"Multiple Agency Theory in Corporat Governance: an Alternative Lens to Study Independent Directors"

Sarens, Gerrit ; Merendino, Alessandro

Abstract

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Summary

Research Question/Issue: This paper replies to the call for more in-depth studies into multiple agency theory. The purpose is twofold: (1) To analyse the fundaments of multiple agency theory based on five key features stemming from existing literature; (1) to reconcile four corporate theories in order to better understand the five key fundaments of multiple agency theory (2) To illustrate how this more comprehensive multi theoretical approach is able to develop a better understanding of the role and functioning of independent directors.

Research Findings/Insights: This study develops an alternative theoretical framework, namely multiple agency theory, from the reconciliation of agency theory with four theories namely, stakeholder theory, resource dependency theory, stewardship theory and identity theory. Multiple agency theory is based on a pluralistic and holistic view of the board as a group of individuals, and moves away from the traditional single agency approach.

Theoretical/Academic Implications: This study takes the opportunity to seek to open up the 'black box' of dynamics and relationships among directors, and the phenomenon of independent directors is examined through a multiple agency theory lens leading to new propositions for future research.

Practitioner/Policy Implications: This study offers refreshing insights for professionals, including directors and top managers about how independent directors function within a board as well as within the organisation.

Keywords: Corporate Governance, Multiple Agency Theory, Board of Directors, Independent Directors.

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Introduction

Traditional agency theory represents the overwhelmingly dominant theoretical approach applied in corporate governance research (Daily et al., 2003; Dalton et al., 1998; Shleifer and Vishny, 1997; Bathala and Rao, 1995; Krause and Bruton, 2014). By starting from the assumption that the separation between ownership and control may lead to managers maximizing their own interests at the expenses of shareholders (Berle and Means, 1932; Benston, 1985), agency theory provides an explanation of how firms could exist, assuming that all managers are self-interested and they do not take decisions that are in line with shareholders' interests (Jensen and Meckling, 1976). Although agency theory dominates the corporate governance literature (Jensen and Meckling, 1976; Fama and Jensen, 1983a, 1983b; Weisbach, 1988; Hermalin and Weisbach, 2003; Certo et al., 2006), a growing number of scholars have started to look more critically at the assumptions of agency theory (Daily, et al., 2003; Hermalin and Weisbach, 2003; Johnson, et al., 1996, Roberts et al., 2005). Due to the weak and ambiguous results obtained by applying agency theory, many scholars (Connelly et al., 1980; Hung, 1998; Child and Rodrigues, 2003; Daily et al., 2003; Allcock and Filatotchev, 2010; Ahrens et al., 2011; Dalziel et al., 2011) have been encouraged to seek out new models and theories, which go beyond agency theory.

This paper is a response to the call for more in-depth studies into the multiple agency theory (Arthurs et al., 2008; Bruton et al., 2010; Filatotchev et al., 2011; Hoskisson et al., 2013). Several scholars argue that it is fundamental to adopt a pluralistic approach to better understand corporate governance practices (Hung, 1998; Daily et al., 2003; Allcock and Filatotchev, 2010; van Ees at al., 2009; Roberts et al., 2005; Hendry, 2005; Kumar and Zattoni, 2015). Multiple agency theory is based on a pluralistic approach in which different existing theories are combined with basic agency theory to better understand and explain the complexity of corporate governance. The essential idea is that none of the theories can independently fully explain reality (Hung, 1998).

Theoretical pluralism allows for the building of a broader view of corporate governance practices, since it provides *"complementary perspectives"* (van Ees et al., 2009, p. 311). However, not all scholars explicitly use the label of this multiple theoretical approach. For instance, Hung (1998) does not provide a specific title for his pluralistic framework, although he recognizes the need for reconciling agency theory with other theoretical approaches. Daily et al. (2003) and Huse et al. (2011) do not put a particular label on their approach. However, they believe that a multi-theoretical framework is fundamental for understanding and analysing corporate governance mechanisms and processes. They call for a reconceptualization of corporate governance theory.

Earlier multiple agency studies have analysed differences in the motives of executives and venture capitalists (Arthurs et al., 2008), the different motives of professional funds and pension funds (Hoskisson et al., 2002), the effects of the compensation schemes awarded to independents and CEOs on firm-level risk taking (Deutsch et al., 2011), performance effects due to the relationship between ownership concentration and private equity investors (venture capitalists and business angels) in

IPO (Bruton et al., 2010); and the effects of family ownership on private information abuses and the firm's performance in emerging markets (Filatotchev et al., 2011). However, there is no attempt to better clarify multiple agency theory and its insights in a comprehensive way by taking into consideration the broad processes and on the other hand, many scholars (Finkelstein and Mooney, 2003; Roberts et al., 2005; Huse et al., 2011; Westphal and Zajac, 2013; Armstrong et al., 2014) call for a more complex but realistic perspective of independent directors. For this reason, we develop propositions for future research by applying the four theories discussed in the previous section applied to the five fundaments of multiple agency theory, i.e. (1) many-to-many relationships between all kinds of stakeholders; (2) dual identities; (3) dilemmas; (4) complementarities and cooperative behaviour; and (5) context creating governance diversity.

Consequently, the first aim of this paper is to analyse the five fundaments of multiple agency theory which is based on a review of the existing literature on multiple agency theory. Consequently, the first aim of this paper is to reconcile four corporate theories in order to better understand the five key fundaments of multiple agency theory The second aim is to illustrate how a comprehensive approach which reconciles agency theory with four other theories is able to develop a better understanding of the role and functioning of independent directors leading to propositions for future research.

In the first section of this paper, we analyse the five fundaments of multiple agency theory which are found across the literature. In the second section, we present a review of four theories, in order to deeply understand the fundaments of multiple agency theory. In the third section, we apply the key elements of the multiple agency theory and develop some theoretically based propositions coming from the combinations of these four theories to illustrate how a multiple agency approach allows better understanding of independent directors. The last section concludes.

Key Elements of Multiple Agency Theory

A growing number of scholars agree that an alternative theoretical framework is needed to effectively understand the reality of corporate governance and board practices (Hung, 1998; Daily et al., 2003; Allcock and Filatotchev, 2010; van Ees at al., 2009; Roberts et al., 2005; Hendry, 2005; Kumar and Zattoni, 2015). Even though not all scholars have chosen the same label to define the alternative approach, we claim that one of the best ways to define it is, 'multiple agency theory' (Arthurs at al., 2008; Bruton et al., 2010; Deutsch et al., 2011; Filatotchev et al., 2011; Hoskisson et al., 2013). The word 'multiple' refers to a pluralistic approach, i.e. a theoretical framework that aims to better understand board practices by combining principles and insights stemming from several approaches. 'Agency theory' refers to the use of the agency theory as the starting point. Agency theory should not be totally abandoned (Hung, 1998) because it provides a distinctive and *"empirically testable perspective on problems of cooperative effects* (Eisenhardt, 1989: 72)*."* It means that agency theory constitutes the foundation of the 'building' we want to construct (i.e. multiple agency theory) and all other theories represent bricks of the new theoretical framework. It follows that it is fundamental to review those bricks from other theoretical approaches. However, before describing the multiple theories that we would like to put forward as elements of the multiple agency theory, it is necessary to explain first its fundaments.

Therefore, in this section, we outline the key elements of Multiple Agency Theory: (1) many-to-many relationships between all kinds of stakeholders; (2) dual identities; (3) dilemmas; (4) complementarities and cooperative behaviour; and (5) context creating governance diversity.

Many-to-many relationships between all kinds of stakeholders

According to agency theory, a firm is considered as a ‘nexus of contracts’ (Alchian and Demsetz, 1972; Coase, 1937) rather than as a ‘nexus of relationships’ (Fichman and Levinthal, 1991). This means that a firm is embedded in a multiple and heterogeneous network of relationships among all kinds of stakeholders who are able to, directly and indirectly, influence the firm (Gabrielsson and Huse, 2004). It follows that many-to-many relationships rather than one-to-one relationships, are one of the key elements in multiple agency theory (Hung, 1998; Arthurs et al., 2008; Hoskisson et al., 2013). Moreover, multiple agency theory regards many-to-many relationships (Hoskisson et al., 2002, 2013) among constituencies who are not only shareholders, the board of directors and management, but also many other stakeholders who have an impact on the firm (Freeman, 1984, 2010; Freeman et al., 2004; Donaldson and Preston, 1995).

Dual identities of contracting parties

It follows that multiple agency theory is based on the idea that there are not only conflicts of interest between one agent and one principal – as agency theory deems – but also among principals and among agents (Hoskisson *et al.*, 2002; Filatotchev and Allcock, 2013). Multiple agency theory studies the dual identities of contracting parties as an inherent characteristic of corporate governance (Pratt and Foreman, 2000). This means that some agents serve multiple principals (for example, an independent director serving on several boards at the same time), the latter could have multiple agents (for example, one reference shareholder can have several representatives on the board), and some actors could be both principal and agent at the same time (for instance, a shareholder of one company could be at the same time a director or manager in another company) (Hoskisson et al., 2013). Mizruchi (1996) refers in this respect to interlocking directors.

Dilemmas

Multiple agency theory extends the agency theory setting in terms of the traditional principal-agent conflict by considering also the potential conflicts or tensions an actor could encounter or experience that result from his or her dual identity. Indeed, multiple agency theory recognizes that, unlike the traditional agency approach, principals/agents could implement actions which are favourable to one agent/principal, but at the same time detrimental to others (Ingley et al., 2012; Hoskinsson et al., 2013). In other words, multiple agency theory recognises that corporate governance is mainly about dilemmas. A board could propose to increase the bonuses, which fits perfectly the interests of management. However, this proposition could, at the same time, be in contradiction with the interests of the shareholders who might be interested in a higher dividend.

Complementarities and cooperative behaviour

Multiple agency theory also recognizes that corporate governance is not only about conflicts and conflicting behaviour. On the contrary, complementarities and opportunities for cooperation (Donaldson and Davis, 1991; Finkelstein and D'Aveni, 1994) between principals and agents and amongst principals and agents can exist along with conflicts (Hoskisson et al., 2009). It is important to point out that it is in sharp contrast with traditional agency theory assumption to consider behaviour as cooperative rather than conflictual (Allcock and Filatotchev, 2010; Deutsh et al., 2011; Gabrielsson and Huse, 2004; Hoskisson et al., 2009; 2013; Sundaramurthy and Lewis, 2003). For example, it is perfectly possible and even advisable that directors who play their monitoring role vis-à-vis management do that in a cooperative manner based on a complementarity of knowledge and expertise on both sides (Baysinger and Hoskisson, 1990; Ayuso and Argandoña, 2007; Hoskisson et al., 2013). As another example, two venture capitalists who invest in the same firm and who may have different investment strategies, could meet up on a regular basis outside the board room to discuss and agree on a joint investment strategy when it comes to that particular firm in their portfolio.

Context creates governance diversity

Regarding the context, multiple agency theory does not focus on precise agency problems alone, because these may depend on the setting. When referring to the influence of the context on corporate governance practices, we refer to both country related factors (macro level) as well as organisation related factors (micro level). This suggests that corporate governance practices cannot be defined by applying a one-size-fits-all approach. In other words, corporate governance practices should fit with their macro and micro context in order to be of any value. It implies that scholars should combine the traditional agency theory perspective with an institutional analysis to build robust assumptions (Ahrens *et al.*, 2011). Indeed, it should be noted that each country's corporate governance norms – in spite of the convergence or standardization processes towards a single standard of rules – are affected by its social, historical and economic background. Shleifer and Vishny (1997) and Levine (1997) argue that the legal and political environments have an impact on the nature of corporate governance and thereby on corporate governance in every country. Fundamental governance factors may vary across countries and, for example, the nature of conflicts and their implications may differ from country to country (Aguilera and Jackson, 2003). Similarly, Gabrielsson and Huse (2004: 25) state that *"documenting and explaining the diversity of governance systems between various contexts and organizational settings may then be of help to bring together past research findings. That will also help in recognizing problems stemming from previous universalistic approaches and general theorizing in research on boards and governance."*

Different legal traditions (e.g. common and civil law), and levels of economic development (macro level), together with different attitudes to rules and regulations (both macro and micro level) contribute towards a diversification of corporate governance practices (Emmons and Schmid, 1999). This is even truer if we consider that the recession has reinforced the importance of national context; some countries (e.g. Canada, Australia) have been less affected by the financial crisis through a more conservative regulation system (Ahrens et al., 2011). The ability to subscribe investment, strategic and financial contracts may depend also on a number of factors relating to the institutional environment (Kaplan et al., 2004; Dharwadkar et al., 2000; Douma et al., 2006) For this reason, it is difficult to consider a single and dominant model (Hung, 1998) of corporate governance, i.e. agency theory. It is necessary to take into account the complexity that the context brings in involving multifaceted issues (Hung, 1998).

Multiple Approaches and Reconciliation with other Theories

In order to deeply understand the five key components of MAT, we reconcile four corporate theories in response to the call for considering theories and approaches complementary rather than opposite (Amaratunga and Baldry, 2001 (Graham & Thomas, 2008), Hung, 1998). Particularly, the acknowledgement that the board of directors, as an open system, deals with many-to-many relationships (Arthurs et al., 2008: Hoskinsson et al., 2013), the importance of interactions with the environment (Hillman and Dalziel, 2003; Walls et al., 2012), the dual identities experience (Pratt and Foreman, 2000), the increasing complexity of governance structure and dynamics (Ingley et al., 2012; Pugliese et al., 2015), and the dilemmas that the boards has to cope with (Dunne, 2000), allows for the possibility of reconciling agency theory with other perspectives (Hung, 1998; Zona, 2014; Walker et al., 2015), including stakeholder theory, resource dependency theory, stewardship theory and identity theory.

The selection of these four theories is based on their shared epistemological and ontological underpinnings (Corley & Gioia, 2011; Crane, Henriques, Husted, & Matten, 2016; Okhuysen & Bonardi, 2011; Suddaby, 2014). All four theories fit into the interpretivism epistemology and can be, from an ontological perspective, classified as subjectivist theories. Interpretivism advocates that it is necessary for the researcher to understand the differences between humans in their role as social actors. Subjectivism argues that social phenomena are created from the perceptions and consequent actions of social actors (Saunders, Lewis, & Thornhill, 2009).

All four theories can be classified into the interpretivism epistemology as they seek to describe and understand socially constructed realities. In other words, they focus on people rather than objects (Dainty, 2007), by creating socially relative knowledge about social phenomena, and by interpreting individuals' experiences and observations (Graham & Thomas, 2008). Applying the four theories necessitates an insider perspective on social phenomena and how individuals construct meanings, interpret and re-interpret their worlds (Hallebone & Priest, 2009). Sauders et al. (2009) state that the challenge of applying this kind of theories is entering the social world of research subjects and understand their subjective reality in order to be able to make sense of and understand their motives, actions and intentions (subjectivism). An important underlying assumption of interpretivism and subjectivism is that verifiable observations (think of the behaviour of independent directors) are potentially subject to very different (and thus subjective) interpretations (for example, depending on who you are interviewing). In other words, there are various claims for truth and reality.

1. *Stakeholder theory*

Initially, stakeholder theory focused on those groups without whose support the company would cease to exist (Freeman, 1984). However, this view has been expanded to include any individual or group who can affect or is influenced by the firm's activities (Freeman, 2010; Sternberg, 1997). The pillar of stakeholder theory is that companies operate by creating value for which others freely trade. In this view, the stakeholder theory provides the theoretical justification to appoint representatives of several stakeholders within the board, in order to make sure that all their interests are looked after (Hung, 1998). In such a view, the board of directors is responsible to a large variety of complementary stakeholders other than just shareholders. Board members have also a political role, i.e. they should mediate, negotiate and resolve potential conflicts between the interests of all those stakeholders in order to avoid that one or several of them act against the firm. Stakeholder theory applies two central components of the multiple agency theory: many-to-many relationships (in this case between the first and its stakeholders and even between the stakeholders themselves) as well as the notion of complementary and cooperative behaviour, which is crucial to keep on satisfying the stakeholders.

2. *Resource dependence theory*

This theory is based on the general assumption that resources (i.e. human, economic, financial, technological ones) are fundamental for a firm to create its competitive advantage (Baysinger and Hoskisson, 1990; Ayuso and Argandoña, 2007). In other words, a firm depends on its internal and external environment for its economic success (Pfeffer, 1972; Johnson and Pillai, 2010). Firms may suffer from lack or scarcity of resources (Storey, 1994) leading to crises and failure. In this respect, a multiple agency approach considers the board of directors and in particular those directors who serve on several boards and/or have management positions themselves as a direct and indirect source of resources for the firm, often complementary to management. Board members, with their knowledge, skills and professional experience, may be helpful in providing advice and counselling to management in case of limited or lack of inside knowledge. Moreover, board members could also provide the firm with access to scarce resources (typically capital and knowledge) by providing the firm with access to their networks. In other words, directors could act as agents of the external environment (many-to-many relationships). This theory shows what complementary and cooperative behaviour could mean in a governance context, which is another important element in the multiple agency theory.

3. *Stewardship theory*

Stewardship theory states that managers are not prone to self-serving conduct, as agency theory puts forward. Hence, their behaviour and actions are aligned with those of shareholders, and this is possible through appropriate incentives and rewards (Davis et al., 1997). Managers are considered as good and trustworthy stewards of a firm's assets who do not tend to inappropriate and opportunistic behaviour (Donaldson and Davis, 1991; Finkelstein and D'Aveni, 1994). It recognizes the importance of structures that empower the manager-steward and provide autonomy to act thanks to a trust based relationship between owners and management (Donaldoson and Davis, 1991), and between the board of directors and management.

Multiple agency theory agrees with a harmonious relationship between the board and management (Hung, 1998). The divergence of interests is not that much of a problem, because the interests of the board are supposed to be aligned with those of management. Moreover, stewardship theory considers the board more as an agent of management which is more knowledgeable and powerful in the firm (Hung, 1998). In this view, the board of directors does not have a dominant monitoring role to play towards management, since management is considered as a trustworthy partner. On the contrary, board members play a more strategic role (Cornforth, 2004) along with management in order to create added value and achieve corporate objectives which is in line with collaborative and cooperative behaviour, a central element in the multiple agency theory. They are both supposed to act together in the best interest of the firm. However, in the world of business, full trust is often an illusion and, in fact, some degree of scepticism is needed.

4. *Identity theory*

This theory considers individuals as "a *collection of identities resulting from their multiple roles in society*" (Hillman et al., 2008, p. 441). The self is multifaceted and reflects the environment in which a person lives. It means that each individual may have different behaviours and identities depending on the role s/he plays in a particular context. This is consistent with the dual identity concept that is put forward by multiple agency theory. Identification is another pivotal issue of the identity theory and it represents the importance of identity (Huse et al., 2011). One of the main corporate concerns is the identification of the individual as a member of the firm. An individual's participation in a firm or on a board of directors depends on the identification they have with certain stakeholders (Huse et al., 2011; Hillman et al., 2008; Huse and Rindova, 2001).

Theoretical Illustration: Independent Directors Seen Through a Multiple Agency Lens

The challenge is to move away from the agency theory assumptions (Hambrick et al., 2008; Huse et al., 2011) and to shed a different light on the role and functioning of independent directors. Indeed, some scholars (Finkelstein and Mooney, 2003; Roberts et al., 2005; Huse et al., 2011; Westphal and Zajac, 2013; Armstrong et al., 2014) call for a more complex but realistic perspective of independent directors. For this reason, we develop propositions for future research by applying the four theories discussed in the previous section applied to the five fundaments of multiple agency theory, i.e. (1) many-to-many relationships between all kinds of stakeholders; (2) dual identities; (3) dilemmas; (4) complementarities and cooperative behaviour; and (5) context creating governance diversity.

1. Many-to-many relationships and dual identities

The monitoring relationship between the independent directors and management is put forward by agency theory as the most important one (Eisenhardt, 1989; Rosenstein and Wyatt, 1990). Thereby, agency theory assumes that independent directors have quite a lot of power stemming from the fact that they act on behalf of the shareholders (Fama and Jensen, 1983; Mintzberg, 1983). However, the multiple corporate governance failures in the past have shown that the real power of the independent directors over management is sometimes very limited or even non-existent. This is in line with the assumption that the board could just be a legal fiction dominated by management (Mace, 1971; Lorsch and MacIver, 1989) and could be a creature of the CEO (Mace, 1971) who mainly serves as a rubber-stamping body (Herman, 1981). Furthermore, the inherent information asymmetry between independents and management (Huse et al., 2011) could be put forward as another potential reason for considering independents as a 'serving body'. This suggests that independent directors, despite their valuable knowledge and experience, often play only a ceremonial role (Wolfson, 1984; Kosnik, 1987). This represents a missed chance for the firm with an important opportunity cost given that independent board members are (well) paid without giving much in return. However, it could also be an explicit choice of management to populate the board with rather passive independent directors. This last option suggests that one of the pillars of the agency theory is completely undermined and has not been investigated in detail in the existing literature. Future research could try to find out what the added value is of independent directors who are only supposed to play a ceremonial role. Resources such as their reputation and personal networks could be more important for the firm than their knowledge and professional experience, as resource dependence theory claims (Pfeffer, 1972; Johnson and Pillai, 2010). It would also be interesting to find out who decides in practice on what is expected from the independent directors (management, the board, reference shareholders, etc.) and how explicit this is within the board and the firm. We posit that it is a matter of expectations management between the firm and its independent directors. As long as both parties agree on the ceremonial role of the board, and thus all the expectations are respected, this will probably beget no tensions within the boardroom. However, in case of a mismatch of expectations this could lead to a serious impact on the well-being and behaviour of these independent directors. For instance, a new independent director joins the board having the intention to play an active role in helping management but discovers after a while that this kind of role is not appreciated. This may create a lot of personal frustrations leading to dysfunctional behaviour, which may become detrimental for the firm and the director him/herself in the longer run. Future research could dig deeper into this potential issue of expectations management by focusing on independent directors who have left a board on their own initiative or on independent directors whose mandate was not renewed or even worse, was ended by the firm before the official end date. This leads to the following propositions:

> ***Proposition 1a****: Having independent directors who only play a ceremonial role can be an explicit choice of the firm (management).*

> ***Proposition 1b****: Independent directors who only play a ceremonial role have a significant opportunity cost for the firm.*
>
> ***Proposition 1c****: Independent directors who only play a ceremonial role can also have an added value for the firm.*
>
> ***Proposition 1d****: The expectations vis-à-vis independent directors are not always made explicit.*

It is worth analysing to what extent the resources each independent director brings with him/her, influence how s/he is perceived and treated by the other directors (resource dependence theory). For instance, older and more experienced directors could treat a relatively young independent colleague with less professional experience and less knowledge about the firm in a more sceptical way. This may have a negative impact on the productivity of the board in the first months/years of his mandate. However, if this new young independent director holds an MBA from a prestigious university and is a member of a wealthy, well-known family, the perception and treatment by his older colleagues could be different leading to different dynamics within the board. Future research could find out whether a sort of 'resource competition' among directors characterizes boards and which resources are most important in creating trust and respect amongst directors. Two propositions for future research can be derived:

> ***Proposition 1e****: Board effectiveness is significantly influenced by the resource competition among the different (independent) directors.*

In addition, the relationships between the independent directors and external stakeholders have an important impact on their behaviour, contributions to board effectiveness and the way they are perceived internally and externally. These relationships create important networks around independent directors (many-to-many relationships). These networks are potential sources of all kind of resources for the firm, which has been confirmed in previous studies (resource dependence theory). However, these multiple relationships and (sometimes) complex networks may also create identification problems for the independent directors, which is an unexplored topic in the literature so far. Who do they really 'represent'? Based on the agency theory principles, independent directors are supposed to only represent themselves, be independent 'in mind' and to be shareholders' agents (Clifford and Evans, 1997; Denis and McConnell, 2003; Nicholson and Kiel, 2004). However, in practice, it could be that their personal direct and indirect connections and affinity with some stakeholders of the firm create multiple identities (identity theory) which impede them from having a truly independent mind (Deutsch et al., 2011). For instance, a female independent director in a Fast Moving Consumer Goods firm, who is also a mother of three young children, implicitly feels more affinity with the group of customers to which she belongs (families with young children). This specific identification may influence how she will react on certain management proposals (for example the launch of new products). Her affinity with a specific group of stakeholders can be an important resource for the firm as this increases the chance that she will ask management the right questions that really challenge management. Nevertheless, the risk exists when management proposes strategic actions that specifically involve that specific group of stakeholders. In this case, new tensions and conflicts may arise between the woman director and her colleagues who may stigmatize her. This may create a board composed of several 'silos' (everyone has his/her own area of specialty and is supposed to focus on that), which goes against the principle of collegiality.

On the other hand, it may be important to consider the case of the same young mother who is also the founder of a start-up firm that is part of the same value chain, president of a service club and member of a family with a strong liberal political background. In this case, she will have to manage at least four different identities that may influence the way she will react on a management proposal. Is she going to react as a young mother, or as an entrepreneur who thinks of opportunities for collaboration or mergers in the future, or as the one who is always looking to raise funding for her service club, and what if the management proposal goes against the liberal principles with which has grown up? How independent in mind is she in this case? Also negative self-identity (i.e. 'This is not who I am') or resistance to a particular identity too can influence actions and behaviour.

It emerges that directors can be considered as interrelated actors and self-motivated agents (Ingley and van der Walt, 2004; Laby, 2004; Schwartz et al., 2005) because instead of being proper shareholders' agents, they are likely to take personal advantage of and benefit from decisions they have approved (Certo et al. 2008). Indeed, they may '*constitute a unique stakeholder group with their own set of interests'* (Certo et al., 2008: 223), ratifying strategic actions which reflect their own interests rather than those of shareholders. Therefore, it is important to analyse the multiple identities and interactions (Hillman et al., 2008) that board members may have, in order to better understand their effects on board practices.

Existing research ignores these kinds of identity struggles that independent directors may be confronted with and these multiple identities may create conflicts of interest which can impact on board effectiveness. Future studies on board independence could focus on the subject of multiple identities and the potential conflicts of interests these may create in order to find out whether board independence is an illusion or not. In-depth interviewing of independent directors and/or board observations is probably the most appropriate methodology for this. This leads to two propositions that could inspire future research:

> ***Proposition 1f****: The existence of multiple identities leading to identity struggles is a potential threat for the 'independence' of independent directors.*

> ***Proposition 1gh****: The existence of multiple identities is a potential threat for the collegiality principle within boards.*

2. *Dilemmas*

Compared to a technical question a dilemma is, by definition, a question with no right or wrong answer which makes it impossible to completely satisfy all parties involved. Many board matters fall into this category; one of which could be, the strategic choices a firm has to make. For instance, a firm may face a trade-off of two opposite strategic plans; namely to continue its incremental growth strategy or to radically change its business model. Both options could be successful. Moreover, management may be more willing to take risk (Wright et al., 2007) motivated by a potential bonus and therefore prefer the more risky option (in the example, the second option). On the other hand, the independent directors, based on their own professional experience with similar dilemmas (Hillman et al., 2000; Gul and Leung, 2004) (resource dependence theory) and affinity with certain groups of stakeholders (Johnson and Greening, 1999; Luoma and Goodstein, 1999; Hillman et al., 2001; Huse, 2003) (stakeholder theory) may be more risk averse (Fernandez and Mazza, 2014). They may be more risk averse also because the likelihood of being punished by the labour market of directors for ineffective governance is high (Hunton and Rose, 2008). This makes them more likely to prefer the less risky option. Both independents and management are supposed to act in the best interest of the company but it is likely that the discussion of both options during the board meeting will be difficult and may, in the worst case, create a polarisation between management and the independent directors, thereby having a negative impact on the trust between both (stewardship theory) . Whatever the financial decision turns out to be, it is going to be difficult to satisfy both management and the independent directors. This opens up interesting opportunities to advance the board literature. Are directors aware of the fact that a lot of their agenda items are in fact real dilemmas and do they treat them in the appropriate way, respecting the inherent limitation that there is no right or wrong answer? How do they manage the fact that the final decision in a dilemma may not satisfy them completely (not be in line with their personal interest)? What is needed in terms of group dynamics (think of, for example a set of shared values, practical rules for board meetings, the role of the chair) to avoid polarisation within the board (Roberts, 2002)? Some propositions for future research can be derived from this reflection:

> ***Proposition 2a****: Treating dilemmas as technical questions within the board negatively affects board effectiveness.*

> ***Proposition 2b****: Different levels of risk appetite between management and the independent directors may create polarisation which negatively affects board effectiveness.*

3. *Complementarities and cooperative behaviour*

There seems to be a consensus in the existing literature (Pfeffer, 1972; Roberts, 2002; Roberts et al., 2005; Huse, 2007; Johnson and Pillai, 2010; Gabrielsson et al., 2007; Huse et al., 2009) that independent directors are much more than just the opponents of management. Independent directors are often complementary to management (based on the 'resources' they bring with them) and, in most cases, behave in a cooperative instead of conflictual way (stewardship theory).

Nevertheless, the literature remains silent on two aspects: (1) the risk that cooperative behaviour creates negative group effects; and (2) the real motivation of independent directors to behave in a cooperative way (towards management and even towards the other directors).

Boards should behave as a cooperating team in order to fully leverage the strengths of each individual board member (Daily et al., 2003: Huse et al., 2009). However, several authors (Brewer and Kramer, 1985; George and George, 1998;

Sheldon and Bettencourt, 2002; Bakker and Schaufeli, 2008) have studied the phenomenon of negative group behaviour in psychology that may also be applied to boards. Issues such as desire to conform to the dominant position of the group which results in a lack of creativity, or a resistance to change all stem from the fact that the board is in the first place a group of people. These negative effects could outweigh the advantages of cooperative behaviour. Future studies could analyse whether directors are aware of the potential negative group effects, whether there are clear illustrations that group effects have led to suboptimal board behaviour and how boards try to manage this (think of the importance of the chair being a strong leader).

Besides, the real motivation of independent directors to behave in a cooperative way may be due to their personal interests. Important personal interests of independents are their own reputations and the renewal of their mandates. In particular, those independents who have few other sources of income, may be strongly driven by these two factors. This may be the main reason why they behave in a cooperative way. They tend to avoid conflicts with management and among directors in order to protect their own reputation and future mandate(s). Another reason for cooperative behaviour and conflict avoidance could be the personal desire of independent directors to 'have fun' and enjoy their experience as a board member. However, there may be periods in which a cooperative attitude towards management is not appropriate; for instance, periods in which the company faces serious difficulties and whereby management does not seem to take the right actions. In these periods, the independents should act in the interests of the company and dare to criticize management explicitly and if needed, take drastic decisions such as a CEO replacement (crisis management). Instead of continuing to behave in a cooperative way, a more conflictual approach may be more appropriate to guarantee the future of the company. Sometimes, conflicts can make a difference and are needed to survive these difficult periods. In practice, this kind of scenario - where the independents choose a conflictual approach - is still very unlikely which puts into question the real added value of having independents on board. In case of a firm experiencing positive performance and not needing to cope with any special crisis, the independents are likely to be less active (Fernando, 2010). The following three propositions can be derived:

> ***Proposition 3a****: The negative effects of group behaviour can outweigh the advantages of cooperative behaviour and consequently negatively affect board effectiveness.*

> ***Proposition 3b****: Cooperative behaviour of independent directors can be driven by personal interests.*

> ***Proposition 3c****: Cooperative behaviour and conflict avoidance within the board (and vis-à-vis management) is not always appropriate in crisis periods.*

As far as complementarity within the board and between the board and management is concerned, the existing literature on board diversity (Aguilera et al., 2008; Filatotchev and Toms; 2003; Hambrick and D'Aveni, 1992; Golden and Zajac; 2001; Nielsen, 2010) shows a consensus that complementarity is one of the underlying drivers of board diversity. Boards are composed in a diverse way by attracting complementary (independent) directors, mainly in terms of professional experience. A board consisting of complementary directors who each represent one or several areas in management (finance, marketing, HR, strategy), can be perceived as a mirror of management where exactly the same functional silos can be found. On the one hand, the existing literature (Roberts, 2002; Forbes and Milliken, 1999) argues that this allows the board to understand what management presents to them which is undoubtedly important. On the other hand, is having a board that is almost a copy of management in terms of areas of expertise capable of really challenging management? Would real diversity not go further than just complementarity of expertise and experience? If all these complementary independent directors belong to the same generation (meaning that they all grew up and made their careers in the same time period which suggests that they have probably all been influenced by the same 'events' in business life, attended the same school/university, are all members of the same business club), the chance to look at the reality in a substantially different way is low (identity theory). In other words, it is worth investigating to what extent the traditional interpretation of diversity in terms of complementarity of expertise and experience does not create a kind of diversity illusion. This leads to the following proposition:

> ***Proposition 3d****: Real diversity within a board is more than complementarity of expertise and experience.*

4. *Context*

Every organisation has its unique context including both macro level and micro level factors that should be reflected in their corporate governance practices. At macro level, the meaning of 'independence' varies across different contexts (Aguilera and Jackson 2003; Aguilera and Cuervo-Cazurra, 2004; Fiss and Zajac, 2004; Ahmadjian and Robbins, 2005), not only from a legal perspective based on what is prescribed by law, but also via what is put forward in the corporate governance codes . In addition, sociological and cultural meanings vary across the world. The interpretation of independence in developing countries is probably not the same as in the U.S.A. and Western Europe (Aguilera and Cuervo-Cazurra 2004; McGee, 2009). It follows that when dealing with multinational firms with several nationalities on the board, the diversity of meanings of 'independence' could become a real challenge as not every independent director around the board table has the same reference framework (identity theory). Future research on board independence in a multinational context could analyse to what extent different sociological and cultural meanings of independence are present around the board table and how the board as a group deal with this variation region-to-region.

At micro level, it could be that the degree of activism of the independent directors is linked to the life cycle of the firm and/or its products. From this perspective, independents are probably more passive during the maturity stage and could be more active in the growth stage or when the decline stage is approaching (Filatotchev et al. 2006). It could also be that their degree of activism in the different stages of the life cycle depends on the resources they bring with them (resource dependence theory). In the growth stage of the firm, the independents with a large network could play a more important role in the board, as their network and contacts maybe leverage the growth of the company. In the maturity stage, when growth is rather incremental, the independents with stronger functional expertise may play a more dominant role given the focus on optimisation and efficiency. Based on this reflection, the following propositions for future research are put forward:

> ***Proposition 4a****: Different context related interpretations of independence can have an impact on the behaviour of independent directors.*
>
> ***Proposition 4b****: The degree of activism of the independent directors is linked to the life cycle of the firm and/or its products.*
>
> ***Proposition 4c****: The degree of activism of the independent directors in the different stages of the life cycle of the firm is linked to the resources they bring with them.*

Summary and Conclusions

Our paper responds to calls for a better understanding of board insights and potential, and it takes the opportunity to seek to open up the 'black box' of dynamics and relationships among directors (Daily et al., 2003; Gabrielsson and Huse, 2004; Filatotchev et al., 2011; Bezemer et al., 2014; Gabrielsson et al., 2014). This is achieved by adopting a more holistic view of the board as a group of individuals, and moving away from the traditional single agency approach.

Multiple agency theory is based on a pluralistic approach whereby different existing approaches are combined with basic agency theory to better understand and explain the complexity of corporate governance. The first aim of this paper was to analyse the five fundaments of multiple agency theory which is based on a review of the existing literature on multiple agency theory. The first aim of this paper is to reconcile four corporate theories in order to better understand the five key fundaments of multiple agency theory. The second aim was to illustrate how a comprehensive approach which reconciles agency theory with four other theories is able to develop a better understanding of the role and functioning of independent directors leading to propositions for future research. Multiple agency theory analyses firm governance in its context thereby focusing on the many-to-many relationships that exist between actors who often fulfil the role of principal and agent at the same time. Multiple agency theory acknowledges the complementarities between actors and accepts that both conflicting and cooperative behaviour may exist at the same time. Multiple agency theory argues that corporate governance is mainly about principals and agents dealing with dilemmas thereby aiming to maintain equilibrium between managers' and stakeholders' interests.

In this paper, firstly the five key components of multiple agency theory are identified, i.e. many-to-many relationships, dual identities, dilemmas, complementarities and cooperative behaviour, and context. Secondly in order to develop and better understand a multiple agency approach, four different theories are combined together, namelyInstitutional theory, stakeholder theory and resource dependency theory belong to the contingency approach; while managerial hegemony, stewardship theory, team production theory and identity theory belong to the behavioural approach. Finally, we provide a theoretical illustration of independent directors through a multiple agency lens by identifying propositions for future research.

The first area for future research refers to the degree of activism of the independent directors. Is it a matter of managing expectations between the independents and the rest of the firm? What is the added value of independent directors who are only supposed to play a ceremonial role (resource dependence theory)?

A second path for future studies is the dynamics between the different groups of directors focusing on the ‘resource competition’ between directors and the link with power (resource dependence theory).

A third unexplored issue are the identification problems for independent directors stemming from the multiple relationships and complex networks around them. The personal direct and indirect connections and affinities of independents with some stakeholders of the firm create multiple identities (identity theory), which may impede them from having a truly independent mind.

A fourth potential research area is the dilemmas a board has to deal with and how the inherent nature of a dilemma (no right or wrong answer) may create a trust breach between the board and management (stewardship theory).

A fifth interesting topic is the negative effects that may stem from cooperative behaviour within the board and between the board and management (stewardship theory). Related to this, the influence of personal interests of independents such as the protection of their reputation and the renewal of their mandates on their behaviour also merits in-depth research.

A sixth area refers to an alternative approach to the study of board diversity, thereby, abandoning the existing paradigm that board diversity is mainly inspired by complementarity (between board members as well as between the board and management) (resource dependency theory).

Finally, taking account the context at both macro (for example, different nationalities having different interpretations of the meaning of ‘independence’) and micro (for example, the impact of the life cycle of the organisation) level is also worth investigating (identy theory and resources based theory).

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