the managerial board's greed and selfishness, but also the supervisory board failure. The latter apparently approved transactions made by the managerial board with which they enriched themselves, even though these transactions were unlawful (Goodijk, 2013). In this case, in addition to the managerial board, the supervisory board also completely resigned. The consequences: severe damage to the institution's reputation resulting in the layoff of hundreds of employees.

The causes of these scandals and collapses often originate from faulty or dysfunctional governance mechanics. These governance mechanics are subject to national governance structures as well as to the dynamic between a supervisory board and management (Letendre, 2004). The latter dynamic particularly manifests itself during board meetings and is therefore described as boardroom dynamics. Boardroom dynamics refer to the interactions among board members, which may contribute to virtuous or vicious circles in relation to board task performance and value creation (Huse, Minichilli & Schoning, 2005).

Considering the profound impact of these dynamics, the consequences of them for the supervision of organizations, and the fact that cases of poor supervision do not seem to be incidents, it becomes relevant to further study this subject in order to better understand board dysfunctionality to improve governance mechanisms in the public -and semi-public sector.

The goal of this study is to gain a better understanding of the implications of dysfunctional dynamics that occur on supervisory boards and what the effect is on the task performance of

supervisory boards. This will be done by looking at previous research conducted regarding this subject and by questioning the members of supervisory -and managerial boards through interviews.

1.1 Background

The interest for this specific subject has originated from the author's own interest in human and executive behavior in combination with classes from the author's master's program. This interest was strengthened through studying abroad, following several courses regarding leadership, an internship in New York and studying the dynamics of executives throughout the Public Management Master's degree.

1.2 Rationale

The goal of the study is to develop a better understanding of the implications of dysfunctional dynamics for cooperation and effective task performance of supervisory boards.

The stakeholders of this study are managerial and supervisory boards of public and semi-public organizations. This study aims at developing an understanding of the causes of dysfunctional dynamics and in doing so, providing professionals that operate on boards with information and insights on situations and how to prevent them or address them. In addition, board members might be able to learn from information provided by their peers and apply this knowledge in their own situations.

1.3 Research Problem

The problem that will be analyzed in this thesis is the lack of knowledge about what exactly goes on inside the boardroom. Derived from this is the focus of this thesis, namely the effects of dysfunctional dynamics on the effectiveness of the supervisory board in performing its tasks. The goal of this study is to provide insights which directors can use to get the most out of their interaction with their peers and counterparts. The results derived from the theoretical part of the study will contribute to the existing literature by providing a theoretical overview of the material that has been written on the implications of dysfunctional dynamics on board process and cooperation and board effectiveness. This will allow executives and other professionals to gain more insights into dealing with boardroom dynamics. Extensive research has been done into definitions of boardroom dynamics and its importance for e.g. organizational efficiency and decision-making. This study aims to combine insights from these themes and investigate the effects of dysfunctional dynamics on board cooperation.

In order to satisfy the research aim of this thesis, the following research question has been formulated: What dynamics lay the foundations for the dysfunctionality of a supervisory board's tasks in Dutch public -and semipublic organizations?

This main research question will be split up into more specific research questions addressing parts of the main question.

- What are boards and why do they exist?
- What are the activities and structures of a supervisory board?
- When is a board effective and functional in performing its tasks?
- What is meant by dysfunctional dynamics, what are certain patterns and why do they occur?

1.4 Academic Relevance

In order to highlight how this study differs from previously conducted studies, the findings of the literature review will be analyzed with an emphasis on how this study makes contributions beyond the findings of previously conducted studies.

When looking at the extensive literature that has been written on corporate governance and the functioning of boards of directors, a significant amount of work has investigated the influence of board composition and structure on organizational performance and decision-making. Originally argued by Pettigrew (1992), Milleken & Forbes (1999) and Pye & Pettigrew (2005) highlight how the focus of future research on boards should be on the actual behavior of these boards, not their structure or composition. Previous research has mainly focused on what type of board composition leads to the best performance (Huse, 1998). With a lack of evidence on the processes and dynamics which link the inputs to the outputs, how much can be said on the effect of e.g. board composition on board effectiveness, when little is known about the intervening variable that are boardroom dynamics?

The work of Merchant & Pick (2010) attempts to fill this gap and shines a light on dynamics and group processes of boards of directors. These authors elaborate on how these dynamics can cause failures in organizations, highlighting the importance and influence boards of directors have on the functioning of organizations.

Letendre's work (2004) also focusses on the interactions and dynamics that occur in board meetings, combining these interactions and dynamics under the term: board process. As Letendre states:

“Board process has an important relationship to board effectiveness and corporate performance, even more important than board structure”. (Letendre, 2004, pp. 102)

The importance of board process and dynamics has also been recognized and highlighted by Nadler (2004):

“The key to better corporate governance lies in the working relationships between boards and managers, in the social dynamics of board interaction, and in the competence, integrity, and constructive involvement of individual directors.” (Nadler, pp. 102, 2004)

As shown above, previous studies have addressed boardroom dynamics, have explored them to better understand board functioning and have emphasized its importance. However, as with Letendre (2004) and Merchant & Pick (2010), most of these studies have not developed knowledge that has been directly developed from studying boards of directors, nor have they studied public -and semi-public organizations. This is the gap in knowledge this study aims to fill.

1.5 Practical Relevance

In addition to the academic relevance of this research, the aim of this thesis is to provide practical relevance to a certain extent. Throughout my studies, I have analyzed and studied an immense amount of literature on several subjects. One aspect of these studies has stood out to me throughout the years, the lack of information that can be used by professionals on a day-to-day basis. This study will contribute to the need for tangible advice by analyzing the practice of professionals and using these alongside theoretical insights to provide practical information for professionals to be used in their daily endeavors.

2 Theory

2.1 Literature Review

2.1.1 Introduction

The aim of this chapter is to situate this research into the wider range of research conducting on the concept of board dynamics. The goal of this section is to map out the academic literature that has been written on board origins, board structures, board dynamics and dysfunction in groups. Furthermore, this chapter aims to point out possible knowledge gaps in the literature available. This chapter will start off with the exploration of the origins of the corporate governance mechanisms in organizations. It will first highlight this considering the corporate, sector because it originated there. Later, the transition will be made to the public -and semi-public sector which this study ultimately focusses on. Finally, this chapter will elaborate on dysfunctional and functional groups and as well as functional and effective supervisory boards.

2.1.2 Origins of the Board of Directors

In order to thoroughly understand the concept of boards, its dynamics and its effectiveness, the concept needs to be divided into its main parts: governance mechanics, the board and its structure, the dynamics that occur on these boards, the nature of these dynamics and the relation to a board's tasks and effectiveness. This paragraph will start off by analyzing the concept of the board, its origins, definitions and the general discourse in the literature regarding this subject.

Boards of directors play an important role in corporate governance. The concept of corporate governance can be described as follows:

“Corporate governance pertains to ensuring that the right people in the organization consistently do the right things, for the right reasons, in the right way, at the right time, with the right autonomy” (Veldsman , pp. 57, 2012).

The definition of this concept has its origins in the corporate sector. Even though this study focusses on the public -and semi-public sector, the origins of corporate governance will first be discussed considering the sector it has originated from. This will be done in order to better understand governance mechanisms. The focus of this chapter will shift to the public -and semi-public sector later.

The directors on the board are tasked with supervising the actions of management, providing advice and veto-ing poor decisions (Weisbach, 1988). In its corporate form, the board of directors represents the shareholders and is their first line of defense against incompetent management. In extreme cases, the board can replace a CEO. The general view in academic

literature on corporate governance is that boards provide an effective internal control mechanism for corporations and an instrument to regain control, improve accountability and improve organizational performance in public sector organizations (van Thiel, 2015).

A corporation consists of a network of contracts among self-interested and possibly opportunistic parties. Most discussions of corporate governance discuss such contracts among corporate managers and the residual risk bearers, the company's shareholders (Marks, 1999). It becomes clear that there exists a conflict of interest between the corporate managers and the shareholders. Where shareholders are looking to maximize a return on investment, management is looking to maximize their own benefits and rewards which might not necessarily align with the shareholders' best interest. In order to mitigate this conflict, corporations for example employ institutional arrangements to further align interests and reduce possibly conflict that could negatively influence corporate performance and shareholder satisfaction. The set of institutional arrangements that align the interests of corporate management and residual risk bearing shareholders are put in place through the composition of contracts. These contracts are put in place in a way to control management and ensure management is being held accountable for their actions, mitigating their self-interest and opportunism.

The implications that come with the self-interested and opportunistic nature of corporate management were discovered by Berle & Means. Despite this thesis' focus on the Netherlands, Berle & Means' discoveries originated from the American business context. Due to the significance of their work and to the fact that corporate governance originated in the American business context, this will be elaborated on. In their research, Berle and Means warned of the concentration of economic power brought on by the rise of the large corporation and the emergence of a powerful and influential class of managers. The authors warned that the ascendance of unchecked corporate power had potential serious consequences for the American democracy (Mizruchi, 2004). Berle and Means stated that these large corporations, while forming only a small group, had the power to build and destroy communities while also controlling the distribution of wealth. All of this was possible without having these small groups be held accountable for their actions to their shareholders and to the public. Berle and Means introduced the concept of separation of ownership and control in their work. They raised a question about the contemporary structure of corporations and its dangers. A small group of people that had a lack of accountability whilst possessing a strong concentration of power, this sounded like a dangerous combination to them (Mizruchi, 2004).

Separation of ownership and control refers to the phenomenon of corporations in which the shareholders possess little or no control over management decisions (Marks, 1999). In large

corporations, the shareholders own residual claims (a claim to the profits of the firm) but lack direct control over management decision making. To be able to assert control over management decision making and on the election of directors while economizing the transaction costs, an outside entity had to be established that could assert this control. This entity became a board that consisted of several directors. This board has the power to hire, fire and compensate the senior management teams. The board serves to resolve conflicts of interest among the decisionmakers (management) and the residual risk bearers (shareholders). This reduces the transaction costs that were previously associated with the separation of ownership and control (i.e. the use of contracts etc.). The survival of the open corporation as an organ was therefore facilitated by implementing boards into corporations (Baysinger & Butler, 1985).

The origins of lawful requirement of the implementation of a board of directors dates to 1972 when the Securities and Exchange Commission (SEC) in Washington required US companies to create a standing audit committee of the mainboard that consisted of independent outside directors (Clarke & Branson, 2012). The concept of independence was described as having no relationship with the company outside of having a director's function. This was created in order to ensure that the execution of independent and objective judgement could take place. Independence is created through the nature of corporate composition. Shareholders are the only corporate constituency whose relationship with management is not subject to the renewal and negotiation around contracts. Therefore, management, in theory, has no power over the position and future of board members which enables them to make decisions and comments without suffering from possible repercussions from top-level management (Williamson, 1985).

The emerging debate around creating more supervision and accountability had its impact on the academic world as well. The term 'corporate governance' first appeared in the literature of the 1980's. The term refers to the process of exercising power over a company and keeping it accountable for its actions ensuring the organization does not violate regulations. The process of exercising power over a company was created through the instatement of corporate boards. These boards would function as an effective device for decision control by limiting the decision discretion of top-level management (Fama & Jensen, 1983). Boards would be tasked with supervising and advising management in order to support them in their tasks, ensuring more transparency and better decision-making.

After the rise of the concept of corporate governance into the discourse, corporate governance codes were implemented in countries across the world and through institutions such as the OECD (Clarke & Branson, 2012). Additional examples can be found in the United State where corporation laws require that the affairs of business corporations be managed under the

guidance of a board of directors (Baysinger & Butler, 1985). When it comes to matters concerning the size, structure and composition of boards and the frequency of meetings, economic theory and corporation laws are either divided or undecided on these matters. This has permitted substantial diversity in the compositional diversity among the board dimensions across corporations and organizations.

Two major distinctions can be made however between paradigms that each approach “good governance” differently. The first paradigm is predominantly present in North America and has been touched upon previously. These Anglo-Saxon principles see the organization as an instrument to create and maximize shareholder value in the shortest period possible (Goodijk, 2013). To achieve this goal, contracts are made with other stakeholders, e.g. the employees, and the free market is the central institution. The Rhineland principles, mainly prevalent in North-Western Europe, views the organization more as a partnership of stakeholders. An institutional firm where the leaders serve the interest of the organization and focus on the long-term. They carefully cooperate the stakeholders’ interests in their decision-making and weigh these interests up with one another. In addition to this, the Anglo-Saxon principles are more focused on gaming in terms of winning or losing, hiring and firing, accountability risks and legal claims. The Rhineland principles are more focused on involving stakeholders, maintaining relationships and using participation as an instrument to convince and challenge people (Goodijk, 2013). These diverging principles become noticeable when looking at the structures of corporate governance, the Rhineland two-tier board model and the Anglo-Saxon one-tier board. This will be further elaborated on in the next paragraph.

The next two paragraphs will elaborate on board composition and structures in different corporate governance regimes in both private sector corporations as well as in public sector organizations.

2.1.3 Board Composition and Structure

Corporate governance structures tend to vary widely across developed countries. Ranging from two-tier boards, consisting of supervisory and managerial boards, commonly found in Germany and the Netherlands, to the insider-dominated boards in Japan, to the boards that consist of both inside- and outside (independent) directors in for example the United States (Li & Harrison, 2008). The variations in corporate governance structures can be explained through the same variations that exist in the political and legal constraints on ownership and control between countries. It is the government regulations that affect the ways in which companies are owned and controlled, and the processes by which ownership and control change. As stated by Li & Harrison (2008), lawful requirements and ownership structure are the key elements explaining international differences in corporate governance structures.

Two types of ownership structure can be identified: a structure with a concentration of ownership within a small number of directly related firms (structure A) or a structure where ownership is dispersed among a larger number of unrelated individual and institutional investors (structure B). Both ownership structures reflect differently in the way their boards of directors are composed. In countries where ownership structure A is more prevalent, board composition will mirror the company's most important long-term stakeholder relationships. On the contrary, in countries where ownership structure B is more prevalent, outside directors tend to have some special expertise but usually no substantial capital or other commercial stake in the company (Li & Harrison, 2008).

In their study, Fama & Jensen do not make any type of distinction between different types of compositions of corporate boards. The authors focus on the concept of corporate boards and therefore the following passage will be an analysis of the origins of this concept and the initial scope of activities of the corporate board.

In order to provide the best possible control mechanism, a board is to be composed of experts who will excel in performing their duties. On a board, the inside directors are the most influential members of the board, since they possess valuable specific information about the organization and its activities and have the power to elect outside directors (Fama & Jensen, 1983). Inside directors can use their knowledge of the organization to match outside directors with the companies' activities and nominate them for a position on the board, given the internal decision control system works accordingly. The board functions as the top-level court of appeals of the internal market, as phrased by Fama. In order to fulfill this function, it must operate with full knowledge and have all relevant information concerning the organization. The presence of several top-level managers on the board is therefore of importance to provide the outside directors with information. In order to protect these information flows to the board, top managers can effectively be fired only with consent of the board and are thus protected from reprisals of other top-level managers (Fama & Jensen, 1983).

The outside directors on corporate boards consist of members who are not internal managers. Outside directors often hold a majority of the seats. These outside board members function as arbiters in disagreements among internal managers and dealing with other agency problems within management (Fama & Jensen, 1983). An effective separation of management and control mechanism ensures that outside directors have incentives to carry out their tasks. These incentives should be of significance in order to prevent outside directors from colluding with inside managers to expropriate the corporation's shareholders.

Boards may differ considerably when it comes to the ratio of insiders to outsiders and the independence of the individual directors as well as the group. As mentioned above, variations

between countries are particularly observable, but differences among corporations also exist when it comes to the activism of the board in the implementation, formulation and monitoring of strategies (Baysinger & Butler, 1985). The activities of boards of directors fall into two categories. The managerial model assumes boards play a direct and active role in managing the firm. This model corresponds with what Fama and Jensen refer to as the “decision management” component of the decision process, the ratification and monitoring of decision (Fama & Jensen, 1983). The second, supervisory, model assumes that boards monitor top management but do not make business decisions themselves (Schwartz-Ziv & Weisbach, 2012). This approach corresponds with Fama and Jensen’s “decision control” component of the decision process, the initiation and implementation steps. Since the two types of boards are involved in different steps of the decision-making process, their focus translates into their main activities inside the boardroom (Schwartz-Ziv & Weisbach, 2012). Boards that perform activities associated with the managerial model typically choose a project from several projects a firm can undertake. The board then chooses an optimal action from several possible actions while also choosing the optimal scale of an investment. Boards that perform activities that are associated with the supervisory model operate very differently. The supervisory model assumes that the role of the board is of evaluative nature. The setup of board meetings therefore generally consists of the CEO proposing a project of which the board observes the earnings. Furthermore, the board will assess the CEO’s performance and decide if it was satisfactory based on which they will retain or fire him.

Other scholars have approached the roles of management and control differently. Their view on the division of control and management is based on the existence of outside directors (control or oversight) and inside directors (management), both functioning within the same board. Inside directors are responsible for the management of day-to-day operations and outside directors carry the responsibility of providing oversight and control (Marks, 1999). This view on boards, as the previously mentioned one, also relies on the assumption that outside directors mitigate problems concerning moral hazard and adverse selection by providing oversight. They act as an internal control mechanism to represent the shareholders’ interest and keep management in control (Weisbach, 1988). This approach is compatible with one-tier board structures, as commonly found in US and British corporations.

Boards can fulfill the tasks associated with either one of these two models, or they can fulfill both tasks separately, as is the case in two-tier boards. This two-tier board model is legally required in German, Dutch, Finnish and Danish corporations (Li & Harrison, 2008). A two-tier board is composed of both a supervisory board and a management board, and therefore incorporates both the managerial model as well as the supervisory model in two separate boards. In doing so, the supervisory board is composed entirely of non-executive (outside)

directors therefore creating a fully independent controlling party. Dutch listed companies incorporate this model where the CEO is part of the managing board, preventing the emergence of a CEO-duality where the CEO also sits on the supervisory board. The managing board is responsible for the management of the company and for the realization of its goals in the best interest of the stakeholders (van Veen & Elbertsen, 2008). The supervisory board is responsible for the monitoring and advising of the managing board, while also taking the stakeholders into consideration. Scholars identify this two-tier board model as a structure that clearly separates ownership and control, providing a better functioning control mechanism compared to one-tier board models (Maassen & van den Bosch, 1999). One major reason for this better functioning is an independent judgement that is created by an external point of view on decisions. This independent external perspective on decisions prevents path-dependency based decision making and better enables boards to steer away from destructive or dysfunctional developments (Hooge & Kelderman, 2007).

The Dutch two-tier board model was implemented a decade before the concept of corporate governance started gaining traction in academic literature and years before actual governance codes were implemented. The Dutch statutory two-tier regime was incorporated in the Dutch Civil Code in 1971 and was revisited and reformed in 2004 (Groenewald, 2005). In this two-tier structure, the managerial board is required to provide the supervisory board with the information it needs, for the supervisory board to perform its duties in good time (Groenewald, 2005). Initially, the supervisory board appointed its own members and this authority could be restricted in any way by recommendations from shareholders, the managing board or the works council. However, when the Two-tier Structure Reform Act came into effect in 2004, some of the power of the supervisory board was shifted to the general meeting of shareholders and the works council. No longer did the supervisory board appoint its own members, the general meeting of shareholders was now in charge of the appointment of supervisory directors upon nomination of the candidates by the supervisory board. Before these nominations are made, the general meeting of shareholders and the works council may recommend candidates (Groenewald, 2005). This reform act seemingly shifted some influence and power away from the supervisory board even though they are still primarily in charge of the nomination of candidates.

Seeing as the focus of this study are the Supervisory Boards in the Dutch two-tier system, the tasks of these Supervisory Boards (in Dutch: Raad van Toezicht/Raad van Commissarissen) will be elaborated on slightly. The main tasks of boards of directors consist of a supervising and an advising role. However, when further analyzing the activities of boards, some authors have recognized additional activities that are a part of the supervising/controlling and advising tasks (Table 1).

Controlling/Supervising task	Controlling Behavior (external)
	Controlling Output (internal)
	Controlling Strategy
Advising task	Advice and Support (internal)
	Networking and Lobbying (external)
	Strategic Participation

Table 1: Tasks of the Supervisory Board (Heemskerk, 2013).

Reasons for this more extensive analysis of the tasks of supervisory boards in the Netherlands is the train of thought that supervisory boards need to do more in order to better supervise and advise management and to safeguard the societal impact of the organization. The cause of this lies with recent scandals where a lack of oversight was partially blamed on the board not anticipating enough and being too passive (Heemskerk, 2013). In addition to the simplified model of Heemskerk (2013), Goodijk (2013) distinguishes additional tasks, roles and responsibilities of supervisory boards in semi-public organizations.

Responsibilities	Tasks/Roles
Oversight on the functioning of the organization	1. Employer 2. Arranging the administration
Representing/guarding the public interest/value creation	3. Advising on policy and execution 4. Approval and control
Testing the quality of the services provided	5. Strategic partnership

Table 2: Responsibilities and Tasks of supervisory boards (Goodijk, 2013).

These two different figures highlight the deviating interpretations of a board's responsibilities and tasks. Diverging interpretations also become important when a board that consists of directors with differentiating views, need to agree on its tasks, roles and responsibilities. Will this cause discussion or disagreement, and what are the consequences? This will be elaborated on in paragraph 2.1.8. The above described tasks and goals emanate from an organization's mission and vision statement but are also subject to the governance codes that apply to the organization. These governance codes will be the topic of the next paragraph.

2.1.4 Dutch Governance Codes

As has been mentioned before, corporate governance codes have proliferated in recent years and are considered to be an effective instrument for self-regulation in both the private and public sector. The debate on corporate governance in the Netherlands was initiated in 1997 by the Committee on Corporate Governance, also known as the Peters Committee. This

committee issued several recommendations to increase the effectiveness of management, accountability and supervision. These recommendations made by the Peters Committee can therefore be seen as the first form of a corporate governance code in the Netherlands (Akkermans, Van Ees, Hermes, Hooghiemstra, Van der Laan, Postma & van Witteloostuijn, 2007). The implementation of the recommendations made by the Peters Committee turned out to have little to no effect on corporate governance characteristics, nor did research indicate that the stock market had valued the corporate governance changes. This observed lack of success of the Peters Committee led to the foundation of a new Committee which was tasked with the development of a new Dutch corporate governance code, the Tabaksblat Committee. The Committee was named after its chairman and installed on the combined initiative of the Ministers of Finance and Economic Affairs, representatives of shareholders, listed companies, Euronext Amsterdam, and institutional investors (Akkermans et al., 2007). The Tabaksblat Code became effective in 2004 and contained 21 principles of good governance representing best practice methods. These principles created a set of standards that governed the behavior of managerial and supervisory boards and their members (Akkermans et al., 2007). Like many other national governance codes, the Tabaksblat Code is based on the comply or explain principle. This implies that companies are required to comply with the best practice provisions of the code. However, if a company decides not to comply with one of the provisions, it must report them and provide explanation for its non-compliance. Some of the most important principles of the Tabaksblat Code for board members are listed in Table 3 below.

Managing Board	Supervisory Board
Managing Directors will be appointed for a maximum period of four years. Appointment for successive periods of four years is possible.	Each Supervisory Director needs to be qualified to assess the main points of the company's policy. Supervisory Directors may only be appointed for a maximum of three terms of four years.
They may be supervisory directors, but not chairmen of the supervisory board, of only two other listed companies.	No Director may be a supervisory director for more than five listed companies, a chairmanship counts double.
The Managing Board must report (annually) on the main features of its operational and financial targets, its strategy and the assumptions on which it is based.	With the exception of one supervisory director, all supervisory directors have to be independent.
Any form of conflict of interest between the company and its Managing Board is to be avoided. Managing Directors must inform the	The Supervisory Board will be responsible for deciding on all conflicts of interest regarding Managing Directors, Supervisory Directors and the external auditor in relation to the company.

chairman of the Supervisory Board of a (potential) conflict of interest.	
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Table 3: *Outlines of the Tabaksblat Code (Groenewald, 2005).*

In addition to the initial application of the Dutch corporate governance code to larger, publicly traded corporations, this law has formed the foundation for corporate governance codes in the public and semi-public sector. Each sector (e.g. housing corporations, healthcare institutions and educational institutions) has applied the general concepts of good governance into its own codes that apply to each sector. The healthcare sector formed its “Zorgbrede Governancecode” in 2005 and revised it in 2010, the housing corporations have been subject to the “Governancecode Woningcorporaties” since 2006 which has been revised in 2011 and educational institutions formulated the “Codes Goed Onderwijsbestuur” in 2006 (Goodijk, 2013). Each of these codes are, as with the corporate governance codes, based on the comply or explain principle. This provides institutions and organizations with room to work with when it comes to fulfilling these codes in their specific context.

An example of the effects of previously mentioned public sector scandals is noticeable when looking at these governance codes, in particular concerning the housing corporations. In 2015, a new law was implemented, the so called “Nieuwe Woningwet”. This law proposed additional demands for the internal organization and governance of housing corporations. Especially concerning composition and independence of management and control and the authority of supervisory boards (Goodijk, 2013).

These different governance codes have different implications for example the way in which members of supervisory boards are appointed. Board members of educational institutions are elected by the minister in place while board members of housing corporations are subject to a fit-and proper test and are then appointed through cooptation (Goodijk, 2013). The next paragraph will further elaborate on boards in public -and semi-public organizations, the characteristics and the context that they have to deal with.

2.1.5 Boards in Public and Semi-Public Organizations

Many public sector reforms in the last couple of decades owe their origins from the private sector. The application of corporate governance to government organizations and other public and semi-public organizations an example of this (Howard & Seth-Purdie, 2005). As mentioned before, this has often been identified as the result of the new public management paradigm that gained popularity by implementing private sector mechanisms into the public sphere (van Thiel, 2015). Additionally, other authors link this to the shift from government to governance in recent years. They claim that another reason for the emergence of boards on public organizations was the decentralization of these organizations (Goodijk, 2013). As more public

sector organizations (PSO's) were hived off, boards arose as an instrument for politicians to compensate this loss of direct control (van Thiel, 2015). By appointing board members, politicians were able to reconnect with the hived off organizations and receive information firsthand. Additionally, boards were considered to be an instrument that could improve the accountability of PSO's. By adding stakeholders from society or interest groups to the boards, it would help to improve organizational fit with society, increasing overall performance and efficiency while also creating legitimacy. Finally, the idea was that relevant stakeholders that held positions on boards of PSO's would be able to immediately intervene if the organization was not performing well, solving the politician's lack of influence on hived off organizations (van Thiel, 2015).

Public and semi-public organizations, such as universities, housing corporations and hospitals, usually employ a two-tier board structure. Some organizations are legally required to have a supervisory board, such as universities. Most commonly however, specific sectors will have their own governance codes in place (Boers & van Montfort, 2009). The tasks of supervisory boards of public organizations are like those of the private sector. They include a supervisory role, and an employer's role focused on the provision of a competent and fitting structure for directors. The structure of supervisory boards is also subject to the sector the organization is active in. Supervisory boards of housing corporations (Raad van Commissarissen) for example, are composed of directors that within the board itself, are members of committees that are responsible for specific tasks. These tasks range from such the determination of the financial compensation for the director to the representation and of the interest of the public that rents the properties. Supervisory boards of educational institutions (Raad van Toezicht) have a slightly different composition of committees within the board, due to the different tasks of the organization (Hakvoort, Anderson & Klaassen, 2019).

The introduction of corporate governance mechanisms into the public sphere has been accustomed with increasing prominence of supervisory boards within public organizations. In many countries, directors of boards on public organizations must abide to rules, like those associated directors of corporate boards are dealing with. The major difference between the two types of boards however, is the context in which they are making their decisions. Directors on boards of public organizations must take government policy, budgetary measures and most importantly, the creation of public value, into account (Howard & Seth-Purdie, 2005).

2.1.6 Board Relationships

The focus in this paragraph will be on the dynamics on boards and between the supervisory board and the managerial board, the so-called interboard relationship. This relation is of relevance because it is what eventually influences decision-making which in turn affects

organizational performance. The importance of the dynamics between the board and management has been highlighted by Letendre (2004). In his research, the respondents unanimously characterized boardroom dynamics as very or extremely important. Letendre has drawn the conclusion that according to his respondents, boardroom dynamics are a highly significant variable in a board's effectiveness.

In most of the academic literature, it is assumed that outside directors, or members of a supervisory board, may be more likely to act in the interest of the organization. This is due to their lack of personal involvement in the organization, making them an effective independent control mechanism. This independence in relation to the organization and its performance, influences the relationship between management and supervision. Both parties are part of different reward and accountability structures within the organization. In corporations, when a company is being taken over by another company, both parties stand to lose their jobs. However, the consequences for each party is significantly different. In the takeover context, by losing their jobs, management will lose a large amount of their income, responsibilities and prestige. Members of the supervisory board 'merely' lose a very part-time salary that comes with a part-time job. (Baysinger & Butler, 1985). The consequences for management and members of the supervisory board are similar considering public sector organizations. Research conducted by Bovens, Schillemans & 't Hart (2008) however indicates that the relationship between management and the supervisory board is very professional. Most respondents of their study find the discussion between board and management to be open and mutually respectful. Additionally, the study concluded that boards prefer to use informal methods above the use of formal powers and have trust in management while providing them with support and advise.

In addition to accountability, the interboard relationship is influenced by the supervisory board's dependence on the provision of information by the managerial board. This dependence puts management in a position of power considering they have the ability to withhold information from the supervisory board. This ability might be exercised in order to push their agenda, avoid criticism or discussion and in doing so, further complicates the board's tasks (Marks, 1999).

In addition to the consequences for both boards in light of corporate takeovers, the consequences of organizational failure for both parties diverge as well. The accountability for a lack of performance, failure to address issues or reorganization often lays with management. In many cases, organizations get rid of their top management as they are being held responsible as most cases reflect badly on management. This highlights the difference in consequences for management compared to the supervisory board. Not only is management more often held responsible, the consequences for their daily lives are of a bigger impact since they stand to lose a full-time job and income (Hermalin & Weisbach, 1988).

Finally, the hybrid role of supervisory boards, in which they advise and supervise, has been observed to be a possible obstacle for the interboard relationship. In their advising function, supervisory boards may provide apparent solutions or decisions that they themselves at a later stage need to supervise. This could cause tension in a way that, they might come across difficulties in independently supervising decisions they proposed. In reality, it is often the case that this tension between roles is not observed or considered (Boers & van Montfort, 2009).

The true dynamic between board and management is difficult to observe considering the simple fact that it takes place behind closed doors. One way of observing this dynamic would be through direct observation. The risky and litigious environments today's organizations find themselves in however, make it increasingly unlikely that the true dynamic will ever be studied in such a way (Letendre, 2004). What is left to do for academics is to unravel specific aspects of the true dynamics, piece by piece, as is the goal of this study, in order to provide an insight in what goes on behind these closed doors and what can we learn from it.

2.1.7 Groups & Dynamics

For organizations to perform effectively, they often rely on teams (Keyton, 1999). Teams and groups are inevitable components of contemporary organizations. In the case of supervisory boards, its members need to cooperate to exchange information, evaluate the benefits of certain decisions and reach well-reasoned resolutions to perform their supervising and advising responsibilities. In order to complete these tasks most effectively, boards carefully select their members in order to realize maximum compatibility. Organizations therefore hire board members with characteristics that match the organization's activities best in order to maximize performance and value or wealth creation. This does not eliminate the chances of the emergence of difficulties nor the possibility of the rise of dysfunctional dynamics in between members of the board or between the board and management. As described by previous literature and global news over from the past decades, dysfunctional dynamics can lead to mismanagement and eventually corporate and public scandals (Bovens et al., 2008; Ingley & Van der Walt, 2003). This paragraph will focus on group dynamics, what they are and where and why they occur.

Group dynamics can be defined as actions, processes and changes that occur within groups and between groups (Forsyth, 2014). What academics or people in general consider to be groups is subject to a vast range of opinions and perspectives. Most people would however agree on the fact that groups come into existence when individuals become linked together by some type of relationship (Forsyth, 2014). Groups are the setting for an infinite variety of interpersonal actions. Out of all these actions, two types of actions can be identified. Actions that focused on the task the group was dealing with (task interaction) and actions that

sustained, strengthened or weakened interpersonal relationships between members of the group (relationship interaction). Individuals in groups depend on other members, their actions, thoughts, feelings and experiences are to some extent determined by others in the group. Other factors influencing groups and their dynamics are group structure and group cohesion. The complex of roles, norms and intermember relations organize the group. Group cohesion can be defined as the integrity, solidarity, social integration, unity and groupiness of a group. All groups require a certain degree of cohesion in order to function, otherwise the group would disintegrate and cease to exist (Forsyth, 2014). Dysfunction is defined as abnormal or unhealthy interpersonal behavior or interaction within a group that leads to improper functioning (Merriam-Webster, 2019). An interaction therefore only becomes dysfunctional when it starts to negatively affect a group's relationship interaction and task interaction. Relationship interaction concerns socioemotional interaction, actions that sustain or undermine the emotional bonds linking the individual group members to each other and to the group. Task interaction includes group behavior that is focused the best course of action to take and on the group's work, projects, plans and goals (Forsyth, 2014).

A singular conflict between two directors that is resolved, is not considered to be dysfunctional because it does not continue to affect the group's relationship and task interaction any longer. A conflict that is however seemingly resolved, while in the background both directors still cherish anger, becomes dysfunctional when this anger continues to exist and starts to reflect in meetings or in cooperation. In addition, a single occasion in which management has failed in providing accurate and relevant information to the supervisory board is not necessarily considered dysfunctional, if the board will at some point acquire knowledge of this. It becomes dysfunctional when either the information is not provided afterwards and the board is unable to make a calculated decision or when the board finds out about the withholding of information by management, therefore damaging the board's trust and the relationship between both parties.

The impact of group dynamics, characteristics and psychological processes on the effectiveness of the group has also been highlighted by psychologists (Schoenmakers, 2017). Despite the presence of objectivity through rules and laws, group processes have a profound influence on the effectiveness of supervision and management.

"Effective supervision stands or falls on the way in which managers and supervisors position themselves in relation to the other" (Schoenmakers, 2017).

As an important factor in relation to trust and openness, reciprocity is seen as important. When a board expects transparency, the board itself needs to be transparent as well, "Practice what you preach". The interviews will either confirm or deny this reciprocity between management

and the board and will provide insights in possible dysfunction in this area. The next paragraph will then focus more in depth on the assumed impact of group dynamics on team's effectiveness and a board's functionality.

2.1.8 Effective Teams and Functional Boards

When groups are successful or effective, there is a rebound effect which positively affects group members. This in turn creates a greater likelihood of positive group interaction in the future. However, dysfunctional group mechanics or dysfunctional group members can cause groups to fail in their efforts to achieve their goals (Keyton, 1999). Determinants of team effectiveness have been developed over the years and the model of Larson and LaFasto below illustrates the characteristics of effective teams (Hirokawa & Keyton, 1995).

1. Clear, elevating goals
2. Results-driven structure
3. Competent team members
4. Unified commitment
5. Collaborative climate
6. Standards of excellence
7. External support and recognition
8. Principled leadership

Figure 1: Characteristics of Effective Teams (Hirokawa & Keyton, 1995).

Additionally, three other primary determinants of team effectiveness have been developed by Hackman (1990). These determinants are, the amount of effort put forth in accomplishing the group/team's task, the amount of knowledge and skills group/team members bring to the task and the use of appropriate task performance strategies. Hackman (1990) then identifies three organizational conditions that increase the likelihood of the above described determinants characterizing a group/team's work. The first condition, a group structure that promotes competent work on a task, refers to task clarity, group composition and core norms. The second condition, a supportive organizational context that reinforces excellence, concerns the organization's reward, educational and information systems. The final condition, availability, expert coaching and process assistance, refers to organizations providing groups with resources to better function within groups (Hirokawa & Keyton, 1995).

2.1.8.1 Effective Supervisory Boards

In order to research the relationship between group interactions and the dynamic of the board and the board's effectiveness, the latter will be elaborated on in this paragraph. As is defined in the dictionary, effectively fulfilling tasks requires an entity to successfully produce a desired or intended result. For boards to be able to do this, they need to be in a situation where their activities are required and where they can act on issues. The model below describes a situation in which a supervisory board becomes active in performing its tasks (Table 4).

	Properly functioning Management	Improper functioning Management
Properly functioning Supervisory Board	No issues (1)	Supervisory Board intervenes (4)
Improper functioning Supervisory Board	No short-term issues (2)	Impending trouble (3)

Table 4: Board and management and their functionality (Boers & van Montfort, 2009).

In situations 1 and 2, management is functioning properly and there is therefore no need for the supervisory board to intervene. The added value of the supervisory in these scenarios is then relatively low, because management is functioning as intended and the supervisory board is merely advising where necessary. In situation 3, both management and the supervisory board are not functioning properly. The supervisory board does not intervene, and improper management does not cease to exist. In this situation, the added value of the supervisory board is therefore also absent. The cause of this could lay with the supervisory board but it could also be a lack of information which leads to the supervisory board being unable to act on issues and effectively perform their tasks. Finally, in situation 4, management is functioning improperly while the supervisory board is functioning properly. This is when the supervisory board intervenes and ensures an improvement in management by advising, steering or even firing certain managers where necessary. This is the situation where the added value of a supervisory board becomes clear and most noticeable, and where it is effective in fulfilling its tasks (Boers & van Montfort, 2009).

In addition to having a reason to operate, for supervisory boards to effectively fulfill their tasks they need to have full knowledge of all relevant information concerning a certain decision or proposition made by management (Coulson-Thomas, 1994). Control of this flow of information typically lies with management and therefore the supervisory board depends on them to provide them with information (Marks, 1999). Management then can keep the board in the dark by not providing information on certain topics. Not only can boards be kept in the dark by a lack of information, by providing too much information on a certain subject, boards can be overwhelmed (Nadler, 2004). Many directors are overwhelmed by large amounts of information that are provided in advance of board meetings. They therefore sometimes lack the right information being presented in the right way in order to produce informed action. Management therefore has the ability to enable its supervisory board to perform its tasks or to disable it in refusing to provide relevant information or in providing it in the wrong way.

“Without the right information, in the right format, at the right time, board members may be left in the dark.” (Nadler, pp. 109, 2004).

Based on the literature highlighting the importance of information availability, the following hypothesis has been formulated:

H1: If boards are to effectively perform their tasks, they will require properly presented, full and relevant information.

A lack of full information or knowledge of relevant data is however not only management's fault as stated by Goodijk (2013). There have been observations made of supervisory boards that take the independent nature of their position too literally and merely observe from afar. A poorly informed supervisory board was listed as one of the causes that led to the near bankruptcy of two hospitals in the Netherlands (Goodijk, 2013). These boards lack sufficient involvement with the organization's policy and its activities. According to scholars, in the modern world of control, a more proactive attitude is required of these supervisory boards. They can no longer be fully dependent on just a couple meetings with management and the information they provide the board with. The availability of full information therefore also depends on the board's willingness to acquire this and its involvement in the organization.

The effectiveness of the board can be either enhanced or constrained by the strengths and weaknesses of its individual members (Coulson-Thomas, 1994). Directors on supervisory boards must be capable of absorbing information and understanding its implications. The compatibility of the directors and their mutual ability to bring out the best in each other is then another major influence on a board's effectiveness. According to Heemskerk (2013), the added value of a properly functioning, effective supervisory board consists of a couple things. A good supervisory board adds value and makes the managers more effective by challenging and questioning them without hindering management. A good supervisory board is competent, coordinated, collegial and is focused on an unambiguous goal. A good board elects directors of high quality and competence and keeps them on their toes by fulfilling its supervising and advising task (Nadler, 2004). Much will then depend on the extent to which members of the board bring out the best in one another and on the extent to which they are compatible with each other (Coulson-Thomas, 1994). The latter interpersonal compatibility, the extent to which two or more individuals can co-exist and the degree of like-mindedness, sympathy and togetherness, then affects the dynamic between board members. Togetherness is then further defined as the degree of group cohesion:

"... the integrity, solidarity, social integration, unity and groupiness of a group" (Forsyth, 2014, pp. 10).

Based on the above findings, I hypothesize:

H2: If a board lacks compatibility and cohesiveness, this disables the group to effectively perform its tasks.

Effective supervisory boards function accordingly and can contribute to the organization. According to literature on teams within organizations, the functionality and effectiveness of teams correlates with certain measurements along a couple dimensions. This will be elaborated on in the following paragraph.

2.1.8.2 Functional Boards

In the research of Murphy & McIntyre (2007), the authors have composed a list of items that together lay the groundwork for board functionality. Whilst all factors are known to have some sort of an impact on team effectiveness, some important factors will be highlighted.

Reflexive	Group social capital
Adaptable	Individual board members agree about the individual roles they are expected to play
Flexible	Individual board members possess a set of shared goals for the board and the company (outcome interdependence).
Commitment of directors to boards they sit on	Intragroup trust
Clearly articulated agenda	Mutual respect
Clear understanding of who sets the agenda	Well adapted to current environment
The individual/group responsible for setting the agenda understands they have this responsibility	The board possesses a degree of power relative to senior management
Individual board members agree about the tasks the board should be performing (group efficacy)	Team satisfaction
Working relationship with the CEO	Reward system alignment

Table 5: Board Functionality (Murphy & McIntyre, 2007).

An important and recognized input to group effectiveness is goal interdependence. In self-managing teams, such as a board of directors, cooperative goal interdependence has been found to facilitate the constructive discussion of various perspectives. This is then positively linked to a group's performance. Teams with high cooperative goals, i.e. mutually agreed upon goals, tend to discuss their different perspectives openly and constructively. This in turn develops confidence within the group dynamics that lead to effective team performance (Murphy & McIntyre, 2007).

Another factor that plays an important role in the ability of a team to carry out its tasks is the degree of task conflict. Task conflict is more likely to arise in groups where the roles of its members are somewhat ambiguous. As has been recently highlighted by scholars, boards

tend to struggle with the actual domain of their supervision and the degree of involvement that is required from them (Goodijk, 2013).

Role ambiguity within boards can be avoided by assigning board members to specific tasks through the formation of committees, as is often done within boards of housing corporations and educational institutions in the Netherlands. Role ambiguity between boards and management can be avoided by the composition of guidelines and frameworks as often found within governance codes. Role ambiguity could still be a problem despite these clear task assignments, specifically when there is not a clear understanding of one's position. Additionally, role ambiguity could be an issue because both boards have diverging interpretations of what their roles are and should be and how they are expected to fulfill them (Hovius, 2018). In theory, the two-tier board structure provides clear guidelines, the managerial board manages, and the supervisory board supervises and advises. These areas of responsibility tend to overlap, where does good supervision end and where does interference commence? This means the fulfillment of the roles of the managerial and supervisory board takes place in somewhat of a grey area with a lot of room for interpretation. In the study of Goodijk (2013), several cases of mismanagement partially originated from task related dysfunction, particularly role ambiguity. In many of these cases, the board was too passive or too limited in exercising its responsibilities. Here, the grey area led to the supervisory board being too passive in fulfilling their roles and in exercising its responsibilities. In line with the above studies, I hypothesize:

H3: If there is a lack of goal, task and role agreement, this negatively affects cooperation and the board's task performance.

Just as members of other human groups tend to do, directors on a board are likely to understand a deference-based hierarchical order (He & Huang, 2011). Such a shared understanding of who is in charge and who is not, allows for this informal type of hierarchy to structure interactions between members of board. Factors that might be of influence of hierarchy could be age, board tenure, track record, and gender.

The hierarchy provides a social order in which the opinions of the lower-ranking directors are for example less respected than the ones of the higher-ranking directors. As a result of this dynamic, conflicts among directors can be minimized because of the understanding of a hierarchy which board members go along with. In theory this safeguards effectiveness and efficiency of the board. However, when there is not a clear social order in place, a board will struggle to be effective and efficient because group interactions can be confusing and frustrating (He & Huang, 2011). When there is a disagreement concerning the hierarchy (e.g. other directors refuse to comply with established hierarchy or directors abuse their position),

conflict is bound to arise. An example of this dysfunctionality was found by Johnson (2004), who observed a pattern of establishing dominance between two directors, both battling for the “top spot” in the boardroom. Their continuous harassment and disrespect of each other led to them fully focusing on their interpersonal battle while losing sight and interest of the tasks at hand and the bigger picture. This establishment of dominance has also been observed in the relation between a managerial board and a supervisory board in the case of a major Dutch bank. Even though the bank followed corporate governance guidelines and scored well on these guidelines, the supervisory board in place did not in fact function properly. Behind the excellent scores was an underlying dynamic that resulted in a loss of necessary checks and balances while the supervisory board’s structure was severely outdated and the members of this board did not tolerate divergent opinions (Heemskerk, 2013). Another example of the abuse of hierarchy is the case of the housing corporation Rochdale where the dominant director had been able to continuously mis-inform the board and had been self-enriching himself at the cost of the organization (Goodijk, 2013). Even though these cases highlight the dominance of management, recent scholars have found that board interactions and decisions are influenced mostly by directors with the highest social status within the board (Veltrop, Molleman, Hooghiemstra & van Ees, 2017)(He & Huang, 2011). This finding indicates that as a result of the presence of a certain hierarchy and respect, one member’s impact is the most profound one. The found presence of said hierarchy and its consequences for cooperation within the board will be tested through the following hypothesis has been formulated:

H4: If there is a lack of a clear social order or hierarchy, or an abuse of hierarchy, effective cooperation will be hampered.

In close relation to the presence of a social order or hierarchy, are the concepts of mutual trust and respect, both of which are crucial to functional boards (Murphy & McIntyre, 2007). Previous studies have found evidence to suggest that groups that possess higher levels of trust are better able to avoid task conflict, escalating into destructive relationship conflict (Peterson & Behfar, 2003). In relation to intraboard dynamics, the dynamic within a supervisory board or within a managerial board, the fundamental condition is known to be trust (Hovius, 2018). A lack of, or insufficient amount of, mutual trust has been identified as the cause of the reluctance of board members to express their diverging opinions (Heemskerk, 2013). This could lead to a loss of checks and balances and to the improper functioning of the board, namely failing to critically supervise and failing to provide a countervailing power to the managerial board. In addition to this, trust shapes the foundation for constructive conflicts, the collective commitment of group members to goals and agreements and for intra group accountability mechanisms (Hovius, 2018). Because the supervisory board and the managerial board are not to be considered as one team, due to their different roles and the professional independence

of the supervisory board, this interboard dynamic is found to have a different foundation. As stated by Hovius (2018):

“Everything stands or falls with respect, this is the fundamental condition for interboard dynamics”.

The existence of mutual respect then provides the foundation for the formation of trust relationships. Based on these studies, I hypothesize:

H5: If there is a lack of mutual respect and trust among board members and between the board and management, this will hamper the effective task performance of the board.

In addition to some of the import factors that determine board functionality, supplementary factors have been found that affect a board's functionality. Diversity concerning professional background, political preference, gender and ethnicity among the members of the board has been increasing of the recent years. Recent waves of best practice have led to organizations hiring directors of highly diverse backgrounds to their boards of directors. This method of creating diversity on boards has originated from organizational scandals. The blame for such scandals is often reproached towards little diversity within the company that cultivated into narrow-minded decision-making processes, resulting in poor decision making. Diversity is then defined as:

“... the varied combination of attributes, characteristics and expertise contributed by individual board members in relation to board process and decision-making.” (Ingley & van der Walt, 2003, pp. 219)

Diversity is therefore created by hiring and appointing people with certain characteristics arising from numerous experiences which might effectively be used to address issues in a manner that is different from the one used in the past (Ingley & van der Walt, 2003).

Firms and organizations have since been increasingly pressured by their shareholders and stakeholders to increase diversity by appointing directors of different independence, skills and expertise, professional experience and knowledge. These attributes that contribute to diversity can be divided into separate types, visible and less visible diversity or demographic and functional diversity. By creating greater diversity, firms are under the assumption that this should lead to less narrow-minded decision making and encourage more openness to change (Ingley & van der Walt, 2003). The presence of a greater proportion of outside directors on a board will be better able to monitor self-interested actions by managers and thereby minimizing agency costs. According to scholars, when boards' composition is indeed diversified, boards will be best capable of fulfilling their function and acting as a strong strategic resource. Diversity

although also implies a difference in perspective on decision-making and strategy, providing a field of tension that could lead to disagreement and conflict. The study of the impact of components of diversity such as social and cultural factors, e.g. origin, on economic activity is not new and originates from institutional theory. Institutional theory contradicts more classical economic theories and emphasizes the importance and influence of social beliefs, values, relations and expectations on economic behavior (Thams et al., 2018). This underscores the profound impact diversity could have on collaboration and team effectiveness, but more in a negative way. Asymmetries in interpretation or expected behavior in boards could contribute to a “us versus them” dynamic, commonly observed in diverse teams (Piekkari et al., 2015). It becomes relevant when discussion and disagreement arising from diversity negatively influence cooperation within the board and its effectiveness. Therefore, given the ambiguous nature of the effects diversity among group members comes with, the following assumption has been constructed:

H6: If there is diversity among board members, this will generate discussion and disagreement, hampering effective task performance.

This paragraph has highlighted several mechanics and factors that influence a board’s effectiveness and its functionality. It has also given a few examples of when certain mechanics develop into dysfunctional ones and what the consequences are. The hypothesis that have been formulated, make assumptions concerning the effects of the absence of mechanics that are required for a board to be functional and effective. These assumptions will be further operationalized in the following chapter where the research methods will be discussed.

2.1.9 Conceptual Model

Based on the findings of the study of present academic literature, a model has been produced which resembles the variables and their relationships that will be studied in this thesis. Several factors have been identified as having a profound influence on the effectiveness of a supervisory board. Factors such as diversity, hierarchy and compatibility form the groundwork for interactions within a board of directors. The interactions then form the basis for the cooperation of the board and whether this has a positive or negative impact on how effective they will be in performing their tasks of supervising and advising.

The model developed by Murphy & McIntyre (2007), focusing on board performance, highlights the interrelationships between board of director (BOD)’s characteristics, functionality and performance while also paying attention to moderating variables.

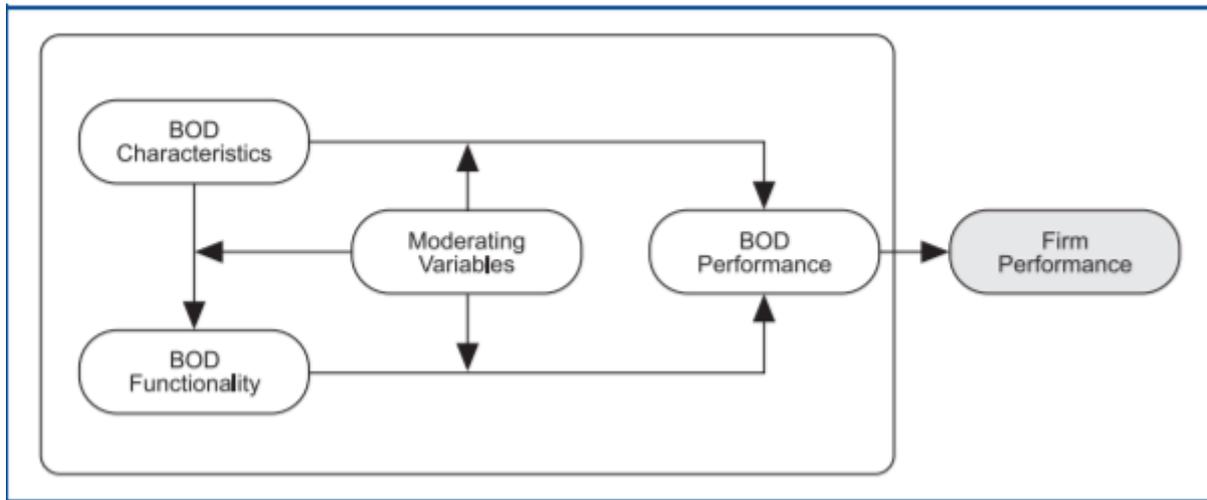


Figure 2: A model of board performance (Murphy & McIntyre, 2007).

This model will partially form the basis of the model used in this study. However, some changes will be made. According to Murphy & McIntyre (2007), the moderating variables affect the relationship between a board's functionality and a board's performance. They mainly highlight factors influencing the board from the outside. In this study however, the argument has been made that factors arising within the board itself also act as moderating variables in relation to the board and its performance. The factors described in this study are the dysfunctional dynamics, therefore the moderating variable of this research will be said dynamics.

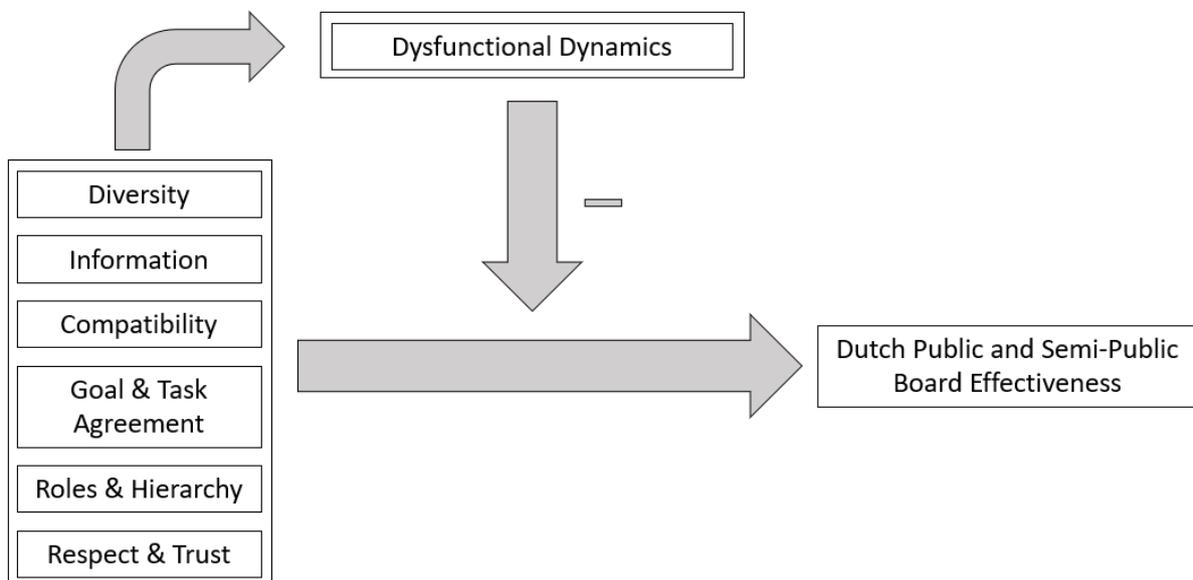


Figure 3: Conceptual Model.

In this model, previously identified factors have been accumulated and provided with new labels. The definitions of these factors have been derived from the literature study performed earlier in this chapter. The factors, such as diversity and compatibility, also affect the dynamic of the group as well as the effectiveness of the group (in this case the board). As previously

defined, group dynamics are determined by the characteristics of the group, its cohesion, interrelationships but also the organizational environment they operate in. It is therefore assumed in this model and study, that the factors that influence board effectiveness also lay the groundwork for the group dynamics of boards.

The operationalization, definitions and coding of these variables will be discussed in the next chapter. Transitioning from an analysis of theory, the following chapter will also focus on the design of the study and will further elaborate on the methods of analysis, the participants and the data collection.

3 Methodology

3.1 Research Design

In the previous chapter, we have explored the relationships between organizational performance, boards and management, board effectiveness, board composition, dysfunctional group dynamics and board dynamics. The aim of this chapter is to establish methods that will aid in answering the main research question concerning the effects of dysfunctional dynamics on cooperation in the boardroom between management and control.

Previous studies have gained insights in corporate board structure in relation to firms' performance and this study will attempt to explore the dysfunctional group dynamics that may exist in boards and their implications for its members. Due to the explorative nature of this study, qualitative research methods will be used to gather data. Reasons for using qualitative methods such as interviews arise from the aim to collect rich data instead of large amounts of data. In order to enable the gathering of richer data, interviews provide more possibilities to extract more information compared to surveys with fixed answers and little no deeper questioning. In addition, through conducting a qualitative interview study, other research aims such as the integration of multiple perspectives and the descriptions of processes will be realized. Each interview will follow several set questions but there will be room for further questions in order to extract as much data as possible (Weiss, 1994). This list of set questions and topics was formulated based on the theoretical concepts and the conceptual model and has been slightly altered throughout the process in order to more accurately phrase questions and extract answers relating to the study's hypothesis. This so-called interview manual can be found in appendix 7.1. The following paragraph will elaborate on the participants of this study, their characteristics and the methods of participant selection.

3.2 The Participants

3.2.1 Participant Characteristics

The participants of this research are directors of public and semi-public organizations in the Netherlands. These directors will have acted, or are currently active, as members of supervisory boards as well as members of managing boards. The types of organizations these directors will have worked for will consist mainly of hospitals, universities and/or other educational institutions, housing associations and government agencies. Eventually, 16 directors of supervisory and managerial boards have been interviewed.

The participants selected for this study were chosen because they fit the criteria of working/having worked as a director for a public/semi-public organization in the Netherlands

on either a managerial or supervisory board. Due to the difficult nature of the recruitment of these participants for interviews, it must be acknowledged that the method of convenience sampling (Weiss, 1994) has been used. However, the researcher made sure to despite this, interview professionals from more widespread public -and semipublic organizations than just those of one sub-sector such as e.g. housing corporations. In total, 2 directors from hospitals and healthcare groups, 8 directors from housing corporations, 5 directors from universities and 1 director of an independent administrative body have been interviewed.

3.2.2 Participant Selection

As mentioned above, the method of convenience sampling (Weiss, 1994) has been used to recruit participants. The directors of supervisory and managerial boards were initially found through an explorative outreach sampling in order to test the waters and to see if the research was viable. In doing so, for the directors active at housing corporations, the website of Aedes (the association of housing corporations) has been consulted and through this, the snow-ball method (Weiss, 1994) was utilized to find directors active at housing corporations. For directors of hospitals and healthcare groups, a similar method was used by using the website of SAZ-Ziekenhuizen, a similar association for hospitals and healthcare groups. For directors of universities, the convenience sampling method was applied again and when having access to contact details, the director was approached. Finally, the respondents active at independent administrative bodies originated from one of the previous lists by also using the snow-ball method. Ultimately, 50 directors of supervisory and managerial boards have been approached for this study, of which 17 responded positively, resulting in 16 interviews.

3.3 Reliability & Validity

This paragraph will focus on the internal and external validity of this study, and it will pay attention to the reliability of this study.

3.3.1 Reliability

The reliability of a study consists of the possibility of repetition in which the instrument measures the same values of the variables as was done in the initial research. The reliability of this study has been improved by accurately documenting the research process and the made choices through the accumulated theory and the transcription of all conducted interviews. The reliability is further improved using qualitative data gathering methods, matching the need for explanation and rich data that this study focusses on. Having conducted the research among directors of several public -and semi-public organizations in the Netherlands, the results may only be applicable to supervisory boards of these organizations

in the Netherlands. However, the fact that directors of four different types of organizations have been interviewed, also adds to the reliability of this study.

It must be acknowledged however, that the method of participant selection may prove to be a difficulty in the future repetition of this study as convenience sampling and the snow-ball method have been used. Additionally, only one method of analysis, interviews, has been used in this study. This is a final threat to the reliability of this research as the reliability could have been improved by using multiple modes of data gathering through triangulation.

3.3.2 Validity

The validity of a study consists of both an external and internal validity. The former is the extent in which the results of the study can be generalized, and the latter is the degree in which the formulating in the research itself has been executed properly. This study has attempted to secure the external validity by interviewing a wide variety of directors from different public -and semi-public organizations all from different sectors of the public -and semi-public domain. In addition to this, most of the respondents were active as directors on managerial or supervisory boards of multiple organizations within the public sphere. A director would for instance hold a position on a managerial board in organization A, while also holding a position of a supervisory board at organization B and at organization C. In the interviews, they therefore elaborated on their experiences at multiple organizations and with multiple boards. This further secures this study's external validity by having gathered data from a wide range of organizations, small and large, from several sectors within the public domain. Even though most of the respondents are active at housing corporations (8 out of 16), this does not harm the external validity. Due to the large amount of housing corporations in the Netherlands (389) compared to hospitals (120) and universities (13), the representation of housing corporations is accurate. However, hospitals are underrepresented (2 respondents) while universities are overrepresented (5 respondents) in this study.

This allows for the research to be generalized to the larger public -and semi-public sphere in the Netherlands. This generalized does not reach beyond the national borders however, due to different practices of governance in other countries which has been briefly touched upon in Chapter 2.

This study has attempted to safeguard the internal validity through the operationalization of the variables in the conceptual model based on the literature used in Chapter 2. By carefully formulating the concepts based on the literature, they have gained clarity in their definitions which will aid in the data analysis and in the accurate answering of the hypothesis and research questions. The concepts from the literature have been translated into indicators and sub-

indicators which have been linked to the data from the interviews in order to formulate codes representing certain categories of data. The study has also attempted to safeguard the internal validity by treating the respondents with full anonymity. No names of respondents or organizations they have spoken of will be mentioned in the study. This has allowed the respondents to speak freely of their experiences, with the aim to extract as much relevant data as possible.

Considering however, that the subject of this study, dysfunctional dynamics on boards, is a sensitive matter for discussion, it has to be acknowledged that the internal validity might have been harmed by individuals refusing to tell the truth or refusing to discuss sensitive cases or examples of dysfunction. It must also be recognized that the participants have only agreed to be interviewed because they do not experience dysfunctional dynamics at their current positions. Other members of supervisory and managerial boards that have been approached and who did not respond, might be experiencing dysfunctions and this could be a reason for them to not participate in this study.

3.4 Variables

The topic of this paragraph will be the variables that are subject to this study and the nature of their interrelationships. The variables that determine a board's effectiveness will be elaborated on as well as the variables that shape the dynamic of boards and their negative impact on a board's effectiveness. These variables have been derived from the conceptual model (paragraph 2.1.9) and have been previously defined in chapter 2. As was mentioned previously, the interviews that are to be conducted will consist of a set of topics formulated through questions that are the same for members of supervisory boards and members of management. The set number of topics/questions will also leave room for additional questioning during the interview in order to extract as much data on certain topics as possible (Weiss, 1994). The composition of the topic/question list with additional explanation can be found below. The full interview manual can be found in appendix 7.1.

Diversity is defined as the varied combination of attributes, characteristics and expertise that is or isn't present on boards (Ingley & van der Walt, 2003). It becomes interesting what the interviewees perceive the influence of diversity to be, a contribution or an inconvenience.

Q1: To what extent is there professional, gender and ethnic diversity on boards in your experience and what are the consequences for cooperation?

Secondly, Information is defined as the right information, in the right format, at the right time provided by the organization's management (Nadler, 2004). Subsequently, this will be related

to a lack of these factors and the consequences for the supervisory board in performing its tasks.

Q2: In your experience, has there always been full and relevant information availability and clarity and if not, what were the consequences for the board's tasks and the cooperation with management?

Thirdly, Compatibility is defined as the extent to which two or more individuals can co-exist and the degree of like-mindedness, sympathy and togetherness (Coulson-Thomas, 1994)(Merriam-Webster, 2019). Togetherness, then is further defined as the degree of group cohesion: the integrity, solidarity, social integration, unity and groupiness of a group (Forsyth, 2014). Considering a bad fit between board members or a lack of cohesion, it will be interesting to find out if this leads to friction and disagreement between board members, how this becomes noticeable in meetings and to what extent it affects cooperation and decision-making.

Q3: To what extent is compatibility and cohesion among board members present, what are the consequences of a good and bad fit and what are the visible effects on the board and its tasks?

Fourthly, Goal & Task Agreement concerns the presence of an agreement among board members about the tasks the board should be performing as well as the possession of a set of shared goals for the board and the company (Murphy & McIntyre, 2007). All members agree on specific goals that need to be achieved and the ways in which they will be achieved. In addition, each member is aware of what is expected of them concerning their input in meetings.

Q4: Is there a clear goal orientation and agreement on tasks? If not, what are the causes and the consequences for decision-making?

Fifthly, Roles & Hierarchy concerns the presence of role clarity among board members in relation to the board as well as in relation to management (Goodijk, 2013), as well as the presence of a clear social order or informal hierarchy among board members (He & Huang, 2011)(Veltrop et al., 2017). The presence or absence of this either enables board members to understand their position, effectively facilitating clear responsibilities and expectations, or it does not and further complicates cooperation and effectiveness.

Q5: To what extent is there a clear role division and what does it entail for the process of cooperation and the effective supervising and advising of the board?

Finally, Respect & Trust is defined as the mutual respect board members have for their equals' insights and opinions and the trust that exists between them and between the board and management.

Q6: What is the nature of the interpersonal relationships among board members and that of the relationship with management?

The answers to these questions by the respondents in relation to the variables will be analyzed and coded based on the scheme developed in the paragraph below.

3.5 Data Analysis

The interviews will be transcribed and coded accordingly in order to make sense of the information provided and in order to recognize patterns and relations. The codes presented in the coding scheme cover all the variables from the conceptual model (paragraph 2.1.9.) that are believed to affect a board's effectiveness and are derived from the literature. For each code, indicators have been formulated that will help to further define the degree in which the respondents have experienced dysfunction. Both the codes and indicators have been initially formulated based on the literature and have later been adjusted through the process of open coding to better represent the data.

The classifications are descriptions that were given by the respondents in the interviews of the code they have been linked to. These classifications of, e.g. the code "degree of information availability & clarity", have also been developed through the process of open coding.

Because the degree of dysfunction has been identified as the moderating variable, the way in which it has been operationalized will be briefly elaborated on. The 6 factors that affect a board's effectiveness also shape the context in which dysfunctional dynamics can occur. Dysfunctionality can arise from the degree of information availability & clarity or for example from a lack of respect and trust between the board and management. Data that relate to information provision has then been coded as such, but when data related to information provision is identified as an example or case of dysfunction, it has been coded as the degree of dysfunction. This goes for all the other 5 variables. Because other causes of dysfunction have been found in the data, that fall outside of the 6 variables from this study's conceptual model, the degree of dysfunction has its own code instead of just being an indicator as a part of other codes.

Codes	Indicator	Classification
<p>Degree of dysfunction</p> <p>“Dysfunction is defined as abnormal or unhealthy interpersonal behavior or interaction within a group that leads to improper functioning. An interaction therefore only becomes dysfunctional when it starts to negatively affect a group’s relationship interaction and task interaction” (Merriam-Webster, 2019)(Forsyth, 2014).</p>	<p>A: Abnormal or unhealthy interaction or dynamic, is recognized and addressed.</p> <p>B: Abnormal or unhealthy interaction or dynamic is either not recognized or not addressed, resulting in dysfunctioning.</p>	<p>Dysfunction, dysfunctioning, conflict, narcissism, problem, cause, annoying, bothering, puts organization in a tough position, unhealthy, poor or lack of communication</p>
<p>Degree of information availability & clarity</p> <p>“...the right information, in the right format, at the right time...” (Nadler, 2004)</p>	<p>A: Full and relevant information availability, presented in a clear manner</p> <p>B: A lack of full and relevant information</p> <p>C: Information is presented unclear and confusingly, or not in a timely matter</p>	<p>Selective information, undiscoverable information, quality, unclear, organized/unorganized, records, documents</p>
<p>Degree of diversity on the board</p> <p>“...the varied combination of attributes, characteristics and expertise contributed by individual board members in relation to board process and decision-making.” (Ingley & van der Walt, 2003)</p>	<p>A: Presence degree of diversity, causing discussion and disagreement, hampering the board’s effectiveness</p> <p>B: Presence of diversity, causing discussion and disagreement, not hampering the board’s effectiveness.</p>	<p>New language, clashing personalities, conflicting ideas and values, new input, openness to different opinions, discussion, different voices, changing dynamic, diversity</p>
<p>Degree of board compatibility and cohesion</p> <p>“...the extent to which two or more individuals can co-exist and the degree of like-mindedness, sympathy and togetherness.” (Coulson-Thomas, 1994)(Merriam-Webster, 2019)</p> <p>“...the integrity, solidarity, social integration, unity and groupiness of a group” (Forsyth, 2014)</p>	<p>A: Presence of a good fit between board members</p> <p>B: Lack of a good fit between board members</p> <p>C: Board of directors operates like a team, coherence among members</p>	<p>A collective, a team, consensus, accordance, friends, acquaintances, not too enjoyable, enabling, balance, aligning, professionalism</p>
<p>Presence of goal & task agreement</p> <p>“Individual board members agree about the tasks the</p>	<p>A: Mutual agreement among board members on goals and tasks</p>	<p>Mission orientation, vision, what they’re here for, strategy, shared goal</p>

<p>board should be performing” (Murphy & McIntyre, 2007)</p> <p>“Individual board members possess a set of shared goals for the board and the company” (Murphy & McIntyre, 2007)</p>	<p>B: Disagreement among board members on goals and tasks</p>	
<p>Presence of clear roles & hierarchy</p> <p>“Presence of role clarity among board members in relation to the board as well as in relation to management” (Goodijk, 2013)</p> <p>“The presence of a clear social order or informal hierarchy among board members” (He & Huang, 2011)(Veltrop et al., 2017)</p>	<p>A: The board’s role is clear, members act accordingly</p> <p>B: The board’s role is unclear, or directors go beyond it</p> <p>C: Presence of a clear hierarchy within the board</p> <p>D: No clear hierarchy present, members are equal in input</p>	<p>Patriarchy, hierarchy, task assignment, advantage through knowledge, collegial, chairman, statutes, heavyweights, arrogance, role clarity, expectations</p>
<p>Presence and degree of respect & trust</p> <p>“The presence of mutual respect and trust among board members as well as between the board and management”</p>	<p>A: Mutual respect and trust between board members</p> <p>B: Lack of respect and trust between board members</p> <p>C: Mutual respect and trust between management and the board</p> <p>D: Lack of respect and trust between management and the board</p> <p>E: The relationship between the board and management</p>	<p>You don’t understand, you have no knowledge, playing people off against one another, trust, respect, disrespect, lack of trust, belittling, openness, sharing ideas, support, relationship, ignorance</p>

Table 6: Coding scheme.

The following chapter will focus on the analysis of the interview transcripts and notes and will shed a light on cases of dysfunction, where and how they have occurred, how the board dealt with it and what the implications have been for the task performance of the board.

4 Results

This chapter will focus on the results that originate from the data that has been extracted from the interviews. The variables from the conceptual model that have been claimed to influence a board's task performance will provide the order based on which the data will be analyzed. Each paragraph will discuss the variable in relation to the degree of dysfunction that arises from these variables according to the respondents. Subsequently, each paragraph will then either confirm or dispute the hypothesis. Firstly, the degree of information availability and clarity will be discussed in paragraph 4.1. Secondly, the degree of diversity will be the subject of paragraph 4.2, thirdly the degree of board compatibility and cohesion will be the focus of paragraph 4.3, fourthly the presence of a goal and task agreement will be discussed in paragraph 4.4, fifthly the presence of clear roles and hierarchy will be discussed in paragraph 4.5 and finally, the presence and degree of mutual respect and trust will be elaborated on in paragraph 4.6.

4.1 Degree of Information Availability and Clarity

This paragraph will focus on the variable of information availability and clarity and the following hypothesis:

H1: If boards are to effectively perform their tasks, they will require properly presented, full and relevant information.

The first variable that will be discussed concerns the provision of information by the managerial board to the supervisory board. In recent years, several cases of failing supervision in the Dutch public -and semi-public sector have been linked to the information dependence of the supervisory board on the managerial board (Goodijk, 2013). Through this variable, an attempt will be made in either identifying this information dependence and availability as the cause of dysfunctional dynamics. As stated by both Nadler (2004) and Marks (1999), information is key for supervisory boards. The board needs information about the organization in order to fulfill its primary tasks but depends on the provision of it by management. A major difficulty that arises from this relationship is the fact that board members do not have knowledge of what they don't know and that dysfunctionalities often become apparent too late to be dealt with adequately. In one interview, Respondent 1 elaborated on an example that had occurred at a housing corporation. A former chairman of the managerial board with whom the supervisory board did not have a pleasant experience, refused to properly inform and attend the supervisory board.

“... it was very old-school, I (the chairman) will sort that out, this is how we do things here and then we sign it. I’ll give this to the supervisory board and then they’ll agree.” (Respondent 1)

The chairman did not provide the supervisory board with full information about organizational processes, communication and organizational culture. This disabled the board to address these issues. The board only discovered the dysfunction after the chairman had been dismissed. His mismanagement and the inability of the supervisory board to do something about it eventually resulted in several financial claims and the presence of a culture of fear within the organization. All of this however only became apparent after the fact. Nothing was properly documented and therefore there was no way to retrace the steps to uncover where and how things had gone wrong and what the responsibilities had been. This case highlights how the lack of full and relevant information disabled the supervisory board of the housing corporation to address issues within the organization. The supervisory board was disabled in its functioning, it was unable to execute its supervising task because it did not know what it was supervising and could therefore not undertake action. The board was able to intervene with the dismissal of the chairman, but the damage had already been done at that point.

The managerial board is also capable of disabling the supervisory board in effectively performing its task by providing information in an untimely manner. Instead of providing the information about financial issues after having received initial signals, the managerial board can refrain from doing so and wait with the notification of the supervisory board. The notification of the supervisory board then happens too late for them to interfere, in this case several days before a public holiday, paralyzing the interference of the supervisory boards because its members are partially or fully absent.

Not only does the availability of information affect the task performance of a supervisory board, the quality of the information and the way in which it is presented also have an impact. One of the respondents, who is a member of multiple supervisory boards, made a clear distinction between the quality and structure of information between organizations. One organization structures its information in three levels of importance and relevance, providing clarity on which subjects need to be thoroughly discussed and which ones are just for informative purposes. Another organization is significantly less structured in doing this and this causes confusion about what information is about an important decision, and what information is merely informative and less relevant.

“It is a lot less structured at the other organization. This causes ambiguity.”

“The quality of the documents is too low. It’s also unclear what the real issue is and what the director needs from the supervisory board” (Respondent 2)

As shown, this complicates the supervisory board’s execution of its tasks by making it unclear what is expected of them and by confusing them on which matters they need to make decisions. Information can also be presented or framed a certain way in order to steer the supervisory board in a certain direction. When an organization possesses a financial product of which the supervisory board is unsure about the exact contents of this product, and the managerial presents it as an insurance policy, the supervisory board tends to agree and approve of this product because of how it is presented. However, without elaborating on and explaining the risks that come with his financial product, the supervisory board is not presented with the truth concerning this product, disabling them to decide on whether this is good for the organization. This misleading through information could be prevented by a critical supervisory board that unifies and collectively questions the decisions being made. This last aspect will be elaborated on later in this chapter because a critical and unified supervisory board relies on a certain degree of cohesion, which will be discussed in paragraph 4.3.

Even when full and relevant information is presented clearly and it is done in a timely and structured manner, the process of the discussions that arise from the information must be managed. In examples given by Respondents 3, 4 and 9, the chairman of the managerial board kept the supervisory board up to date on developments within the organization by providing them with information in-between board meetings. In the supervisory board’s eagerness however, two interviews with Respondents 3 and 4 have highlighted how a board-initiated discussion and questioning over e-mail occurred and escalated, following the information provided by e-mail. A discussion that was significantly more difficult to manage compared to a discussion occurring in a meeting with everyone physically present. And a questioning that required for the chairman of the managerial board to invest additional time into the explanation.

While recent literature (Goodijk, 2013) has emphasized the fact that, in contemporary governance, supervisory boards can no longer be fully dependent on information flows from management. The data from the interviews indicates that this is not quite the case yet, even though several respondents agree with this standpoint and perceive information gathering by the board through other means as necessary and normal. Because the board is not actively involved in the organization, it lacks the knowledge of day-to-day processes and basic information of the organization. The supervisory board is often the secondary when it comes to information.

“They should have shared it with us, not only because we could have provided input, but also so that we could have ascertained if it was damaging the continuity of the organization or not. But this came out of the blue.” (Respondent 9)

And when the board attempts to negate this by seeking information through talking with management one layer below the managerial board, respondents have mentioned cases where the managerial board simply interfered with these attempts. In these cases, the managerial board either instructed lower management to not discuss certain topics or to not provide information on certain issues. Interestingly, concerning the subject of information availability, two cases stand out that highlight the importance of the task of the secretary of the managerial and supervisory board. In one case, the managerial board had provided poor information and the supervisory board had addressed this issue. The chairman of the managerial board subsequently made several promises in the meeting. Due to poor note taking however, it was difficult for the supervisory board to later figure out what exactly had been promised and whether the chairman of the managerial board followed up on these promises or not. The second case highlights how poor note taking led to the Inspectorate of Education reprimanding the supervisory board of a high school for failing to perform its supervisory task. The board had performed its supervisory task, but it had not been documented in the meeting notes. The supervisory board had called the chairman of the managerial board to account and had reprimanded the chairman in the meeting. But this had not been documented and therefore, when researching the issue, the Inspectorate of Education then reprimanded the supervisory board. The task of taking notes during board meetings often lays with the secretary of the board, who in many cases, is the secretary for both the supervisory and the managerial board. The difficult position of this secretary will be discussed later.

Returning to the first hypothesis of this study concerning this subject: If boards are to effectively perform their tasks, they will require properly presented, full and relevant information. This hypothesis can be confirmed based on the data extracted from the interviews. When boards are not provided with information, they cannot make adequate judgements or address decision and therefore cannot effectively perform their tasks. In examples that were given by respondents, supervisory boards were unable to intervene or perform their tasks due to a lack of information, poorly presented information and misleading information or were hindered in their task performance by this. These cases implicate that the relationship between the flow of information and the board's effectiveness was of dysfunctional nature because it led to an improper functioning of the supervisory board. The degree of dysfunction varied between cases, in some the information was retrieved in a later stage and the supervisory board

corrected the managerial board, in other cases the lack of information became apparent after much of the damage had been done.

Despite contemporary ideas and assumptions that supervisory boards can't afford to find themselves in a dependent position concerning information accumulation, the data has shown that this dependence is still very much an issue. Regardless of efforts made by the supervisory board to acquire information through other channels.

4.2 Degree of Diversity

The focus of this paragraph will be the diversity variable and the following hypothesis:

H6: If there is diversity among board members, this will generate discussion and disagreement, hampering effective task performance.

As has been argued by academics about corporate governance, organizations attempt to improve their administration and supervision by creating diversity on their managerial and supervisory boards (Ingley & van der Walt, 2003). Going beyond the positive aspects of diversity, Piekkari et al. (2015) highlight how asymmetries in interpretation or expected behavior in boards could contribute to polarizing dynamics. This last aspect will be the subject of this paragraph. The findings of this paragraph will either support the sixth hypothesis or dispute it.

The degree of diversity among supervisory boards is a subject almost all respondents could agree upon. It always benefits the organization, the ability of the board to provide checks and balances and the quality of the decisions being made. The presence of board members of different characteristics and professional backgrounds allows for the board to cover a wide area of expertise and insights, better enabling them to serve their supervising task in support of the continuation of the organization. Diversity among board members is a necessity, if it is not present, important aspects will be overlooked. There need to be diverging views between board members and a certain degree of friction. This friction must be based on professional standpoints however, not because members are trying to prove themselves against one another. The friction, confrontation and diverging views are valuable and necessary for better solutions. This can then require more time and it also demands a degree of professionalism from the board members. Even though discussions always lead to unambiguous decisions and the board unifying over said decision, the process that leads to these challenges the board members. Discussions may be more time intensive and may require board members to endure listening to their peers with whom they may not share similar standpoints or with whom they

might disagree on all fronts. Board members might clash with one another on standpoints and must be of a certain professional level where they are able to rise above their disagreement and focus on the outcome of the discussion and the continuation of the organization.

“You shouldn’t be working at this level if you prefer the “Harmony model”” (Respondent 7)

Because the supervisory board must conclude and a unified decision, disagreement is simply not an option. In some cases, this requires additional consultation over the course of more meetings or other forms of contact. It must be underscored that it does not compromise decision-making or the ability of the board to perform its tasks. The cases where tensions do rise and board members experience difficulties coping with each other’s standpoints are rare and most discussions are handled professionally and benefit the board’s decision-making ability.

One example of a case where a board member could not see past his own perspective on an issue in favor of the continuation of the organization and decision-making procedure, highlights not the dysfunctionality that comes with this but the impact of it on the organization. Due to his principality, the director decided to prematurely resign from his position. In doing so, he alerted the external supervising authority, which then put pressure on the organization to explain this premature departure and question its supervisory board on the functioning of it.

“You should ask yourself in that case, will my decision benefit this organization? I think in this case it did not.” (Respondent 3)

The friction, confrontation and diverging views among board members contribute to the task performance of the board in providing checks and balances to management. This paragraph has highlighted examples of where the pitfalls lay in this process but also how diversity is mostly perceived as something good, necessary and essential for supervisory boards to have. Diversity might further complicate the process to the formation of an agreement, but it always benefits the quality of the agreement. The respondents in this study have not experienced diversity to generate dysfunctional discussion or disagreement, hampering the task effectiveness of the supervisory board. Therefore, based on the data, the sixth hypothesis will be disputed. Diversity on supervisory boards generates discussion and disagreement, but this is always in favor of the decision-making process and the continuation of the organization. The discussion and disagreement arising from diversity among board members is not the cause of dysfunctional dynamics and does not hamper a board’s task effectiveness according to this study.

4.3 Board Compatibility & Cohesion

For organizations to get the most out of their supervisory board, they carefully select the members with the goal to better enable the board to complete the board's tasks most effectively. Boards attempt to realize this maximum compatibility of its members by hiring members with characteristics that match the organization's activities best as well as the characteristics of the sitting board members. This paragraph will focus on the disputation or confirmation of the second hypothesis:

H2: If a board lacks compatibility and cohesiveness, this disables the group to effectively perform its tasks.

The effectiveness of the board relies heavily on the strengths and weaknesses of its members and on the board's collective ability to provide checks and balances (Nadler, 2004), underscoring the importance of board compatibility. Much of this relies on the extent to which the members bring out the best in each other and on the fit between members.

4.3.1 Board Compatibility

As mentioned above, boards attempt to realize maximum compatibility among its members. This is done on a competency-based level but also on a personality level. A certain degree of balance is required when looking at areas of expertise that board members bring along, but also when looking at personalities.

"... eventually you need to have a team that is balanced. If everyone responds bluntly, you get a sort of fireball, explosive effect. It's good to have more subtle members, who are capable of reflecting on the discussion." (Respondent 6)

When a board is for example not as compatible and it lacks knowledge or expertise in important areas that the organization is involved in, the chairman of the managerial board is able to lecture the supervisory board on these matters. The whole mechanism of checks and balances is then negated, and the supervisory task of the supervisory board cannot be executed properly. In addition, when a (or multiple) member(s) of the supervisory board lack(s) knowledge, this means the chairman of the managerial board must take the supervisory board by the hand and has to explain and educate the supervisory board. This means that the chairman is unable to use the countervailing power the supervisory board should provide in making better decisions, once again nullifying one of the core tasks of the supervisory board. Supervisory boards need to provide a countervailing power and a system of checks and balances to keep the managerial board in check and to keep challenging them. When they are less compatible, and then unable to provide these two core elements, it harms the performance of its tasks and it harms the quality of decision-making.

“When they’re not able to push back and challenge you, you don’t receive those important questions, which means you’re forgetting something. This means your consideration won’t be good enough.” (Respondent 6)

It is important to analyze whether a new member fits the competencies that a board needs or not and whether the personality fits within the present group. The new member also needs share the same core values as the other members do, if there is a disagreement on fundamental values such as those, it will be impossible to agree on more daily tasks because there is a fundamental disagreement of the course of the organization.

This highlights the importance of the careful selection of members of supervisory boards, when this is not done properly, the consequences are immense. In one example, the selection procedure was not executed carefully, and the newly elected member was lacking in effort and participation. This led to visible agitation and annoyance among other board members, harming the group dynamic of the supervisory board. Other cases highlight examples of poorly executed selection procedures, resulting in board members with less compatibility who were not capable of providing enough checks and balances. It is important that, with the election of a new member, the board asks itself the question, what do we already have, and what do we need to be able to effectively fulfill our role. In addition to this, professionals that apply for positions at supervisory boards need to ask themselves the same question. If I join his group, do I add complementary expertise or is this already present? And does the current group possess qualities that I do not? When both boards and (aspiring) directors of boards ask themselves these questions and carefully pay attention to compatibility, this will improve board functionality and positively affect the continuation of the organization.

Several respondents indicated that it is important that the supervisory board must “feel like a team” with a shared team spirit. Not only does the group need to have enough competences, the members need to be compatible with each other and there needs to be a degree of interconnectedness.

“To me, forming a team together and having collectivity is a condition for functional administration” (Respondent 1)

However, other respondents have indicated that this is not a necessity and that the supervisory board mainly has to be a functional team in performing its tasks, the social aspect of it is not always seen as most important. The selection procedure of the right new member is perceived as very difficult and demanding. In a lot of cases, a recruiting agency is used to find initial compatible candidates. The supervisory board and all its members actively participate in finding the right person once the initial selection has been completed. When all members of the supervisory board agree on the new candidate, they feel responsible for this election. In

doing so, eventually, all members of the supervisory board have agreed on each other's elections meaning that there is now a compatible group because its members agree on the constellation of it.

Interestingly, as highlighted by respondents, the language that newly elected directors speak is of importance. Language is not referred to the English or German language but the way in which new members might communicate differently than the currently sitting members of the supervisory board. It takes a period of adjusting to a director with a new language and to integrate this new language within the language of the group. When discussing independent administrative bodies, the language of newly elected directors is of particular importance due to the organization's involvement with politics. It is important they speak the same language as the politicians, which requires careful formulation and a composed attitude.

"At this level there is little to no conflict, the professionalism is high enough that this does not happen. Especially in relationships with politics, everything happens carefully and professionally, meaning that people don't usually erupt". (Respondent 13)

4.3.2 Board Cohesion

When discussing board cohesion and the degree of groupiness of a supervisory board with respondents, the subject of "preaching" board members appeared in many of the interviews. As mentioned previously, if a board wishes to fully exploit the expertise of its members, they need to be able to express their knowledge in meetings. It is then important that other members are able and willing to listen to their peers.

"When you're able to find each other and grant each other in discussions, that's when you get the most out of them". (Respondent 2)

This is a process that could be experienced as difficult when the fellow director is expressing a standpoint that another member might completely disagree with. It becomes more complicated when the director is not just expressing a standpoint, but when she/he is "preaching" about it and this is not addressed. This could lead to the dominance of one director over others by preaching his or her standpoint, it could create annoyance and tension between board members, and it disturb intra board relationships, damaging group empathy.

"The better you understand your fellow directors, the sooner you can engage in conversation, the better the decision". (Respondent 14)

A lack of a degree of social cohesion on supervisory boards has been indicated as difficult in situations involving the relationship with the managerial board. In one example, the chairman of the managerial board was able to disregard members of the supervisory board. In this

case, the supervisory board did not possess the collectivity to as a group, address this behavior and support its members by questioning the chairman. This allowed for the chairman to continue his behavior and lecture the supervisory board on certain issues, hampering the task effectiveness of the supervisory board.

Interestingly, respondents have highlighted the fact that pressure situations have a positive impact on the cohesion of a board. Because of these situations, where the board must intervene and act, the members need to unite and come to conclusions. This means the members see each other more often and more intensely, creating a bond. Whether this is good or not is up for debate, in situations where the supervisory board needs to act, a more cohesive team is considered important, but when the situation calms down, is the board then able to remain critical of each other and return to its more objective position?

In contrast to the benefits of board cohesion, respondents have highlighted the pitfalls and dangers that come with too much intra- and interboard cohesion. The pitfalls of interboard cohesion are apparent through personal relationships that supervisory board members might have with managerial board members. This is often referred to as the “old-boys network”, where former college friends or acquaintances appoint each other to prestigious positions. Such personal relationships endanger the objectivity from which supervisory boards are expected to operate. Too much intraboard cohesion is however also considered a pitfall.

“When there is no longer the need for discussion to come to an agreement, that’s when you’re already in a dangerous area”. (Respondent 12)

This implies that a team must be a team, but in functional aspects, not necessarily in social-relational aspects. The individual board members must remain skeptical towards each other and need to be critical in assessing each other’s input in order to really maximize the usage of the board’s competences. Too much cohesion and dependence on each other means the group is leaning towards a “old-boys network” where the focus is too much on getting along with each other as opposed to the quality of decision making.

Self-evaluations and the election of new members of supervisory boards provide the board with opportunities to review its composition. Are we in this constellation able to perform our tasks? Are we missing something or someone? Especially with the election of new members, the constellation of the board can be improved by paying attention to the above-mentioned aspects. When this is not done, and new members are selected based on social relations or unity, this might hamper the board’s task performance.

A lack of professional and social cohesion on supervisory boards could lead to misunderstandings. When board members know each other, understand their backgrounds

and their motives based on which they formulate their standpoints, they can use this knowledge in the discussions. The members are then able to understand the reasoning of their peers which could create more empathy towards diverging opinions. If this is not the case, board members could just get agitated and annoyed by standpoints or discussions because they do not understand why they are happening or why someone thinks the way they do. This could further complicate cooperation through making the discussion more difficult and demanding for board members.

Although the respondents have indicated and emphasized the importance of group compatibility and cohesiveness, the second hypothesis must be disputed due to a lack of enough examples or cases in which a lack of compatibility or cohesiveness disabled the board to perform its tasks. One example does highlight the implications of a lack of cohesion and collectivity within a supervisory board. This led to the board being unable to provide a countervailing power towards the chairman of the managerial board, and the chairman was able to dominate and lecture board members.

4.4 Goal, Task and Role Agreement

As has been argued by Murphy & McIntyre (2007), Goodijk (2013) and Hovius (2018), the presence of goal interdependence and a lack of task conflict and role ambiguity have a positive effect on team effectiveness. This paragraph will subsequently focus on either confirming or disputing the third hypothesis:

H3: If there is a lack of goal, task and role agreement, this negatively affects cooperation and the board's task performance.

Supervisory boards have been approached as teams in chapter 2 and many respondents referred to their boards as teams as well. Having defined supervisory boards as teams then lays the foundation for the reasoning behind the third hypothesis. The paragraph will be split up in two sections, due to the fact that the third hypothesis consists of two components. The first component, Goal & Task Agreement and the second component, Role Agreement & Role Clarity will be discussed separately

4.4.1 Goal & Task Agreement

The goal and task agreement of a supervisory board mostly originates from the organizations vision and mission statement. The goal is to perform its tasks in line with the vision and mission statement and to always do so in favor of the continuation of the organization they are supervising for. The vision of mission of an organization, highly depend on the type of

organization. In cooperation with the managerial board, the supervisory board must find the balance between spending money in order to create value and maintaining the financial strength of the organization, in the case of housing corporations. Supervisory boards of universities or other educational institutions shift their focus to other areas however, the provision of sufficient and good education. Goal and task agreement will therefore differentiate based on the organization and environment supervisory boards operate in.

As was argued in the previous paragraphs, disagreement, discussion and a certain degree of tension are beneficial to the process of decision-making. When there is a disagreement on fundamental goals and task within the supervisory board however, it becomes impossible to agree on any other type of decision. Fundamental disagreement on tasks and goals then hampers the board's effective task performance if this is not addressed because the board can't come to a unified decision.

“If there is a discussion concerning the identity of the organization, the important aspects of it, then there is too much of a fundamental difference in perception and it is dysfunctional for the organization” (Respondent 12)

Not only is a fundamental disagreement dysfunctional for the task performance of the supervisory board, it also has a negative effect on the rest of the organization. It will trickle down the levels of the organization and cause confusion, worry and becomes crippling for the functionality of the organization.

Examples where the above dynamic was present and negatively affected the board's task performance were rare. In the rare case where there was a fundamental disagreement within the board, concerning the organization's goals and tasks, this disagreement was resolved by the resignation of the board member in question.

Disagreement concerning the different tasks within a supervisory board have not become evident in this study. Supervisory boards often assign members to committees within the board that focus on specific subjects such as financials (audit committee), member election and employer role of the supervisory board (remuneration committee). This task division is often based on the competencies and backgrounds of the directors on the board. There have not been cases of task disagreement concerning these structures in this study.

4.4.2 Role Agreement & Role Clarity

Role agreement and role clarity both emanate from the organization's goal, vision and mission statement. When discussing the topic of the clarity of the role(s) of the supervisory board, three main roles become apparent. The supervisory board is the employer of the managerial board,

it also acts as a sounding board for the managerial board and it acts as a supervisor. It is possible to add another role to these commonly identified 3 roles, a fourth role concerning the safeguarding of the societal impact of the organization. The third role, the supervising role, is identified as the main area of tension when discussing role division between the managerial board and the supervisory board. Even though the role and task boundaries of the supervisory board are often documented properly in the organization's statutes, these boundaries are easily surpassed. Surpassing these boundaries means that the supervisory boards surpasses its supervising role and takes place on the seat of the chairman of the managerial board. Depending on how chairmen manage this surpassing of boundaries, it could become a hinderance to interboard cooperation, harming the relationship between the managerial and supervisory board.

"When a supervisory board interferes too much, the managerial board tends to provide them with less information because the supervisory board is too intrusive. And before you know it, this becomes a dysfunctional relationship". (Respondent 8)

Eventually it could affect the task performance of the supervisory board itself through damaging this relationship. There must be a healthy balance between the roles of the supervisory board and the managerial board. The supervisory board needs to be self-aware, as a whole and as individual members, of its role and when it or its members are surpassing the boundaries of its role. This can be prevented by determining and agreeing upon the roles of the supervisory board in preparation of cooperation, e.g. when a new supervisory board is put into place or when a newly elected chairman of the managerial board is elected. When this is not done, both boards can make life miserable for each other. An example of role clarity could be described as follows: it is not the supervisory board's task to interfere in the selection of a strategy, but it is its task to question the managerial board on the processes through which the strategy was formulated.

"Concerning role clarity, fellow directors are capable of confronting each other when they cross the line towards the chairman of the managerial board" (Respondent 15)

The assumed clarity of the role(s) of the supervisory board becomes vaguer when the board needs to actively interfere when things are going wrong or considering poor management. Respondents have highlighted that supervisory boards operate effectively in these situations and assume a more active and involved role. It is challenging however, to assume its previous less active and involved role when the situation calms down or is resolved. This requires for fellow directors to correct each other and address each other when fellow directors are still operating out of a too active role than that is necessary or relevant. Even though this is very

challenging and demands a lot of professionalism, no examples of dysfunction concerning this have been given by the respondents.

In examples where members of the supervisory board were pushing the boundaries of their tasks, the chairman of the managerial board was experiencing this as interference and as “luggage”. The chairman felt like all the members of the supervisory board were giving her tasks and assignments and she perceived this as “luggage” that she had to carry. Due to the pressure she experienced, she responded to these perceived tasks and assignments in such a way that the supervisory board then started to doubt her capabilities and the information she was providing. Eventually, communication between the managerial and supervisory board solved the issue. A key component in this was the position of the chairman of the supervisory board in mediating between both boards, this position will be discussed more extensively in the next paragraph. But this does highlight the effect of a lack of role clarity or the effect of when the supervisory board pushes the boundaries of its role(s).

Concluding this paragraph, a lack of role agreement negatively affects cooperation because it sets a dynamic in motion that starts to negatively affect the interboard relationship as well as the information availability and eventually the task performance of the supervisory board. However, a lack of goal and task agreement among board members does not negatively affect the board’s task performance based on the findings of this study. The reason for this is that when fundamental disagreement arises, the member(s) in question decide to resign, therefore resolving the disagreement. It could be argued that this is still dysfunctional because it means the supervisory board needs to find a new member and spend more time and effort in doing so. However, none of the respondents have indicated this then hampers the supervisory board’s task effectiveness. A lack of goal & task agreement then does not negatively affect a board’s task performance because it is resolved through resignation and the attraction of a new member. Based on these findings, the third hypothesis can only be partially confirmed. Partially confirming means that the first component, a lack of goal and task agreement, does not negatively affect the board’s task effectiveness, while the second component, a lack of role agreement, does negatively affect the board’s task effectiveness.

4.5 Presence of Hierarchy

This paragraph will focus on the disputation or confirmation of the fourth hypothesis:

H4: If there is a lack of a clear social order or hierarchy, or an abuse of hierarchy, effective cooperation will be hampered.

This hypothesis also consists of two components, the first being a lack of a clear social order or hierarchy and the second being the abuse of hierarchy. This will affect the confirmation and disputation of this hypothesis later on in this paragraph. Examples of the abuse of hierarchy (Goodijk, 2013), the facilitating nature of an informal hierarchy (He & Huang, 2011) and the presence of a hierarchy based on the social status of directors (Veltrop et al., 2017) will be tested. In addition to this, this paragraph will discuss the role of the chairman of the supervisory board. Multiple respondents have underscored the importance of the role of the chairman of the supervisory board in meetings and in the relationship with the managerial board. Seeing as the chairman then holds a slightly hierarchal position in relation to other board members, it will be included in this paragraph.

4.5.1 Hierarchy

When discussing the concept of hierarchy, a causal relationship between knowledge and power emerges. Directors who have extensive knowledge of a subject, when discussing this matter, have a certain advantage over other members and more of a say in the discussion.

“When directors of that caliber start talking, I’ll ask a modest question, but they know so much more than I do”. (Respondent 9)

One respondent highlighted this aspect when comparing supervisory positions between boards. Within supervisory board A, she holds a certain role because of her extensive knowledge and experience concerning the industry of organization A. So, the members of that board tend to look at her a lot for input. Within supervisory board B, her role is completely different because of how she lacks knowledge and experience regarding the industry of organization B. There, other board members are approached for input and she holds a different role in that company.

It has been previously mentioned how the hierarchical relationship between the chairman of the managerial board and the supervisory board can hamper the supervisory board’s task effectiveness by withholding information or by dominating them. As highlighted by a respondent, the presence of a hierarchy within the supervisory board can cause similar dynamics. This case concerns both the chairman and vice-chairman of the supervisory board who, during the process of hiring a new chairman of the managerial board, used their positions to appoint an individual whom they perceived as fitting. The remaining members of the supervisory board were barely consulted.

“It kind of felt like we were just agreeing to their terms” (Respondent 7)

The vice-chairman of the supervisory board knew the newly elected chairman of the managerial board from another administrative position, showcasing an example of how the “old-boys network” might still be around. Through not carefully executing selection procedures and not consulting the rest of the supervisory board, the individual was appointed. It eventually turned out she was not capable enough to perform and had to be let go after the organization filed a motion of distrust. Through abusing their positions, the chairman and vice-chairman disabled the board to properly execute a hugely important task, the election of the managerial board. The crisis evolving from the firing of the recently appointed chairman led to additional difficulties for the organization as well as for the vice-chairman. The latter had to stand down from his position, leaving the supervisory board one member short whilst in the middle of a publicity drama and the search for a new chairman of the managerial board.

Perceptions on the presence of a certain hierarchy within supervisory boards diverge. Many respondents have indicated that all members are equal in input and importance while others have highlighted how expertise and knowledge sometimes provide an advantage for members and put them higher up in the picking order.

“There is not a picking order, not in my experience. Everyone is equal and you shouldn’t disqualify yourself in such company” (Respondent 14)

Extensive experience with renowned organizations and knowledge of for example financials creates prestige and respect. Board members that possess these qualities are then sometimes seen as heavyweights, people who have earned their stripes. Their input might be more important then and when they speak up, the other members tend to listen. In general, however, everyone’s input is appreciated and listened to. As discussed previously, board members elect each other and in doing so agree on the constellation of the board.

An important factor concerning the hierarchy of a supervisory board is the chairman. The chairman needs to equalize members and facilitate meetings so that everyone’s input is respected and listened to. This important position will be discussed in the next paragraph.

4.5.2 Chairman of the Supervisory Board

The position of chairman of the supervisory board was not initially included in this study. During the interviews however, the respondents underscored the importance of having a good chairman of the supervisory board in relation to the task effectiveness of the board. Due to the importance the respondents have attached to this position, it is included in this chapter and will be elaborated on in this paragraph. The tasks of the chairman of the supervisory board include the managing of the meeting, ensuring the meeting ends with a clarifying conclusion and clear

message, ensuring all board members get their say and managing a close relationship with the chairman of the managerial board.

“The chairman has a crucial role, it’s an important link for the interboard relationship”
(Respondent 15)

The chairman of the supervisory board often has a direct line of contact with the chairman of the managerial board. In several cases, both chairmen frequently call each other to discuss issues, keep each other updated and maintain a close relationship. This relationship cannot be too close though. The chairman of the supervisory board should support and advise the chairman of the managerial board, is not a friend. The chairman of the supervisory board must remain independent and, in some cases, will have to fire the chairman of the managerial board, regardless of their collegiality.

In cases of a dominant chairman, other board members felt like they didn’t get a chance to provide their input. This means that the supervisory board can’t fully express its comments and that its competences are not exploited, endangering the quality of decision-making and the governance mechanism itself. When the chairman of the supervisory board is incapable or not as focused on concluding the meeting managing the board members and addressing their behavior where necessary, the relationship with the chairman of the managerial board could be endangered. This happens when board members are surpassing their roles, pressing the chairman of the managerial board to do certain things or if they are questioning the chairman too much. The chairman of the supervisory board must be able to channel the supervisory board’s input properly and provide the chairman of the managerial board with a clear message. It also must correct the supervisory board and when necessary address them to return to its role.

It’s also the task of the chairman of the supervisory board to enable all board members to provide input in order to maximize knowledge and expertise exploitation. Some members might preach too much while others remain quiet, it is the chairman’s task to recognize these things and address them.

“The chairman is very important. They need to see the bigger picture, have the guts to create progress and the ability to lead the discussion to a result. The chairman needs to put things into perspective” (Respondent 16)

Finally, this paragraph will focus on returning to the fourth hypothesis. As elaborated on above, an abuse of hierarchy (the second component) disables the supervisory board as a whole and members individually to execute its supervising tasks. It harms the group dynamic and the use of the diverse competences of the individual board members. However, in cases of a lack of a

certain hierarchy or social order (the first component), respondents have not indicated that this hampers the board's task performance. If anything, they have highlighted how it equalizes members and allows for all members to have a say in meetings and discussions. This means that the fourth hypothesis can only be partially confirmed based on the findings. The first component, a lack of clear social order or hierarchy, is not known to hamper the board's task effectiveness based on this study and must be disputed. However, the second component, an abuse of hierarchy, has been identified as a condition that severely hampers the board's task effectiveness and can be confirmed.

4.6 Degree of Mutual Respect & Trust

The importance that authors such as Hovius (2018) and Heemskerk (2013) have attached to the presence of mutual trust between and within boards has been translated into the fifth hypothesis:

H5: If there is a lack of mutual respect and trust among board members and between the board and management, this will hamper the effective task performance of the board.

This paragraph will focus on the insights gained concerning this subject throughout the interviews and will either dispute or confirm the final hypothesis. Mutual respect and mutual trust shape the foundation for inter -and intraboard cooperation and compose the glue that holds everything together. Interboard dynamics consist of the interactions between managerial and supervisory board while intraboard dynamics consist of the dynamics within one singular board. The degree of respect and trust concerns a high delicacy and this degree can be easily damaged or endangered. One of the respondents described it with a Dutch proverb:

“Vertrouwen komt te voet en gaat te paard”.

This can be translated as, trust comes on foot, but leaves on horseback. This proverb states that trust is hard to gain and easy to lose, or in other words, it takes a lot to build a trustworthy relationship, but the smallest, tiniest detail can destroy it. This delicacy concerning the presence of trust and respect becomes evident in all aspects, information provision, role clarity and agreement, diversity, compatibility and hierarchy. A lack of respect from the supervisory board towards the role of the chairman of the managerial board is known to cause frustration and agitation from the chairman. Abusing the trust from the supervisory board concerning information provision and hiding information from them could have serious consequences for the future of this relationship as well as for the continuation of the organization. A lack of respect from the chairman regarding the role of the supervisory board could disable them to

properly supervise because the chairman ignores their advice and input. The supervisory board then loses trust in the chairman, resulting in a highly dysfunctional relationship. Examples from the interviews where this was resolved through communication and evaluation processes of the supervisory board and the interference of individual board members have become evident. There have however also been given examples of where the dysfunctional relationship was only resolved by the resignation of the chairman of the managerial board or the resignation of the supervisory board as a whole.

“There was no trust from the supervisory board towards the chairman of the managerial board because he ignored all of our advice”. (Respondent 7)

There must be enough respect of everyone’s role and how everyone’s role is being taken seriously. Each board member must be valued and respected. This also implies that when the supervisory board decides to consult with other layers of the organization, they need to respect the managerial board’s position and notify them in advance.

“Respecting each other’s role, that’s foundation number one”. (Respondent 2)

Respect is important concerning both the relationships within the supervisory board as well as the relationship with the managerial board. Trust is especially important concerning the latter relationship. Trust allows for an open a clear relationship where the managerial board feels comfortable in sharing a lot of information and using the supervisory board as a sounding board.

“The directors feel supported by the supervisory board and safe enough to at the same time express their doubts and discuss issues”. (Respondent 3)

When for example the supervisory board shows distrust towards the managerial board by surpassing its role, the managerial board might feel less safe and comfortable in sharing information, because the supervisory board is so aggressive and interfering. Supervisory boards then need to show trust and operate based on this.

“It is a common saying that supervisory boards should operate based on distrust. I think boards should operate based on trust, but still observant and sharp” (Respondent 6)

Almost all respondents in this study emphasized the fact that trust and respect shape the foundation for all types of cooperation within and between boards. The importance the respondents have attached to respect and trust reflects in the presence of it at the organizations they are active at. All respondents have indicated that in their experience, there is enough respect and trust present between and within boards of public -and semi-public organizations. The examples in this paragraph, illustrating dysfunctionality in trust and respect,

have however underscored the serious implications of a lack of respect and trust on supervisory boards and between supervisory -and managerial boards. Because of the seriousness of these implications and the importance the respondents have attached to the presence of mutual respect and trust, the fifth hypothesis will be confirmed. A lack of respect and trust, either between both boards or within the supervisory board, will hamper the task effectiveness of the supervisory board.

In addition to the above findings, this study has found that many causes of dysfunctionality on supervisory boards in Dutch public -and semi-public organizations lay with communication. Improved communication could provide solutions in situations of role ambiguity, inter -and intra-board conflict, lack of cohesion, lack of respect and trust and in cases of insufficient information provision. Communication has been used to resolve issues of conflict between the supervisory and the managerial board, as told by Respondent 8 in one of the interviews. Respondent 4 has highlighted how clear and open communication in her situation has created an environment of clear expectations and boundaries, preventing issues of role ambiguity and conflict. Additionally, Respondent 9 stated that good communication between the chairmen of both boards is of particular importance. To further understand the importance of communication between and within boards in Dutch public -and semi-public organizations, this would have to be the subject of future research.

The next chapter will focus on answering the research question, answering the sub-questions, further discussing the degree of dysfunctionality in relation to the conceptual model, acknowledgements and recommendations for members of supervisory boards.

5 Conclusion

This chapter's primary focus will be on the research questions, providing answers to them and on drawing conclusions from them concerning the subject of this thesis. In addition to this primary focus, this chapter will acknowledge the limitations of this study and it will make recommendations for professionals that operate in or around supervisory boards.

5.1 Research Questions & Dysfunctionality

5.1.1 Research Questions

This paragraph will start off with answering the sub-questions that together constitute the main research questions. The first sub-question; What are boards and why do they exist?, has been answered in chapter 2. Supervisory boards came into life in the public -and semi-public sphere of the Netherlands during the era of decentralization. As a best practice that was adopted from the corporate sector, where it originated, supervisory boards were put into place with the same goal: providing a system of checks and balances and a countervailing power to the management of the organization. Because many public -and semi-public organizations were hived off during the era of decentralization, supervisory boards were put in place to monitor the hived off organizations. Whereas supervisory boards from the corporate sector are put in place to represent the shareholders and their interests, supervisory boards in public- and semi-public organizations represent the stakeholders and are tasked with safeguarding the societal impact of the organization.

The second sub-question; What are the activities and structures of a supervisory board?, has also been discussed in chapter 2. The structures and activities of supervisory boards tend to diverge between organizations and countries as well. The two-tier board structure found in Dutch and German organizations is very different from the one-tier board structure that is profoundly present in the United States and the United Kingdom. The structures of supervisory boards at Dutch public -and semi-public organizations commonly consist of about 5 to 7 board members. Each supervisory board has its own chairman (sometimes also a vice-chairman) and within the supervisory board, several committees are active. These committees consist of 2 or 3 members of the supervisory board and the focus on specific tasks. The focus of the audit committee is the financial aspect of the organization, the remuneration committee focusses on the selection and election of new board members and other committees are called into existence when issues concerning real estate or the stakeholders are of relevance. For example, many supervisory boards of housing corporations tend to have a tenant committee that focusses on safeguarding their interests and on the impact of decisions on the tenants.

The activities of supervisory boards diverge based on the organization they are a part of and the situation that they find themselves in. A supervisory board at an organization where management is performing adequately and where no other issues are of relevance is mainly performing its supervising tasks in the meetings. A supervisory board at an organization where management is not performing adequately or where other issues occur, is more active and more involved, as indicated by respondents in chapter 4. This means that, besides the regular meetings the supervisory board attends, they meet more frequent, are occupied with replacing the chairman of the managerial board and at the same time with managing the organization itself. This demands a lot more from a supervisory board compared to more stable situations where no interference is required. The level of intensity is different, but the supervisory board also performs fewer tasks in the more stable situations because it sticks to its supervisory and sounding board role. In turbulent situations, the supervisory board sometimes takes place on the seat of the chairman of the managerial board and adopts tasks of the latter in order to ensure the organization's continuation is not in danger.

The third sub-question; When is a board effective and functional in performing its tasks?, has been partially answered in chapter 2, but in this paragraph the insights from the interviews will be added to provide a more thorough answer. According to the literature, supervisory boards become effective in performing their tasks when they need to, when management is not performing accordingly or when the supervisory board disagrees with the direction management is going in. This is when the board acts on its supervisory role and addresses the issue at hand, corrects the managerial board and makes sure the continuation of the organization is not being harmed. According to the interviews, a supervisory board is effective in performing its tasks when it fulfills its three core roles: supervisory role, sounding board role and the role of employer. Even though most of the respondents agreed upon these three core roles, an additional one can be added: the safeguarding of the societal impact of the organization. This requires for the supervisory board to consider the stakeholders of the organization. The managerial board of the organization has an important role in this, but the supervisory board can also add value and assist in further strengthening the societal value of the organization.

Returning to the three core roles of the advisory board, specifically the second core role, that of a sounding board, has been underscored by many respondents as important. The supervisory board must provide that countervailing power to the managerial board, it must be the sparring/discussion partner of the chairman in order to make the decisions as good as possible. This requires a certain degree of quality and expertise from the supervisory board, which can be built by maximizing compatibility and making sure the supervisory board has the

knowledge, experience and expertise it needs to perform its tasks in the context of the organization it supervises for.

Based on the findings from the theory in chapter 2 and the findings from the interviews, a supervisory board is functional in performing its tasks when:

- It is provided with full and relevant information.
- It consists of a diverse group of directors that have knowledge of the areas of expertise the organization is involved in.
- Its members are compatible with each other, based on expertise and personalities.
- It has a healthy relationship with the managerial board and its chairman.
- It provides a system of checks and balances and a countervailing power to management.
- Its members express and possess mutual respect and trust.

These findings are in line with the foundations of a functional board developed by Murphy & McIntyre (2007). However, this study has added an important variable as a foundation for a functional board, diversity. This variable was initially assumed to be the cause of discussion, disagreement and eventually dysfunctionality. All respondents have however underscored the benefits and perks of having diversity on supervisory boards, they perceive it as necessity and as highly beneficial for decision-making. Eventually this then translates to better decisions being made and to the organization being better capable of fulfilling its purpose. Respondents have even stated that a lack of diversity could become detrimental to decision-making and to the performance of the organization. Too much agreement concerning decisions becomes detrimental to decision-making because the board is not critical enough. Diverging perspectives on supervisory boards are necessary to remain critical and to continuously question decisions to the benefit of the organization's continuation, performance and the impact on its stakeholders and society.

Concluding this paragraph, the main research question of this study will be answered: What dynamics lay the foundations for the dysfunctionality of a supervisory board's tasks in Dutch public- and semi-public organizations? The previous chapter (chapter 4) has provided insights into answering the hypothesis that were formulated to test the degree of dysfunctionality that arises from the variables of the conceptual model. Firstly, the assumption that a lack of clear and relevant information is the cause of dysfunctional dynamics was correct. Not only does a lack of clear and relevant information hamper the supervisory board's task performance, it seriously harms the relationship with the supervisory board. This means that the supervisory board then distrusts the managerial board, in examples this came with the supervisory board

being more critical and more involved with the managerial board, sometimes surpassing its role.

Secondly, the assumption that diversity would be the cause of dysfunction was false. As stated before, members of supervisory and managerial boards do not perceive diversity as a bad thing, nor has this study shown that it is the cause of dysfunctionality. Diversity might be the cause of more discussion and tension, but this always benefits the decision-making process. Some respondents have even stated that a lack of diversity, leading to a lack of discussion and too much agreement is dangerous. This is in line with the findings of Heemskerk (2013) that when conflicts are avoided, this leads to a poorer quality of supervisory boards.

Thirdly, the assumption that a lack of compatibility and cohesion within the supervisory board would be the cause of dysfunction was also false. Despite a singular example of a lack of compatibility and cohesion within the supervisory board allowing a chairman of the managerial board to dominate them, this variable was not indicated as the cause of dysfunctionality. Respondents have indicated that there is often a certain degree of relationship conflict present. Due to their professionalism however, this does not affect the board's task performance negatively and is considered something that improves decision-making. This conclusion can be connected to other studies that have indicated how higher group performance is associated with a certain degree of process, relationship and task conflict (Jehn & Mannix, 2003).

Fourthly, a lack of goal and task agreement was not indicated to be the cause of dysfunctional dynamics. Even though both a lack of goal and task agreement were not perceived to be dysfunctional, respondents have indicated that disagreement concerning goals and tasks does occur. However, just as with diversity, the discussion arising from this is beneficial. This conclusion can also be connected to the findings of Jehn & Mannix (2003). A certain degree of goal and task conflict leads to discussions, eventually improving the task performance. Contrary to goal and task agreement, a lack of role agreement between the managerial -and supervisory board is known to be the cause of dysfunctional dynamics. Supervisory board members surpassing their role's boundaries and taking place on the seat of the chairman of the managerial board are known to cause agitation with the managerial board. This could then lead to the withholding of information or disrespecting of the supervisory board, both negatively affecting the task performance of the supervisory board.

Fifthly, the assumption that a lack of a clear social order was the cause of dysfunction was false. If anything, a lack of a clear social order provides all board members with a platform to freely express themselves, allowing for the board to better benefit from its members diversity and input. An abuse of hierarchy, however, is known to be the cause of dysfunctional dynamics, both within the supervisory board as between the managerial board and the

supervisory board. Finally, the assumption that a lack of trust and respect is the cause of dysfunctionality was also correct. Trust and respect both provide the foundation for cooperation within boards and between boards. A lack of either is known to lead to agitation, misinformation, conflict, distrust, disrespect and eventually the departure of directors, scandals that become public and in general processes that are detrimental to organizations. The presence of respect and trust does not mean that a certain degree of tension is perceived as bad. As one respondent stated:

“A former chairman of the supervisory board once told me; you need to feel healthy tension as a director when you meet the supervisory board. Do I have all my questions, do I have an answer for everything, have I considered everything?” (Respondent 6)

5.1.2 Dysfunctionality

The most important conclusion that this study will provide is not just what dynamics lay the groundwork for dysfunctionality, but how they are intertwined. The interconnectedness of a lack of trust and respect and for example the availability of information means that when either one is missing, a vicious circle is entered. A lack of information could lead to the supervisory board to press the managerial board for more information, the former then surpasses its role, the managerial board feels uncomfortable, withholds more information, becomes agitated and the situation further escalates. Or supervisory board members surpass their roles initially, leading to the chairman of the managerial board to become stressed, agitated and hostile towards the supervisory board. When the latter does not recognize its own fault, they might consider the chairman of the managerial board to be untrustworthy or incapable of performing its job because the chairman is stressing out, showing signs of withholding information and not dealing with the situation accordingly. In examples these dynamics were resolved by communication and by the interference of other board members, but it does show how delicate the relationship is between the variables and how one could lead to dysfunction concerning the other.

5.2 Limitations

Every study has its strengths and its weaknesses. Although some acknowledgements regarding this study's validity and trustworthiness have already been made in chapter 3, this paragraph will discuss additional limitations of this study.

The validity of this study has been touched upon previously in chapter 3. The chapter discussed how the possibility that the respondents did not in fact tell the truth about dysfunctions in their experience, could affect the study's validity. In addition to

respondents not telling the truth, it must be acknowledged that the respondents that participated might have only done so because they are not experiencing dysfunctionality at their organization. Members of supervisory and managerial boards that are experiencing dysfunctionality that have been approached for this study might have not responded because they are experiencing issues and do not want to discuss them. This means that this study might have missed out on crucial participants of this study and this must be recognized. Additionally, since of all supervisory and managerial boards only singular directors have been interviewed, this study has only gained one-sided insights on dysfunctional or functional dynamics. Other directors of the same boards might perceive dysfunctional dynamics as functional, or vice-versa.

5.3 Additional Findings

In addition to the findings of this study that have been discussed previously in this paragraph and in chapter 4, further findings concerning supervisory boards and dysfunctionality will be discussed next. Firstly, the professionalism of supervisory and managerial boards of public -and semi-public organizations in the Netherlands has become evident. The lack of dysfunctionality and degree of professionalism and competence that has been discussed by the respondents are indicators of this. Secondly, there is a difference in professionalism based on the size of the organization. The examples of dysfunctionality or of a lack of professionalism were present at smaller housing corporations or educational institutions. This highlights that, at a certain level, organization and its board members are of such a proficient nature that dysfunctional dynamics do not occur or are resolved before escalating. Thirdly, the professionalization of the supervision and management at public -and semi-public organizations has significantly improved in the last 10 years according to many respondents. Supervisory boards have improved and professionalized significantly, selection procedures are executed more carefully, more attention is being paid to the stakeholder component and the quality of supervision has improved consequently. The “old-boys network” prevalent is no longer prevalent, the meetings and discussions are sharply executed, and board members have become more critical and involved in their positions. Fourthly, the position of the secretary of the managerial and/or supervisory board has become important. In some cases, the secretary of the managerial board also fulfills the same position for the supervisory board. When there are no issues or difficulties, this is already an ambiguous position, but when issues and conflict or disagreement arise between both boards, this position becomes extremely ambiguous and difficult. Fifthly, the interviews have indicated that poor election of the chairman of the managerial board is known to cause dysfunctionality. When this is not done properly, either by not carefully

selecting members of by selection based on the “old-boys network” dynamic, it almost always is the cause of issues at an organization.

5.4 Recommendations

Supervisory boards of Dutch public -and semi-public organizations have made impressive improvements in the last 10 or so years, according to the respondents. The previously prevalent “old-boys network”, favoritism, patriarchy and unprofessional supervision have been replaced with a slightly younger, more professional, more diverse and stricter wave of directors on supervisory boards. The diversity component can however be further improved. Recent developments concerning the presence of women on managerial and supervisory boards have underscored this. There is still a lack of diversity overall when looking at ethnic background, gender and age. In order to address this, supervisory boards find themselves at a crossroad, do they elect lesser experienced directors, or do they stick with electing experienced directors? In choosing the former, they might harm the board’s compatibility and countervailing power; in choosing the latter they might lose out on gaining diversity and in training new directors. Despite the dilemma’s, supervisory boards need the diversity component to better enable the board to fulfill its tasks. Diverse boards are better able to cover the wide range of issues and challenges public and semi-public organizations are faced with today. This means that, even though supervisory boards have made significant improvements over the years, there is still a lot to be gained from diversifying supervisory boards. Boards need to investigate further diversifying in age, gender, professional background and cultural background.

Additionally, the improved professionalization and increased accountability of supervisory boards has demanded more from candidates for these positions. In most cases, however, these candidates’ rewards have not increased or improved. The reward systems for directors of supervisory boards in place at public and semi-public organizations are inferior to those in the corporate sector. Especially concerning smaller organizations, with significant societal impact nevertheless, that reward directors with significantly less than bigger organizations. This might negatively affect the quality of supervisory boards of these organizations, because competent directors prefer taking positions that are better rewarded. Improving the remunerating of top-level officials in the public and semi-public sector is a sensitive subject that is considered a taboo. But in order to keep improving supervision and the safeguarding of the societal impact of public and semi-public organizations, these rewards structures will have to be enhanced. Supervision is necessary, important, effective and valuable, it is time it is rewarded as such.

Finally, considering the relationship between the managerial and the supervisory board and the dependence of the supervisory board when it comes to information provision, organizations

need to address the fact that very often, both boards have the same secretary. Although this study has not assumed or found that this has become dysfunctional, respondents have indicated that the ambiguous position of secretaries can be compromised in times of conflict and tension between boards. Contrary to this, other respondents have indicated that secretaries operating for both boards can be benefited from. This benefit comes with the ability of the secretary to mediate between both boards. The secretary would be able to gauge the reactions of one board to another board's decisions or comments, providing inside information with which cooperation can be improved. The position of secretary for both boards needs to therefore be studied more extensively because it is unclear and has not been proven if this ambiguous position leads to dysfunction.

6 References

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7 Appendices

7.1 Interview Manual

Interview

- Kunt u uw huidige bestuursfunctie bij organisatie x beschrijven?
- Hoe zou u de relatie tussen RvB en RvT/RvC beschrijven en de relatie tussen commissarissen onderling?
- Wat ziet u als het goed/effectief functioneren van een RvT/RvC en waarom?
- Kunt u factoren noemen die dit faciliteren of bemoeilijken? En heeft u hier evt. voorbeelden van?
- Vindt de informatievoorziening in uw ervaring in voldoende mate plaats, is alles beschikbaar en duidelijk weergegeven?
- Wat zijn de gevolgen als dit niet zo is/was?

- In een bestuur heeft elk lid veel ervaring en is men over het algemeen hoog opgeleid, wordt er in uw ervaring respectvol en collegiaal omgegaan met elkaar?
- In hoeverre beïnvloeden uiteenlopende meningen het overeenstemmen over de taken van een RvT/RvC?
- Weet u voorbeelden waarin dit niet gebeurde en wat hier ten grondslag van lag?
- Kunt u factoren onderscheiden die samenhang binnen een bestuur beïnvloeden? En een voorbeeld geven wat er gebeurt bij een gebrek aan samenhang?

- In hoeverre is er, in uw ervaring, een informele hiërarchie aanwezig in een bestuur en waar is deze op gebaseerd?
- Is er binnen de RvT/RvC een duidelijke taakverdeling?
- Wat zijn de gevolgen van hiërarchieën/taak -en rolverdelingen in uw ervaring?
- In hoeverre wordt er in uw ervaring misbruik gemaakt van een bestaande formele/informele hiërarchie binnen een bestuur?
- Hoe zou u de relatie van de RvT/RvC met het bestuur/directeur beschrijven?

- In hoeverre is er diversiteit aanwezig op het gebied van kennis, geslacht, leeftijd en achtergrond binnen uw RvB/RvT/RvC?
- Wat is in uw ervaring het effect van diversiteit in een bestuur op het maken van beslissingen en overleg?
- In hoeverre heeft, in uw ervaring, diversiteit geleid tot onderling conflict of meningsverschil?
- Hoe werd er omgegaan met dergelijke conflicten en in hoeverre bemoeilijkte het de samenwerking en het uitvoeren van de taken van de RvT/RvC?
- Kunt u tot slot voorbeelden uit de praktijk noemen van dysfunctionele mechanismen in een RvT/RvC, waar dit aan lag en wat de gevolgen waren voor het uitvoeren van de toezichtsfunctie?