

Toward a behavioral theory of boards and corporate governance

Hans van Ees, University of Groningen, The Netherlands

Jonas Gabrielsson, Lund University, Sweden

Morten Huse, Norwegian School of Management BI, Norway and Tor Vergata
University, Rome

Another version of this paper is published in *Corporate Governance: An International Review* (2009, 17 (3): 307-319)

1. Introduction

Corporate governance research addresses the nature of interactions and relationships between the firm and its stakeholders in the process of decision making and control over firm resources. In the corporate governance literature there has been a considerable interest in boards of directors (Zahra and Pearce, 1989; Johnson, Daily and Ellstrand, 1996; Daily, Dalton and Cannella, 2003). The majority of board research has been dominated by economic theorizing with assumptions about rational and utility-maximizing behavior. This stream of research puts emphasis on formal incentive and control mechanisms and a focus on how boards of directors may protect shareholder interests from opportunistic and self-serving managers through bonding or monitoring activities. The extensive body of empirical research conducted in this mainstream tradition has however so far yielded conflicting and ambiguous results.

The general unease about the conflicting and ambiguous results has led to calls for new directions and alternative theorizing in research on boards and governance among a large number of scholars (Davis and Useem, 2002; Daily, Dalton and Cannella, 2003; Huse, 2003; Gabrielsson and Huse, 2004; Davis, 2005). In line with these calls, a growing number of studies has emphasized the need to study behavioral processes and dynamics in and around the boardroom to better understand conditions for effective corporate

governance (e.g., Pettigrew and McNulty, 1995; Huse, 1998; Westphal 1998; Zajac and Westphal 1998; Forbes and Milliken, 1999; McNulty and Pettigrew, 1999; Ocasio, 1999; Westphal 1999; Rindova, 1999; Westphal, Seidel and Stewart, 2001). However, so far these ‘behavioral’ studies of boards and governance are scattered across disciplines and research traditions, applying different methodologies and assumptions (Huse, 2005). As such, understanding boards and governance in behavioral framework does not yet provide a coherent alternative to the mainstream economic research tradition in corporate governance.

In this review paper we will summarize and integrate previously published research with the aim to address the implications of a behavioral framework for a future research agenda on boards and governance. Based on the review we contend that a behavioral theory on boards and governance may underlie many features of an emerging stream of studies arguing that boards in reality may not be so much concerned with solving conflicts of interests but rather engaged in dealing with the complexity and uncertainty associated with strategic decision making (McNulty and Pettigrew, 1999; Rindova, 1999; Roberts, McNulty and Stiles, 2005). The main feature characterizing the behavior of boards in a behavioral theory framework is the limited ability of organizational actors to effectively gather and process information. This will in turn lead to the need to collect and coordinate dispersed knowledge through planning and control procedures. Corporate governance institutions, such as boards, can then be primarily conceived as problem-solving institutions that reduce complexity, create accountability, and facilitate cooperation between stakeholders. Such a framework consequently challenges the mainstream approach that deals with boards primarily as a deterrent to managerial self-interest in the context of rational optimizing behavior, formal contracts, and extrinsic (often monetary) rewards.

We believe the paper contributes to research and literature on boards and governance in several ways. First, and in line with the behavioral theory of the firm (Cyert and March, 1963), the paper will develop theory of board behavior in a way that is more connected to empirical observation than mostly used in present research about boards. Up to date,

research on boards and governance has heavily relied on unquestioned behavioral assumptions (Pettigrew, 1992; Rindova, 1999), and a majority of empirical studies treat interactions and decision making processes largely as intervening unmeasured constructs (Forbes and Milliken, 1999; Gabrielsson and Huse, 2004). Second, a behavioral theory of boards and governance will imply an alternative economic approach to corporate governance institutions by starting from rather different behavioral assumptions. It will highlight the complexity of organizational activities vis-à-vis the limited cognitive capabilities of stakeholders and the search for knowledge to solve organizational problems (Rindova, 1999; Zahra and Filatotchev, 2004). As such, boards' contribution to firm performance is expected to derive mainly from the deployment of relevant knowledge rather than from the reduction of agency costs. Third, a behavioral theory of boards and governance starts from the widely acknowledge idea that the purpose of corporate governance institutions is to enable cooperation. However, this takes place not only by solving conflicts among stakeholders and maintaining control, but also and perhaps even more importantly, by solving problems of coordination and engaging in collective processes of organized information-gathering (Rindova, 1999; Zahra and Filatotchev, 2004). Therefore, a behavioral theory of boards and governance will call for the need to revitalize concepts related to bounded rationality, satisficing behavior, routinization of decision-making by means of heuristics, and political bargaining in the context of the corporation as a coalition of stakeholders. These are concepts that have hardly been addressed in economic theorizing on boards and governance.

The rest of this paper will be organized into four sections. In section two we will put the behavioral theoretical approach into perspective against major research streams in studies of boards and governance. Section three will then summarize main theoretic concepts from the behavioral theory of the firm that have been used in recent board research, which provide the basic ingredients for a behavioral theory on boards and governance. Thereafter, in section four we will discuss the different items on an emerging research agenda of a behavioral theory of boards and governance. The paper ends in section five with a concluding summary of the major implications of a behavioral framework.

2. Major research streams in studies of boards and governance

Before outlining some fundamentals of a behavioral theory of boards and governance, we will put the behavioral theoretical approach into perspective against major research streams in contemporary studies of boards and governance. In order to structure our discussion we have, based on an elaboration of the perspectives presented by Zajac and Westphal (1998: 272), set out alternative research streams in Table 1 below.

(Insert table 1 about here)

In dealing with the rights and responsibilities of stakeholders, corporate governance shapes relationships among stakeholders in and around the corporation in terms of structure, interactions and decisions (van Ees and Postma, 2004). Structure refers to the formal organization, i.e. the organizational design. Interactions refer to the interplay between actors being or working close together. Decisions refer to the making and shaping of strategic decisions and the processes through which these decisions evolve. The column dimension in Table 1 shows this distinction, whereas the row dimension characterizes the focus on either internal or external relationships. Internal relationships refer to relationships in and around the board, between board members and (coalitions of) internal actors, as well as the relationships between (coalitions of) board members. External relationships refer to relationships between board members and (coalitions of) external actors.

The idea to distinguish between external and internal actors in research on corporate governance has its background in the potential conflict of interest between different organizational actors (Jensen and Meckling, 1976). A common way to identify internal and external actors is to make the distinction based on whether they operate within the strategic apex of the company - those who make decisions and take actions, or if they are placed outside this apex - those who seek to influence and control decisions and actions (i.e., Mintzberg, 1983; Huse, 2000). Shareholders are often considered to be the most

important external stakeholders or actors, but the list of external stakeholders may as well include customers, suppliers, competitors, tax collectors and other state agents (Freeman and Reed, 1983; Huse and Rindova, 2001). The CEO and the top management team are often considered as the most important internal stakeholder, but in many cases owners can also be considered internal stakeholders. This is particularly the case in family firms and firms with concentrated ownership, which can be found in many small firms (Gabrielsson and Huse, 2005). In the list of internal stakeholders we may also find the families of the executives, and other with close psychological and financial ties to the CEO and the top management team (Kosnik, 1987). It is furthermore argued that workers, most often regardless of their relationships with the management, should be regarded as internal stakeholders.

Corporate governance research is dominated by economic theories, which assumes that a firm functions in line with its formal structure (Daily et al, 2003). The first entry (I) in table 1 concerns research on incentive and control problems within the firm, which is the classical domain of positivist agency theory (Fama and Jensen, 1976; Eisenhardt, 1989). The focus is on the contract between principals (the owners of the firm) and agents (the top management). Agency theory posits that this relationship may be subject to inefficiencies to the extent that principals and agents have conflicting goals. The actors are assumed to act opportunistic and intendedly rational, and asymmetric information prevents effective monitoring of the agents' actions by the principals. The solutions to these problems have been to develop formal incentive and control mechanisms and to emphasize the formal monitoring role of the board of directors (Fama and Jensen, 1983).

The second entry in the table (II) concerns the formal structure of the corporation vis-à-vis its external stakeholders. The corporation is regarded as a focal point of contracts and likewise the dominating theories in this field are transactions costs economics and contract theory (Williamson, 1984, 1988). As in the previous entry, actors are assumed to act intendedly rationally so as to maximize their own benefits under conditions of incomplete or asymmetric information. The design of corporate governance regulation, such as corporate governance legislation and national codes of corporate governance that

structure and codify the relationships between the corporation and its external stakeholders is considered as part of this research field (Blair and Stout, 2001; Callison, 2001).

Whereas the first two entries of Table 1 are dominated by the economic discipline, the question of how interactions affect relationships in and around the boardroom have primarily been studied from a sociological perspective. Studies in the third entry (III) have been concerned with conditions for collaboration and conflict between boards and internal stakeholders, with a focus on how issues like CEO duality, CEO tenure and experience, social ties, demographic similarity and timing of directors' appointment affect power and politics in the organization (Finkelstein and D'Aveni, 1994; Westphal and Zajac, 1995; Zajac and Westphal, 1996; Bigley and Wiersema, 2002). The power and trust characteristics of CEO-board relationships have for example been considered by stewardship theory and social exchange theory (Donaldson and Davis, 1991; Davis Schoorman and Donaldson, 1997; Westphal and Zajac, 1997). Noteworthy is that although these theoretical perspectives often have completely opposite behavioral assumptions when compared to agency theory, they are often considered complementary rather than competing perspectives for understanding conditions for effective board governance (e.g., Shen, 2003; Sundaramurthy and Lewis, 2003).

The fourth entry (IV) concerns coordination and cooptation through interorganizational networks, with a focus on how power, trust and resources flow between organizations and make them work together so as to increase organizational effectiveness. This issue has primarily been analyzed in the context of resource dependency theory, which was developed in the 1970s as an attempt to explain how organizations seek to connect to their environment in order to secure a stable flow of resources (Pfeffer, 1972, 1973; Pfeffer and Salancik, 1978; Provan 1980). From the resource dependency perspective, effective boards link the organization with its environment by establishing important contacts and providing access to timely information through personal and professional networks (Boyd, 1990; Hillman, Canella and Paetzold, 2000). One way of linking the organization with its environment is by means of co-opting representatives from

important external organizations. These co-optation practices can be seen as instrumental acts with the purpose to reduce uncertainty, acquire resources, or diffuse information in order to achieve organizational goals (Pfeffer and Salancik, 1978). The extensive research on director interlocks is a related stream of studies that provides further insight into the power dynamics associated with multiple board memberships (Useem, 1984; Richardson, 1997; Davis, 1991; Haunschild, 1993; Mizruchi, 1996; Haunschild and Beckman, 1998; Zajac and Westphal, 1996; Gulati and Westphal, 1999). Especially, these studies have focused on how director interlocks influence the diffusion of technology, policy and strategy, as well as providing a social context that favor continued managerial dominance.

The remaining entries (V and VI) of Table 1 deal with the making and shaping of organizational decisions and the processes through which these decisions evolve among internal and external stakeholders. Entry V concerns studies that are about decision making in and around the boardroom and belong somewhat more to the domain of social psychology. The contradictory findings in mainstream governance research have fueled the idea that ambiguity exists because of the complexities of board decision making (Huse, 1998). Many scholars have emphasized that there is no other way to analyze this proposition than to focus on actual decision-making behavior and the underlying cognitive processes of boards (e.g. Forbes and Milliken, 1999; Rindova, 1999; Pye and Pettigrew, 2005). Although empirical research on these issues is still scarce, existing studies have primarily focused on how commitment, cohesiveness and shared values as well as creativity, criticality and cognitive conflicts among board members influence board behavior (Pettigrew and McNulty, 1995; Huse, 1998; Pettigrew and McNulty, 1998; McNulty and Pettigrew and 1999; Gabrielsson and Winlund, 2000; Huse, Minichilli and Schønning, 2005).

Finally, entry VI concerns processes of conformation and ceremony vis-à-vis external stakeholders. The main perspective in this entry has been institutional theory, a theoretical perspective that addresses how interdependencies between corporate and other societal institutions make organizations conform to the accepted norms of their

populations (Di Maggio and Powell, 1983). Through this perspective, board appointments and social network ties are seen as embedded in the broader institutional environment. This enables board members to learn about existing norms of appropriate beliefs and behavior (eg., Judge and Zeithaml, 1992; Westphal, et al., 2001; Aguilera and Cuervo-Cazurra, 2004; Jonnegård, Kärreman and Svensson, 2004). Board members persuade each other that certain corporate governance structures and policies have merit even if evidence for their efficiency is lacking. Boards may in this respect be subject to processes of social construction where the adoption of practices fulfills symbolic rather than or in addition to efficiency requirements (Westphal et al, 2001; Aguilera and Cuervo-Cazurra, 2004). Director interlocks can consequently, from this perspective, be expected to encourage imitation not only through conscious choice but also by triggering the adoption of taken-for-granted board behavior through less explicit socialization processes (Westphal, et al, 2001). An alternative perspective in this entry focuses on the field of rhetoric and impression management (eg., Zajac and Westphal, 1994; Westphal and Zajac, 1998; Ng and DeCock, 2002; Pye, 2002; Pye, 2004). This perspective study the use of practices of symbolic management as an instrument to connect the decisions and behavior of the organization to the expectations, rules and norms in the business-environment, thereby taking into account the special order and formal behavior demanded by custom.

In our view, behavioral perspectives alternative to mainstream economic theorizing on boards and governance can be found in the various research themes in entries III-VI. In fact, the idea that the underlying theories provide complementary perspectives on boards and governance and that neither one of them can independently provide a full explanation seem to have gained common ground (e.g., Hung, 1998; Stiles, 2001; Lynall, Golden and Hillman, 2003; Hillman and Dalziel, 2003; Huse, 2005). There has been a growing consensus concerning the need for theoretical pluralism and researchers can today choose from a large number of relatively accepted theories depending on the aim and scope of their research.

Our discussion illustrates the argument that behavioral studies of corporate governance are scattered across disciplines and research traditions, applying different methodologies and behavioral assumptions. Theory development about boards and governance should focus on similarities and not on differences. Despite good intentions we fear that without the accumulation of knowledge around commonly accepted core concepts the call for theoretical pluralism may risk leading to a growing fragmentation rather than to a growing consensus in the understanding of board behavior. As such, current behavioral perspectives in research of boards and governance do not provide an alternative to the mainstream economic research tradition in corporate governance. In our view, a behavioral theory of boards and governance, focusing on the similarities rather than on pluralism and differences in the various approaches may be able to provide such an alternative. In the next section, we will discuss concepts originating from the behavioral theory of the firm that may potentially serve as underlying concepts for an emerging behavioral theory of boards and governance.

3. Behavioral theoretic concepts used in recent board research

The behavioral theory of the firm has since the pioneering studies of Simon (1945, 1955), March and Simon (1958) and Cyert and March (1963) been developed into a main perspective for understanding decision making in organizations. The work of Simon and others can be considered as an attempt to link the abstract principles of the rational decision-making model in the economic discipline to concrete decision-making processes in real business settings. Yet little of this rich body of knowledge has spilled over to mainstream studies of boards and governance where the rationality of agents often still is assumed (Ocasio, 1999). However, in line with calls for the need to better capture processes and behavioral dynamics in and around the boardroom (e.g., Pettigrew, 1992; Huse, 1998) studies have increasingly emphasized the need to apply concepts that can be related back to a behavioral theoretical framework. Four important core concepts originating from a behavioral tradition that have appeared in recent research on boards are examined below; bounded rationality (Ocasio, 1999; Osterloh, Frey and Frost, 2000;

Hendry, 2003), satisficing (Hendry, 2005), routines (Ocasio, 1999; Zahra and Filatotchev, 2004), and political bargaining (Huse and Rindova, 2001).

Bounded rationality. Recent research on boards and governance has addressed the core concept of bounded rationality (Ocasio, 1999; Osterloh et al., 2000; Hendry, 2005), which is a concept that refers to the actual complexity of decision-making in organizations (Simon, 1955, March and Simon, 1958; Cyert and March, 1963). This is not to say that agents do not strive to maximize utility, only that real-world agents are not able to do so due to bounds on their intended rationality (Hendry, 2005). The complexity of the business makes it impossible for individuals to completely understand all linkages among variables around them. In this respect, the concept of bounded rationality emphasizes that organizational actors do not fully understand the world they are living in (Hendry, 2003). This has two implications, in particular. In the first place, decisions cannot be regarded as optimal solutions to problems - they can merely reflect solutions that satisfy particular aspiration levels (Cyert and March, 1963; see also Levinthal and March, 1993). These aspiration levels are determined both by history and the social environment. The historical aspiration level is set as a function of the organizations past performance, the social aspiration level is set by reference to meaningful reference groups. In the second place, and contrary to mainstream economic theorizing with its emphasis on individual super-rationality in the face of incomplete and asymmetric information (Eisenhardt, 1989), a behavioral approach focuses more on subjective factors such as cognitive biases, and incompetence, as explanations for inefficient and ineffective decision-making (Hendry, 2002; Foss, 2001). The cognitive bias of organizational actors only allows imperfect mapping of the decision-making environment and a rather limited and imprecise and selective information processing. From this perspective, the limited competence and unawareness among organizational members may represent a much more likely cause of organizational failures and inefficiencies than straightforward opportunism, which more or less assumes that individuals have full understanding of the opportunities available to them (c.f. Hendry, 2002). This notion of bounded rationality has in the literature been called “truly bounded rationality” (Osterloh et al., 2000; see also Radner, 1996).

Satisficing. A second core concept that has been addressed in recent research on boards and governance is ‘satisficing’ (Hendry, 2005). This behavioral concept indicates that actors tend to accept choices or judgments that are “good enough” based on their most important current needs rather than searching for optimal solutions. The assumption of satisficing behavior rests on the observation that decision-makers mainly are concerned with immediate problems and short-run solutions, something which has generally been called “problemistic search” (Cyert and March, 1963). Problems are, however, only recognized to the extent that organizations fail to satisfy one or more of its self-imposed goals, or when such failure can be expected in a near future (Cyert and March, 1963). Problem recognition itself is primarily driven by attention allocation and selection biases. When faced with a problem, decision makers can be expected to search for solutions using simple heuristics or decision-making routines. The problem is regarded as solved as soon as an alternative is found that satisfies current goals, or if goals are revised to a level that makes available solutions acceptable. When compared to optimizing behavior it can be observed that satisficing behavior potentially reduces the gains from behaving opportunistically. Decision making in the behavioral theory is consequently seen as an experiential learning process, where firms adapt incrementally to its changing environment through learning and experimentation. Decision makers learn by trial and error what can be done, and they adapt their goals, attention rules and search rules accordingly.

Routines. A third core concept that has been brought up to attention in recent research is that boards of directors operate from the basis of ‘routines’¹ that are built up over time (Ocasio, 1999; Zahra and Filatotchev, 2004). Routines can here be understood as the codified memory of the organization, embodying the past experience, knowledge, beliefs, values, and capabilities of the organization and its decision makers (March and Simon, 1958; Cyert and March, 1963; Nelson and Winter, 2003). Routines consist for a large part of experiential knowledge, which to a large extent are tacit and hard to codify. Routines

¹ “Routines” has in the literature also been referred to as “performance programs” (March and Simon, 1958), “standard operating procedures” (Cyert and March, 1963).

are moreover an important a source of control and stability, which both enable and constrain organizational action. On the one hand, they conserve the cognitive abilities of board members and channel and limit conflict among them. On the other hand, they direct attention to selected aspects of identified problem situations. Rules and routines are hence not purely passive elements in board behavior, but serve as socially and historically constructed programs of action that direct attention to selected aspects of a problem situation. As such, they also create decision-making biases. Boards, however, are not victims of history - routines can be changed by learning processes, such as imitation, or through trial and error (Zahra and Filatotchev, 2004). Both routinization as well as unlearning thus plays a central role in a behavioral framework.

Political bargaining. The fourth core concept that has been addressed in recent research on boards is the 'political bargain' among coalitions of actors (Huse and Rindova, 2001). Through this perspective organizations can be depicted as complex political systems with agents organized in coalitions, some of them organized into subcoalitions (March, 1962; Cyert and March, 1963). Coalition partners may have distinct preferences and objectives, which make negotiation and bargaining among coalition members common practice. Shifting coalitions of organizational actors affect organizational decisions, goal setting and problem solving processes. Goal conflicts are solved through political bargain rather than through objective alignment by economic incentives. Disagreement about organizational goals is dealt with in the context of on-going bargaining processes among coalitions that pursue alternative objectives and priorities. Different coalitions may pursue conflicting goals, and organizations may encompass a variety of possibly conflicting and inconsistent goals by pursuing them sequentially. Goal formation is thus achieved by a series of procedures including the application of local rationality and acceptable level decision rules, as well as sequential attention to goals (Cyert and March, 1963). The procedures for resolving conflicts do not necessarily lead to a consistent set of goals in the organization. This means that organizations most of the time can be expected to have a considerable amount of latent conflicts and goals. Goal formation is hence seen as the outcome rather than the beginning of the bargain between coalitions. As such, goal formation and goal conflict may drive the search for additional information and new

knowledge. In fact, from such a learning perspective, goal congruence and consensus may even be a hindrance rather than a stimulus to organizational development. In view of their formal role as “the strategic apex” of the organization, board of directors obviously will play an important role in this process of goal formation.

(Insert table 2 about here)

A comparison between assumptions for understanding decision making in the economic and behavioral approach is presented in table 2 above. In the behavioral approach actors are assumed to be constrained by limited imagination and awareness, so called truly bounded rationality. Due to the constraints of truly bounded rationality, organizational actors seldom base decision making on an overall calculation of all consequences. Instead, if a problem area is recognized it triggers a search for possible solutions and the search ends when a “satisfactory” solution is found. The actors moreover rely on routines and heuristics that provide them with readily available solutions and procedures for the enactment of organizational decisions. Finally conflict resolution and goal formation is seen as the result of an ongoing process of political bargain among coalition members. The assumption made in the in the economic approach that organizations are monolithic entities where individuals rationally make optimal decisions to reach a unified and a priori defined goal is consequently rejected. Among other things, this has important implications for a research agenda based on a behavioral theory of boards and governance.

4. A research agenda of a behavioral theory of boards and governance

Building upon the four core concepts developed in the previous section, a research agenda of a behavioral theory of boards and governance will be based on the conception of organizations as multiple coalitions of stakeholders. These stakeholders may have conflicting interests and will achieve their goals through changing coalitions in the bargaining process within the corporation. The behavioral perspective on boards and

governance would hence primarily place emphasis on the analysis of the role of the board in organizational decision making rather than on the outcomes (performance) of boards.

In explaining decisions, a behavioral theory of boards and governance will focus on the political aspects of board behavior. A behavioral theory of boards and governance may in this setting analyze boards' involvement in political bargaining in order to achieve cooperation between coalitions of actors (Ocasio, 1999; Hendry, 2002). Following upon the analysis of power and trust relationships the analysis can be extended to the more managerial aspects of political behavior, such as how the symbolic, rather than substantive aspects of stakeholder behavior and expectations may be managed to benefit the interests of the dominant coalition within the organization (Huse and Eide, 1996). In the political bargain, the position of the board cannot be regarded as non-problematic. Indeed, the formal role of the board is to consider "the best interest of the firm" only, however, in a political context the question as to what the best interest of the firm is cannot be answered without reference to context and the particular coalition of stakeholders (Huse and Rindova, 2001). That is to say that the best interest of the firm are to defined in the political bargain among stakeholders, which implies that the objectives of the firms cannot be regarded as the objective fundamentals for board decision-making. It also implies that the effectiveness of board decision-making can not be analyzed without taking board decision-making context into account (Huse, 2005).

In mediating between stakeholders, boards can in a behavioral theoretic framework be expected to engage in problemistic search to create momentary stable coalitions of stakeholders that provide a solution to the problem at hand. The bargaining process starts with defining corporate goals from the aspiration levels and expectations of stakeholders. Problemistic search by the board will be triggered when organizational performance will fall below stakeholder aspiration levels. The search for workable problem-solving heuristics will be aimed at finding solutions to immediate problems of accountability. As such, the behavioral approach emphasizes the political process involved in board decision making (Ocasio, 1994; Huse, 1996; Ng and DeCock 2002) and the satisficing nature of board decision-making outcomes (Hendry, 2005). Satisficing as the guiding principle for

decision-making, instead of trying to capture all opportunities to maximize payoffs probably may reduce opportunism between organizational actors (Baumol, 2004).

Alignment with sub-goals rather than to a profit objective may moreover help keeping focus on tasks and duties in the organization and in sustaining intrinsic motivation (Grandori, 2004; Osterloh and Frey, 2004; Windolf, 2004). Thus, the analysis of how boards organize goal formation within the organization as well as the position and political role in the context of this process may reveal additional insight into the role of the board in organizational decision-making. Moreover, the existence of alternative goals in the behavioral approach may provide important inputs for additional information and knowledge. In fact, the diversity of goals among different coalitions of actors can be considered beneficial as it stimulates the discovery and active search for new knowledge as a by-product in the goal-conflict resolution process. Diverse board members with experiences from different industries and companies will vary in their domain knowledge, the problems they have been exposed to and the problem solving skills they have developed (Rindova, 1999). New knowledge can in this respect enter into the board decision-making process through the adjustment of aspiration levels and the formation of alternative dominant coalitions. These conditions will in turn bring greater variety to the problems that the board identifies and the solutions it develops.

Additionally, analyzing problem-solving inside and outside the boardroom through a behavioral theoretic framework may offer new insights into the specific behaviors and actions of board members that lead to certain decision of boards of directors (Forbes and Milliken, 1999). Satisficing board members can be expected to deal with organizational problems by applying norms, problem-solving heuristics and memorized routines to reduce the complexity of decision-making. The limits of bounded rationality prohibit the availability and understanding of a complete array of alternatives, which means that simple heuristics will be used to process the gathered information. A behavioral theory of boards and governance will thus emphasize that board members rely on general rules and lessons based on past experience (heuristics) to make strategic decisions, rather than employing rational models of decision making that require knowledge and information

that they cannot have. In particular, the decisions in the current period are informed and shaped by the environmental feedback that board members receive from their earlier decisions (Cyert and March, 1963). Learning processes among board members can hence be expected to be “operationalized” in the form of information gathering and decision making structures, procedures and rules (Ocasio, 1999).

A behavioral theory of boards and governance also posit that board members cope with uncertainty and complexity reduction by routinely simplifying and structuring information through their perceptual filters and pre-existent knowledge structures (Rindova, 1999). By applying simple decision-making heuristics directors may enact decision-making scripts internalized from their participation on other boards to solve strategy and monitoring problems in the current organization or board. This follows the idea that the particular decision routines are encoded more deeply in the organizational memory, and more likely to be recalled and enacted later in problem situation that are perceived as similar. The reliance of rules in board decision making facilitates action by presenting board members with readily available solutions for organizational problems (Ocasio, 1999) and may also increase the board’s ability to justify and defend its actions and decisions (Westphal and Zajac, 1998). As such, the previous experiences of board members, their expectations and reference groups, as well as their routine procedures for information processing and learning, are highly relevant to consider for understanding board decision-making. The careful analysis of behavioral routines and mimetic processes in and around boards may thus provide insight how boards and their members routinely use their past experiences in similar settings as scripts for solving problems in the current situation (Ocasio, 1999; Westphal, et al., 2001). Similarly, the analysis of norms of board behavior as another source of memorized socially constructed expectations may reveal additional insights as far as the explanation of behavior in and around boards is concerned.

5. Concluding summary

There have been calls for new directions and alternative theorizing in research on boards and governance (Daily, Dalton and Cannella, 2003; Gabrielsson and Huse, 2004). In this article we have outlined a behavioral theory of boards and governance which in many ways challenges the mainstream approach for understanding boards and governance in contemporary research. First of all, a behavioral theory of boards and governance will be more focused on the interactions and decisions among actors in and around the boardroom (behavior), rather than on the outcomes (performance) of boards. Most studies that have studied boards from an economic perspective have more or less neglected board behavior. Instead they have analyzed the relationships between ideal-typical board constructs and corporate performance, and applied unquestioned behavioral assumptions as a basis for prescription where interaction, communication and information sharing between board members have generally not been assumed to affect the board's work (Pettigrew, 1992; Forbes and Milliken, 1999; Gabrielsson and Huse, 2004). In contrast, for a behavioral theory of boards and governance the actual interactions and behavioral processes in and around boards will be the starting point (Huse, 2005). However, emphasis on actual board behavior is a necessary but not a sufficient condition for a behavioral theory of boards and governance. The challenge is to go beyond simple description by using a limited set of behavioral constructs to explain the decision-making of boards as well as the role of boards in organizational decision-making. The key constructs in this respect are bounded rationality, satisficing behavior, routinization of decision-making by means of heuristics, and political bargaining in the context of the corporation as a coalition of stakeholders. Alike the behavioral theory of the firm the processes of past-performance evaluation in the context of boards, the search for alternatives and the decision-making routines and procedures in and around boards will consequently constitute the core of the new research agenda.

To position this endeavor, it can first be argued that a behavioral perspective on boards and governance will focus on decision making processes over structure and outcome. If structure exists it is however because actors are constructing and reconstructing intentions and accounts and, thereby, their own and others' identities. Much more emphasis would also be placed on the effects of past behavior and experience on current behavior in and

around boards. As such, the emphasis on context and history in the behavioral perspective on boards and governance stands in contrast to a more axiomatic approach basically in economics, where the corporation is a “focus for a complex process in which the conflicting objectives of individuals (some of whom may ‘represent’ other organizations) are brought into equilibrium within a framework of contractual relations” (Jensen and Meckling, 1976: 311).

In the second place, a behavioral perspective will accept that board decision-making behavior is contingent upon the modes of interaction among various actors. The relative power and relationships between various coalitions of internal and external actors may be contingent upon the different stages of the firm’s development (Dyer, 1986; Huse, 1998; Zahra and Filatotchev, 2004), and board composition may reflect the wider power relationship between internal and external actors at the time of board formation (Lynall, Golden and Hillman, 2001). The power and influence of the board of directors may change in times of crisis compared to normal times, and various types of crises may change the stakes, power and activities of various actors (Lorsch and McIver, 1989; Mace, 1971). Consequently, the goals and objectives of the organization shift as coalitions change. Hence, contingencies related to the firm’s industry, as well as the firm’s life cycle might affect interactions and relationships among stakeholders in an around the corporation (Lynall et al, 2001; Zahra and Filatotchev, 2004).

In the third place, a behavioral perspective would allow for cooperative as well as conflicting interests to enter into the process of board decision making and control over firm resources. A behavioral theory of boards and governance would, in addition to dealing with conflicts resulting from divergent preferences of stakeholders, emphasize board members’ contribution in dealing with the complexity and uncertainty associated with strategic decisions. Because organizational actors have limited cognitive capacity they need planning and control routines to help them analyze complex tasks and to avoid making errors in decision making. The conflicting goals among organizational actors also imply a conflict of cognitive resources, such as for example access to attention, knowledge and memory, which in turn influence the perception, or “framing”, of the

problem situation (Lindenberg, 2003). Participation in the early stages of strategic decision making will in this respect enable board members to protect stakeholders' interests through problem identification and problem definition (Rindova, 1999). This suggests that board members contribute to the problem solving process because they offer a variety of experiences and quality of judgment which in turn makes them perform their monitoring tasks more effective (Andrew, 1980). As such, board members use the strategic problem-solving expertise they have developed in their primary occupations and provide inputs into the cognitive tasks through which strategic decision making is carried out (Forbes and Milliken, 1999; Rindova, 1999). Therefore, in a behavioral perspective the emphasis on conflict and control in the boardroom will be less, and problems of coordination, exploration and creating value or knowledge may dominate over problems of conflict, exploitation and the distribution of value.

To conclude this essay, the relevant characteristics of the axiomatic perspective and the behavioral perspective on boards and governance are presented in Table 3 below. It is our belief that the two perspectives represent markedly different and equally viable streams in research on boards and governance. At the same time, Table 3 can be considered as an open invitation for additional research and analysis on the topics formulated in the cells representing the behavioral perspective. It is our hope that the arguments underlying these topics may add new perspectives to the existing research agenda on boards and governance.

(Insert table 3 about here)

References

Aguilera, R.V. and A. Cuervo-Cazurra: 2004, "Codes of Good Governance Worldwide: What is the Trigger?", *Organization Studies* 25: 415-443.

Andrews, K.R.: 1980, "Director's responsibility for corporate strategy", *Harvard Business Review*, November-December.

Baumol, W.J.: 2004, "On rational satisficing", in M. Augier, and J.M. March (eds.), *Models of a man: Essays in memory of Herbert A. Simon* (Cambridge, Mass: MIT Press).

Bigley, G.A. and M.F. Wiersema: 2002, "New CEOs and corporate strategic refocusing: How experience as heir apparent influences the use of power", *Administrative Science Quarterly* 47: 707-727.

Blair, M.M. and L.A. Stout: 2001 "Corporate accountability: Director accountability and the mediating role of the corporate board", *Washington University Law Review* 79: 403-447.

Boyd, B.K.: 1990, "Corporate linkages and organizational environment: A test of the resource dependence model", *Strategic Management Journal* 11: 419-430.

Callison, J.W.: 2001, "Venture capital and corporate governance: Evolving the liability company to finance the entrepreneurial business", *The Journal of Corporation Law*, Fall, 97-124.

Carpenter, M.A. and J.D. Westphal: 2001, "The strategic context of external network ties: Examining the impact of director appointments on board involvement in strategic decision-making", *Academy of Management Journal* 4: 639-660.

Collin, S-O.: 1995, "The institutional control of the corporation - extending the debate on the separation of ownership from control", *Corporate Governance - An international review* 3(3): 118-127.

Cyert, R.M. and J.G. March: 1963, *A behavioral theory of the firm* (Englewoods Cliffs, NJ: Prentice-Hall).

Davis, G.F.: 1991, "Agents without principals? The spread of the poison pill through the intercorporate network", *Administrative Science Quarterly* 36: 583-613.

Davis, G.F.: 2005, "New directions in corporate governance", *Annual Review of Sociology* 31: 143-162.

Davis, G.E. and M. Useem: 2002, "Top management, company directors and corporate control", in A. Pettigrew, H. Thomas and R. Whittington (eds.), *Handbook of strategy and management* (Sage Publications, London).

Davis, J., Schoorman, F.D. and L. Donaldson: 1997, "Towards a stewardship theory of management", *Academy of Management Review* 22: 20-48.

Daily, C.M., Dalton, D.R. and A.A. Cannella: 2003, "Corporate governance: Decades of dialogue and data", *Academy of Management Review* 28: 371-382.

DiMaggio, P. and W. Powell: 1983, "The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields", *American Sociological Review* 48: 147 - 160.

Donaldson, L. and J.H. Davis: 1991, "Stewardship theory or agency theory: CEO governance and shareholder returns", *Australian Journal of Management* 16: 49-64.

Dyer, W.G.: 1986, *Cultural change in family firms* (San Francisco: Jossey-Bass).

Eisenhardt, K.M.: 1989, "Agency theory: An assessment and review", *Academy of Management Review* 14(1): 57-74.

Fama, E.F. and M.C. Jensen: 1983, "Separation of ownership and control", *Journal of Law and Economics* 26: 301-325.

Finkelstein, S. and R. D'Aveni: 1994, "CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command", *Academy of Management Journal* 37: 1079-1108.

Forbes, D.P. and F.J. Milliken: 1999, "Cognition and corporate governance: Understanding boards of directors as strategic decision making groups", *Academy of Management Review* 24: 489-505.

Foss, N.J.: 2001, "Bounded rationality in the economics of organization: Present use and (some) future possibilities", *Journal of Management and Governance* 5: 401-4225.

Freeman R.E. and D.L. Reed: 1983, "Stockholders and stakeholders: A new perspective on corporate governance", *California Management Review* Vol XXV (3): 88-106.

Gabrielsson, J. and H. Winlund: 2000, "Boards of directors in small and medium sized industrial firms: Examining the effects of the boards working style on board task performance", *Entrepreneurship and Regional Development* 12: 311-330.

Gabrielsson, J. and M. Huse: 2002, "The venture capitalist and the board of directors in SMEs: roles and processes", *Venture Capital* 4(2): 125-146.

Gabrielsson, J. and M. Huse: 2004, "Context, behavior and evolution: Challenges in research on boards and governance", *International Studies of Management and Organization* 34(12): 11-36.

Gabrielsson, J. and M. Huse: 2005, "Outside" directors in SME boards: A call for theoretical reflections", *Corporate Board: Roles, Duties and Responsibilities* 1(1): 28-37.

Gedajlovic, E., Lubatkin, M. and W.S. Schulze: 2004, Crossing the threshold from founder management to professional management: A governance perspective, *Journal of Management Studies*, (41)5: 899-912.

Grandori, A.: 2004, "Introduction. Reframing corporate governance: Behavioral assumptions, governance mechanisms, institutional dynamics", in A. Grandori (ed.), *Corporate governance and firm organization: micro-foundations and structural forms* (Oxford: Oxford University Press).

Gulati, R. and J.D. Westphal: 1999, "Cooperative or controlling? The effect of CEO board relation and the content of interlocks on the formation of joint ventures", *Administrative Science Quarterly* 44(3): 473-506.

Haunschild, P.R.: 1993, "Interorganizational imitation: the interlocks on corporate acquisition activity", *Administrative Science Quarterly* 38(4): 564-592.

Haunschild, P.R. and C.R. Beckman: 1998, "When do interlocks matter? Alternate sources of information and interlock influence", *Administrative Science Quarterly* 43(4): 815-844.

Hendry, J.: 2002, The principals other problems: Honest incompetence and management contracts", *Academy of Management Review* 27: 98-113.

Hendry, J.: 2005, "Beyond self-interest: agency theory and the board in a satisficing world", *British Journal of Management* 16: 55-64.

Hillman, A.J., Canella, A. and R. Paetzold: 2000, "The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change", *Journal of Management Studies* 37: 235-256.

Hillman, A.J. and T. Dalziel: 2003, "Boards of directors and firm performance: Integrating agency and resource dependency perspectives", *Academy of Management Review* 28(3): 383-396.

Hung, H.: 1998, "A typology of the theories of the roles of governing boards", *Corporate Governance: An international review* 6: 101-111.

Huse, M.: 1998, "Researching the dynamics of board-stakeholder relations", *Long Range Planning* 31:218-226.

Huse, M.: 2000, "Boards of directors in small firms: A review and research agenda", *Entrepreneurship and Regional Development* 12: 271-290.

- Huse, M.: 2003, "Renewing management and governance: new paradigms of governance?" *Journal of Management and Governance* 7: 211-221.
- Huse, M.: 2005, "Accountability and creating accountability: A framework for exploring behavioural perspectives of corporate governance", *British Journal of Management* 16: 65-80.
- Huse, M. and D. Eide: 1996, "Stakeholder management and the avoidance of corporate control", *Business and Society* 34: 211-243.
- Huse M. and V. Rindova: 2001, "Stakeholders' expectation to boards of directors: the case of subsidiary boards", *Journal of Management and Governance* 5: 153-178.
- Huse, M., Minichilli, A. and M. Schøning: 2005, "Corporate boards as assets for operating in the New Europe: The value of process-oriented boardroom dynamics", *Organizational dynamics*, forthcoming.
- Jensen M.C. and W.H. Meckling: 1976, "Theory of the firm: managerial behavior, agency costs and ownership structure", *Journal of Financial Economics* 2: 305-360.
- Johnson, J. L., Daily, C. M. and A.E. Ellstrand: 1996, "Boards of directors: A review and research agenda", *Journal of Management* 22: 409-438.
- Jonnergård, K., Kärreman M. and C. Svensson: 2005, "The impact of changes in the corporate governance system on the boards of directors: experiences from Swedish listed companies", *International Studies and Management* 34: 114-153.
- Judge, W.Q and C.P. Zeithaml: 1992, "Institutional and strategic choice perspectives on board involvement in the strategic decision process", *Academy of Management Journal* 35: 766-794.
- Kosnik, R.D.: 1987, "Greenmail: A study of board performance in corporate governance", *Administrative Science Quarterly* 32: 163-185.
- Levinthal, D.A. and J.G. March: 1993, "The myopia of learning", *Strategic Management Journal* 14: 94-112.
- Lindenberg, S.: 2003, "The cognitive side of governance", in V. Buskens, W. Raub and C. Snijders (eds.), *The governance of relations in markets and organizations* (Amsterdam: London).
- Lorsch, J.W. and E. McIver: 1989, *Pawns or potentates: The reality of America's corporate boards* (Boston: Harvard Business School Press).

Lynall, M.D., Golden, B.R. and A.J. Hillman: 2003, "Board composition from adolescence to maturity: A multi-theoretical view", *Academy of Management Review* 28(3): 416-431.

Mace, M.: 1971, *Directors: myth and reality* (Boston: Harvard University).

March, J.G. and H.A. Simon: 1958, *Organizations* (New York: Wiley).

March, J.G. and J.P. Olsen: 1979, *Ambiguity and choice in organizations*, 2d edition (Bergen: Universitetsforlaget).

McNulty, T. and A. Pettigrew: 1999, "Strategists on the board", *Organization Studies* 20: 40-74.

McNulty, T., Roberts, J. and P. Stiles: 2005, "Beyond agency conceptions of the work of the non-executive director: Creating accountability in the boardroom", *British Journal of Management* 16(1): 5-26.

Mintzberg, H.: 1983, *Power in and around organizations* (Englewood Cliffs: Prentice Hall).

Mizruchi, M.S.: 1996, "What do interlocks do? An analysis, critique and assessment of research on interlocking directorates", *Annual Review of Sociology* XXII: 271-298.

Nelson, R.R. and S.G. Winter: 2003, *An evolutionary theory of economic change* (London: Harvard University Press).

Ng, W. and C. DeCock: 2002, "Battle in the boardroom: A discursive perspective", *Journal of Management Studies* 39(1): 23-50.

Ocasio, W.: 1994, "Political dynamics and the circulation of power: CEO succession in U.S. industrial corporations 1960-1990", *Administrative Science Quarterly* 39(2): 313-335.

Ocasio, W.: 1999, "Institutionalized action and corporate governance: The reliance on rules of CEO succession", *Administrative Science Quarterly* 44(2): 384-416.

Osterloh, M. and B.S. Frey: 2004, "Corporate governance for crooks? The case for corporate virtue", in A. Grandori (ed.), *Corporate governance and firm organization: micro-foundations and structural forms* (Oxford: Oxford University Press).

Osterloh, M., Frey, B.S. and J. Frost: 2001, "Managing motivation, organization and governance", *Journal of Management and Governance* 5(3-4): 231 - 239.

Pettigrew, A.M.: 1992, "On Studying Management Elites", *Strategic Management Journal* 13: 163-172.

- Pettigrew, A. and T. McNulty: 1995, "Power and influence in and around the boardroom", *Human Relations* 48(8): 845-873.
- Pettigrew, A. and T. McNulty: 1998, "Sources and uses of power in the boardroom", *European Journal of Work and Organizational Psychology* 7(2): 197-214.
- Pfeffer, J.: 1972, "Size and composition of corporate boards of directors: the organisation and its environment", *Administrative Science Quarterly* 17: 18-28.
- Pfeffer, J.: 1973, "Size, composition and function of hospital boards of directors: A study of organization-environment linkage", *Administrative Science Quarterly* 18: 349-364.
- Pfeffer, J. and G.R. Salancik: 1978, *The External Control of Organizations: A Resource Dependence Perspective* (New York: Harper and Row).
- Provan, K.G.: 1980, "Board power and organizational effectiveness among human service agencies", *Academy of Management Journal* 23(2): 221-236.
- Pye, A.: 2002, "The changing power of 'explanations': Directors, academics and their sensemaking from 1989 to 2000", *Journal of Management Studies* 39: 908-925.
- Pye, A.: 2004, "The importance of context and time for understanding board behavior", *International Studies in Management and Organization* 34: 63-89.
- Pye, A. and A. Pettigrew: 2005, "Studying Board Context, Process and Dynamics: Some Challenges for the Future", *British Journal of Management* 16: 27-38.
- Radner, R.: 1996, "Bounded rationality, indeterminacy and the theory of the firm", *Economic Journal* 106: 1360-1373.
- Richardson, R.J.: 1987, "Directorship interlocks and corporate profitability", *Administrative Science Quarterly* 32: 367-386.
- Rindova, V.: 1999, "What Corporate Boards have to do with Strategy: A Cognitive Perspective", *Journal of Management Studies* 36(7): 953-975.
- Roberts, J., McNulty, T. and P. Stiles: 2005, "Beyond agency conceptions of the work of the non-executive director: creating accountability in the boardroom", *British Journal of Management* 16 (Special Issue): 5-26
- Shen, W.: 2003, "The dynamics of the CEO – board relationship: An evolutionary perspective", *Academy of Management Review* 28: 466-476.
- Simon, H.A.: 1945, *Administrative behavior* (New York: MacMillan).

- Simon, H.A.: 1955, "A behavioral model of rational choice", *The Quarterly Journal of Economics* 69(1): 99-118.
- Useem, M.: 1984, *The inner circle* (New York and Oxford: Oxford University Press).
- Sundaramurthy, C. and M. Lewis: 2003, "Control and collaboration: Paradoxes of governance", *Academy of Management Review* 28(3): 397-415.
- van Ees, H. and T.J.B.M. Postma: 2004, "Dutch boards and governance: A comparative institutional analysis of board roles and member (s)election procedures", *International Studies of Management and Organization* 34(12): 90-36.
- Westphal, J.D.: 1998, "Board games: How CEOs adapt to increases in structural board independence from management", *Administrative Science Quarterly* 43: 511-537.
- Westphal, J.D.: 1999, "Collaboration in the boardroom: behavioural and performance consequences of CEO-board social ties", *Academy of Management Journal* 42: 7-24.
- Westphal, J.D. and E.J. Zajac: 1994, "Substance and symbolism in CEOs long-term incentive plans", *Administrative Science Quarterly* 39(3): 367-390.
- Westphal, J.D. and E.J. Zajac: 1995, "Who shall govern? CEO/board power, demographic similarity, and new director selection", *Administrative Science Quarterly* 40(1): 60-83.
- Westphal, J.D. and E.J. Zajac: 1997, "Defections from the inner circle: social exchange, reciprocity, and the diffusion of board independence in U.S. corporations", *Administrative Science Quarterly* 42(1): 161-184.
- Westphal, J.D. and E.J. Zajac: 1998, "Symbolic management of stockholders: Corporate governance reforms and shareholder reactions", *Administrative Science Quarterly* 43: 127-153.
- Westphal, J.D., Seidel, M-D and K.J. Stewart: 2001, "Second-order imitation: Uncovering latent effect of board network ties", *Administrative Science Quarterly* 46: 717-748.
- Williamson, O.E.: 1984, "Corporate governance", *Yale Law Journal* 93: 1197-1229.
- Williamson, O.E.: 1988, "Corporate finance and corporate governance", *The Journal of Finance* 43(3): 567-591.
- Windolf, P.: 2004, "Corruption, fraud and corporate governance: A report on Enron", in A. Grandori (ed.), *Corporate governance and firm organization: micro-foundations and structural forms* (Oxford: Oxford University Press).

Zahra, S.A. and J.A. Pearce: 1989, "Boards of directors and corporate financial performance: A review and integrative model", *Journal of Management* 15: 291-334.

Zahra, S.A. and Filatotchev, I. 2004. Governance of the entrepreneurial threshold firm: A knowledge-based perspective, *Journal of Management Studies*, 41: 885-897.

Zajac, E.J. and J.D. Westphal: 1994, "The symbolic management of CEO compensation", *Administrative Science Quarterly* 39(3):367-390.

Zajac, E.J. and J.D. Westphal: 1996a, "Who shall succeed? How CEO/board preferences and power affect the choice of new CEOs", *Academy of Management Journal* 39(1): 64-90.

Zajac, E.J. and J.D. Westphal: 1996b, "Director reputation, CEO-board power, and the dynamics of board interlocks", *Administrative Science Quarterly* 41(3): 507-529.

Zajac, E.J. and J.D. Westphal: 1998, "Toward a behavioral theory of the CEO/board relationship: How research can enhance our understanding of corporate governance practices", in D.C. Hambrick, D.A. Nadler, and M.L. Tushman (eds.), *Navigating Change: How CEOs, Top Management Teams, and Boards of Directors Steer Transformation*.(Cambridge: Harvard Business School Press).

Table 1: Major Themes in Research on Boards and Governance

	Structure	Interactions	Decisions
Internal relationships	<p>I. Control and competence</p> <ul style="list-style-type: none"> -Incentive conflicts and alignment -Diversity and competence 	<p>III. Collaboration and conflict</p> <ul style="list-style-type: none"> -Political bargain -Power and trust -Conflicts and emotions 	<p>V. Cognition and commitment</p> <ul style="list-style-type: none"> -Decision making biases -Cohesiveness -Creativity and criticality
External relationships	<p>II. Codification and compliance</p> <ul style="list-style-type: none"> -Law, codes contracts and regulation 	<p>IV. Coordination and cooptation</p> <ul style="list-style-type: none"> -Social networks and director interlocks -Social elites and social movements 	<p>VI. Conformation and ceremony</p> <ul style="list-style-type: none"> -Institutional embeddedness -Norms -Symbols, language and rhetoric

Table 2: Approaches to Organizational Decision Making

	Economic	Behavioral
Bounded rationality assumption	Intendedly rational actors constrained by limited or asymmetric information	Actors constrained by limited imagination and awareness (truly bounded rationality)
Problem-solving behavior	Optimizing	Satisficing
Decision-making strategy	Rational calculation to reduce uncertainty	Applying routines and heuristics to reduce complexity
Goal formation and conflict resolution	Goal alignment to meet a priori defined goals	Political bargain

Table 3: The Axiomatic and Behavioral Perspective on Corporate Governance

Axiomatic perspective	Behavioral perspective
The firm as a nexus of contracts	The firms as a nexus of coalitions
Uniform decision-making structures, designs and ideal-typical behaviors	Political decision-making processes, procedures and contexts
Emphasis on goal attainment through incentives	Emphasis on goal formation through political bargain.
Optimal decisions given limited and asymmetric information	Decision making that are “good enough” given bounds on human rationality
Boards protect value through monitoring	Boards create value through problemistic search for new information
Focus on performance (outcome)	Focus on decision making (behavior)