“Who are we as a board and what should we do?”: Linking board’s identity to board’s operational effectiveness

Sanjay Goel
Department of Management Studies
Labovitz School of Business and Economics
University of Minnesota Duluth
412 Library Drive
Duluth MN 55812-3029, USA
Phone (1) 218-726-6574
FAX (1) 218-726-7578
E-mail: sgoel@d.umn.edu

Dawn Harris
Department of Management
School of Business Administration
Loyola University Chicago
820 North Michigan Avenue
Chicago IL 60611, USA
Phone (1) 312-915-6536
FAX (1) 312-915-6988
E-mail: dharri1@luc.edu
An earlier version of the paper benefited from discussion with Krishna Udayasankar.
“Who are we as a board and what should we do?”: Linking board’s identity to board’s operational effectiveness

Abstract

We use identity theory to help us conceptualize identity at the board level, distinct from the identity of individual board members. We develop two specific board identities, which we label board’s organizational identity and board’s contextual identity and develop assertions about board behavior that can be expected based on these identities. A key contention is that each type of identity helps a board conceptualize its role holistically and develop appropriate behavior routines to conceptualize and achieve its effectiveness, and a lack of a distinct, coherent and strong identity leads to poor discharge of board’s duties.

Keywords: identity theory, board of directors, board effectiveness
“Who are we as a board and what should we do?”: Linking board’s identity to board’s operational effectiveness

Board of directors have been recognized as an important element of corporate governance (e.g. Daily, Dalton, & Cannella, 2003; Lavelle, 2002; Lynall, Golden, & Hillman, 2003; Sundaramurthy & Lewis, 2003; Hillman & Dalziel, 2003; Walsh & Seward, 1990). In spite of several decades of research on board of directors, however, several unresolved issues remain about conceptual arguments and empirical findings using board-level variables such as independence, duality, and climate, and contextual variables such as industry or environment conditions, resource needs or levels, and regulation, as predictor variables to certain performance variables (e.g. firm performance or protection of shareholder rights). In addition, there have been doubts about whether boards actually are inclined to perform their ascribed duty of making strategic changes, and even have the inclination to do so (e.g. Golden & Zajac, 2001). Along with calls for disaggregating boards as a unit of analysis (Jensen & Zajac, 2004), doubts remain about whether boards of public corporations are effective in controlling and monitoring top management (Zajac & Westphal, 1996a).

In this paper, we propose an alternative perspective on board effectiveness, using developments in identity theory and its application (Ashforth & Mael, 1989; Albert, Ashforth, & Dutton, 2000; Akerlof & Kranton, 2008). Our work builds on the use of a social psychological perspective in board composition and behavior (Westphal & Zajac, 1995; Zajac & Westphal, 1996a; Hillman, Nicholson, & Shropshire, 2008). We extend
this perspective by arguing that social identity theory (Ashforth & Mael, 1989; Albert, Ashforth, & Dutton, 2000) provides a strong basis for understanding board identity, which in turn is affected by board composition and affects board roles. Further, building on extant research (Hillman et al, 2008; Jensen & Zajac, 2004; Zajac & Westphal, 1996; Westphal & Zajac, 1995; Golden & Zajac, 2001), we propose that to understand board behavior, we need to understand identity in boards at two levels – one, board member’s identity relative to the board (which forms the basis of the board’s organizational identity), and two, board’s identity relative to the firm (which forms the basis of the board’s contextual identity). On the former issue, Hillman et al’s (2008) work proposes direct links between the identity (or multiple identities) of board members, and their effectiveness as monitors and resource providers. Our perspective is that while board members bring their multiple identities to the board that influences their individual behavior on the board, it is also an input to the development of a group level identity, which we call board identity. It is this board level identity, which is the processed identities of individual multiple identities that board members bring to the board that ultimately determines board’s effectiveness. Using developments in social identity theory, we provide a unifying conceptual basis for treating the board of directors as a distinct entity, within which sharper questions can be asked about individual director’s motivation, as well as board’s overall effectiveness (including, for example, board’s independence, rather than the independence of individual directors in the board). Thus our work reifies the board as a distinct organization, with a distinctive identity separate from the identities of individual board members. Within our framework, an exploration
of board identity helps assess its impact on performance of board roles, determining the board’s overall effectiveness, as well as provides a conceptual basis for practical interventions in developing better boards by focusing on developing a stronger board identity.

**Identity theory – a brief review**

Identity theory has been conceptualized both at a macro and micro levels. Both levels are relevant for the study of board of directors. At a micro level, identity is how people define who they are (Thatcher & Zhu, 2006). At the individual level, identity interprets and organizes intra- and interpersonal actions and experiences; provides the motivation, plans, rules, and scripts for behavior; and adjusts in response to changes in the social and physical environment (Thatcher & Zhu, 2006; Markus & Wurf, 1987; Shamir, 1992). For instance, in the context of boards of directors, Hillman et al (2008) identify five distinct identities that directors have – organization person, director, CEO, shareholder, customer/supplier. Withers and Hillman (2008) apply these identities in the context of organizational crisis to analyze how director’s social identities, and the degree to which they identify with the CEO, affects their role to transform organizations in crisis.

At the micro level, social identity of an individual is “a set of elemental propositions about the individual’s social embeddedness or image (role, position, prestige, and relationships) that the individual holds to be true about himself or herself” (Stuart, Ashforth, Dutton, 2000). The individual gains a sense of meaningfulness and
connotation, in turn, by internalizing the group or organizational identity as a (partial) definition of self. Ashforth and Mael (1989) point out that because individuals may belong to multiple groups, his or her social identity is likely to consist of an “amalgam of identities” that could impose inconsistent demand upon that person, and may also conflict with those of the individual’s personal identity.

The identities a person evokes in a certain situation are mainly contingent on subjective importance and situational relevance of those identities. Subjectively important identities are central to an individual, are predicated on a greater number of and more important social relationships, and are likely to be enacted across contexts (Ashforth & Johnson, 2001; Hogg & Terry, 2001; Stryker, 1968, 1980). These represent the common identity that a self tends to exhibit in a wide variety of contexts. On the other hand, situational relevance of a given identity is determined by social context and external norms. Thus, the surroundings of the focal individual influence the extent to which a certain identity is perceived as socially appropriate (Ashforth & Johnson, 2001).

At a macro level, the term social identity is used to refer to identity defined by categorizations based on difference criteria (Brewer, 1991; Hogg & Terry, 2001). As Thatcher & Zhu (2006) put it, “Social identity operates whereby “I” becomes “we” and it incorporates the characteristics of the social unit into one’s self-concept (Brewer, 1991; Hogg & Terry, 2001).” At a macro level, Albert, Ashforth, Dutton (2000) justify the need for an identity by arguing that “…an organization must reside in the heads and hearts of its members. Thus in the absence of an externalized bureaucratic structure, it becomes more important to have an internalized cognitive structure of what the
organization stands for and where it intends to go – in short, a clear sense of the organization’s identity. A sense of identity serves as a rudder for navigating difficult waters. At a macro level, social identity of a group (as opposed to an individual) is a relevant unit of analysis.” Following Rowley and Moldoveanu (2003), social identity of a group is “the intersection of the social identities of the individuals in that group. The social identity of a group is the greatest common denominator of the social identities of the individuals considered to be part of the group.” Albert & Whetten, (1985) define macro-level identity as “that which is central, enduring, and distinctive about an organization’s character.”

Identity and its consequences

At a macro level, social identity theory has been applied to managerial phenomena to explain strategic group formation (Peteraf & Shanley, 1997), organizational adaptation (Dutton & Dukerich, 1991), emotional labor in service encounters (Ashforth & Humphrey, 1995), and personal networks (Ibarra, 1993). Many of the outcomes of identity however are to increase the internal coherence and structure of the group. For instance, one of the key outcomes of identity is the feeling of solidarity, which emerges among individuals through group affiliation, which in turn acts as a powerful catalyst for collective action (Fireman & Gamson, 1979). This implies that individuals may participate in group action toward the focal organization without requiring material or pecuniary benefits, because they become “linked together in a number of ways that generate a sense of common identity, shared fate, and general
commitment to defend the group” (Fireman & Gamson, 1979: 21). In addition, gains from group activity go well beyond rational ones, as associations with like-minded individuals create and verify one’s identity relative to nongroup members and produce individual commitment to the group and its principles (Sen, 1982). Group membership and the identity gained from this association are strongly related to value rationality (Abrahamson & Fombrun, 1994). Thus, action may not be taken by the group to satisfy the members’ rational interests but, rather, to affirm the members’ collective identity (Rowley & Moldoveanu, 2003). Group identity also varies in strength. In the absence of group identity, groups may not be able to act. Individuals then devolve to their own multiple social identities (Ashforth & Mael, 1989).

Identity and the board

How does identity play out in a board? A board of directors is an organizational form with specific goals and functions (Fama & Jensen, 1983; Daily, et al, 2003; Peng, 2004). Following social identity theory outlined above, like any other group, the board of directors has a distinct identity, a subset of which is derived from the individual identities of its members. While all board members bring their own multiple identities to the board, the degree to which a board’s collective identity is clearly defined (i.e. distinct from the summation of identities of individual board members) varies widely across boards. As Ashforth (1998) points out, “Identity, to really stick, has got to be something that you enact in a very local, tribal context.” In other words, board identity can be actively managed and developed, which allows us to consider variance in the strength and
composition of board identity. In other words, some boards may be better than others at acknowledging, respecting, and contributing to the formation and development of a distinct board identity. In addition, board identities may also change over time via changes in board composition, and via conscious decisions and reflections of the board, as framed by board leadership, and interpreted by board members.

This requires that at a macro level, the board must share a cognitive structure of what the board stands for and its goals. This cognitive structure is likely to lead to focus and clarity of board roles and duties in specific contexts. In addition, a stronger board identity is also likely to supersede the other identities that each individual member may have, and prevent the board from becoming a parliament of disparate voices representing conflicting individual identities. Pye’s (2000, 2005) qualitative study of board behavior over time suggests the consequences of a weak board identity. For instance, she reported that the particular power evinced by Chief Executive-Chairman and Finance Director partnerships was seen to “color the way in which the whole board works (Pye, 2000).” In her later work (Pye, 2005), she found that a strong Chairman-Chief Executive relationship may be detrimental to effective governance, “because if their social capital is very high, this relationship may represent an unassailable front for directors working from a less powerful foothold.” She prescribes, “there has to be cohesion and coherence in the way they present themselves “outside” their organization as well as “inside’”’(Pye, 2005, quotes in original). This argues for a stronger identity as a board, which individual members can adhere to. Other work on board behavior (Westphal & Zajac, 1995, Zajac & Westphal, 1996a, 19969b) is also suggestive of the same conclusions - where board
identity was compromised or weakened by blurring the lines between the board and management, board’s effectiveness in performing its duties was compromised.

Because board identity is shaped by other factors, such as the identities of its members, the identities of the management of the firm, as well as the history and culture governing the interaction within the board and between board members and the management, it is reasonable to assume that boards vary to the extent that their identity is distinct from the management, as well as from the identity of individual board members.

Board identity and individual director behavior

At the micro level, as identification with a group increases, so does motivation of individuals to reach group goals (Ashforth & Mael, 1989; Brewer & Gardner, 1986; Dutton et al., 1994; Kramer & Brewer, 1986; Akerlof & Kranton, 2008), preferential treatment of other group members (Tajfel & Turner, 1985), interaction with the group (Ashforth & Mael, 1989; Bhattacharya, Rao, & Glynn, 1995; Dutton, Dukerich, & Harquail, 1994), and helpful and supportive behaviors (Bhattacharya et al, 1995; Dutton et al, 1994; Turner, 1982). Since a distinct board identity would lead to greater clarity of the goals of the board as a distinct organization, we can formally propose that:

Proposition 1. To the extent that board members acknowledge board’s distinct identity, they will be motivated to achieve the board’s goals.

Board of Directors’ Organizational and Contextual Identity
Based on principles of identity theory, we can conceptualize board identity as being comprised of two distinct components – a board’s organizational identity (“We are a board”), and its contextual identity (“We are the board for Firm X”).

We now look at each of our proposed board identity components.

**Board’s Organizational Identity**

Organizational identity comprises those characteristics of an organization that its members believe are central, distinctive, and enduring (Albert & Whetten, 1995). That is, organizational identity consists of those attributes that members feel are fundamental to (central) and uniquely descriptive of (distinctive) the organization and that persist within the organization over time (enduring) (Pratt & Foreman, 2000).

A board’s organizational identity makes the board as an organization salient to its members (e.g. the acknowledgement by individual members that “We are a board.”). Why would this be important? Members of a board bring multiple social and personal identities to the board. They represent and identify with a variety of groups and roles. Unless the members acknowledge the board’s organizational legitimacy and boundary,

---

1 Akin to any group level construct, it is not necessary that all group members share the board’s identity, which leads to variation in the board’s identity. Identity theorists recognize this aspect of a group level identity - there is a general consensus that multiple identities need not be universally held by organizational members. For example, Albert and Whetten (1985) distinguish between ideographic and holographic multiplicity within organizations. Organizations have ideographic multiplicity when multiple identities are associated with different collectives that exist in different parts of the organization. Thus identities are not common to all organizational members but, instead, are retained by specific subgroups. In contrast, organizations also can have holographic multiple identities (Albert & Whetten, 1985) when each of the multiple identities inherent in the organization is held by all organizational members.
they are unlikely to consider its goals and objectives as a distinct organization. In this context, the board’s identity would be different and open to interpretation by each board member, and board members would then deploy one of their own identities that best suits their interpretation of the board. In addition to the existence of multiplicity of individual identities, the boards operate in a high discretion context characterized by limited, intermittent interaction and opportunities to iron out the “common denominator” of these multiple identities. Board members are likely to face very high opportunity cost of their time, as well as executive job demands (Hambrick, Finkelstein, & Mooney, 2005). It is in these contexts that a distinct identity can provide a continuity and a sense of more lasting affiliation to members to sustain the intervening periods of physical and temporal distance.

It is likely that members may perceive some organizational identity in the board. However, to the extent that each member has a different conceptualization of board’s organizational identity, the board can be said to have multiple organizational identities, which may also reduce the coherence of the board as an organization. This follows Pratt & Foreman (2000), who posited that “organizations have multiple organizational identities when different conceptualizations exist regarding what is central, distinctive, and enduring about the organization.”

---

2 Airline cockpit crews also work alongside each other intermittently, with limited interaction between meetings, but they work in relatively low discretion environments where their professional identity imposes a very high degree of technical clarity and discipline. This obviates the need to have a strong organizational identity in their work environment, the cockpit.
In the absence of a strong organizational identity we expect to observe the following:

1. Board members participate on the board but find other bases for identification (wear other hats while in the board meeting).

2. Board members act in the board based on other identities, rather than including their identity as a board member in their behavior. Since individual identities do not coincide with each other, this creates unnecessary friction in the boardroom as opposed to debates and dissensions in the context of performing board roles. The board is split among coalitions that form on the basis of coalescing around similar individual identities. This makes the board a parliament of conflicting voices, protecting their respective constituencies (as represented by member’s identities) rather than an organization working toward common goals.

3. Board members act in the board to protect and preserve their personal identities (e.g. “I am a successful person,” “I am a very busy person”) rather than acting in accordance with their role as members of a board.

4. Board members are not clear about the goals and objectives of the board, and have to recreate the memory to work together all over again every time they meet. A study done by Todorova, Argote, and Reagans (2008) to understand how teams
develop transactive memory systems (TMS) investigated the relationships among TMS, motivation, and identity. Transactive memory systems are interdependent knowledge structures, including scripts that groups use to collaborate over a period of time to produce a joint outcome. They discovered that individual motivation influenced positively the development of TMS only when group identification was high. When group identification was low, individual motivation had a negative effect on the development of TMS. This finding may explain why highly motivated individual board members may still feel hesitant about doing the job, because, in the absence of an overarching organizational identity, board members have poorly developed TMS, and therefore need to relearn many of the scripts since their last meeting.

5. Board members are unable to conceptualize what is relevant information that should be shared with other board members, leading to knowledge gaps among board members.

6. Board members withdraw from active involvement in board duties, creating a situation that could lead to ceding control to management. Evidence from small groups literature supports this aspect. Tangirala and Ramanujam (2008) found that people who felt in control and who identified with the group spoke up more often than people who did not identify with the group. Board members who may
feel otherwise feel in control because of their other identities may not speak up if they don’t have a strong organizational identity.

These observations lead us to propose the following:

Proposition 2. To the extent that the board has a distinct organizational identity, the board would exhibit clarity about its goals and responsibilities.

Board’s Contextual Identity

Board’s contextual identity makes the role of the board for a specific Firm X (as opposed to Firm Y or Z) salient to the board members. Contextual identity enables the board members to link their (and board’s) identity to a specific firm, and tailor the conceptualization of their role for a specific firm and its operating environment. For instance, a firm may be facing specific conditions that require board intervention (e.g. takeover/merger offer, change/expansion of business domains, particularly poor financial performance, change of CEO). While a board’s organizational identity may trigger the need for action (“the board must intervene and do something”), it is the board’s contextual identity that triggers using gathering, retrieving, and deploying specific knowledge about the firm and its context (e.g. managers, key employees and other resources, etc.) which enables the board to make better decisions regarding control, collaboration, and legitimacy. This contextual identity encourages members to share all relevant information about the firm and its context in an atmosphere of trust without fear
or insecurity that the information provided will be used to the detriment of their identities. In the absence of a strong contextual identity, we expect to observe the following:

1. Boards are not knowledgeable about the firm (e.g. its technology, external influence and domain, key resources, etc.). Rather, decisions are made based on the identity that is more salient to them (e.g. “What are boards supposed to do in general?”)

2. Board members are not clear about how their knowledge of the firm could be useful in performing their duties toward the firm, yet they are defensive about their capability to make decisions. (“I am a board member. I know how to do my job.”)

3. Board members are unwilling to share information they have about the firm and its environment with others. They consider it irrelevant to performance of their role.

4. Because of their poor firm-specific knowledge base, board members are unclear about how they can provide legitimacy and other external resources to the firm.
Based on the conceptualization of board identity, in formal terms the following proposition can be made:

Proposition 3. To the extent that the board has a distinct contextual identity, the board would exhibit capability to perform specific tasks in the interest of the organization.

Finally, we propose that both organizational and contextual identities are relevant in board’s operational effectiveness. A distinct organizational identity helps in solidifying the board as a distinct organization in the eyes of the board members, with its own goals and responsibilities. A distinct contextual identity helps in the board as a collective performing the tasks that are relevant and functionally appropriate for the organization.

Proposition 4. Both board’s organizational identity and contextual identity affect board’s operational effectiveness.

Discussion and future research

In this paper we deploy social identity theory in conceptualizing board roles and understanding board functioning based on the organizational identities that boards develop. This initial attempt leads to the belief that this approach is indeed useful in developing new insights about board’s functioning (and lack of it) in organizations. Several practical implications for helping a board understand its roles, and improving board behavior, can be teased out from this perspective.
The perspective that we have taken has the potential to resolve some vexing problems in corporate governance, relating to the role of board independence. In the context of board independence, two issues have been studied at length in extant literature – CEO duality and the proportion of independent directors, both with mixed empirical findings (Daily & Dalton, 1997, Dalton et al 1998; Coles et al, 2001; Kroll, Walters, & Le, 2007; Nelson 2003; Finkelstein & Hambrick, 1996). On the issue of CEO duality, arguments and empirical evidence have been advanced both in favor and against it. On the one hand, having CEO and Chair positions held by two different persons has been argued to improve board independence and functioning. While some scholars have argued and found support for the notion that having the positions held by the same person improves strategy making, and establishes strong, unambiguous leadership (Finkelstein & D’Aveni, 1994), some have also argued that it empowers the CEO and weakens board monitoring (Cannella & Lubatkin, 1993; Finkelstein & D’Aveni, 1994). Empirical research on this issue has failed to provide a forceful prescription relevant for firm performance in one direction or the other (Daily & Dalton, 1997, Dalton et al 1998; Coles et al, 2001).

On the issue of proportion of outside directors, institutional pressures post-Enron have led to formal prescriptions of having boards comprised of majority “outside” directors, with increasing sophistication in defining what “an outsider” really means. However, at least in some contexts (e.g. young entrepreneurial firms), outside directors have been found to reduce performance on certain dimensions (e.g. post-IPO
performance) (e.g. Kroll, Walters, & Le, 2007; Nelson 2003; Finkelstein & Hambrick, 1996).

Our reconceptualization of board independence as board’s organizational identity could resolve this debate. Boards with strong organizational identity are more likely to exhibit behavior consistent with the spirit of the word “independence” rather than boards that symbolically exhibit this independence (via non-duality or having majority outside directors). Even if we allow that boards may have multiple holographic identities (Albert & Whetten, 1985), as long as these identities are shared by the board members, boards are likely to have a distinct identity serving the function of independence. But if boards have multiple ideographic identities (multiple identities associated with different board members or subgroups of board members), without any overarching, distinct board identity, “independence” is more likely to have a symbolic value consistent with institutional isomorphism, rather than a functional value.

Move up to the main paper. We readily admit that board identities can change over time via changes in board composition, and via conscious decisions and reflections of the board, as framed by board leadership, and as interpreted by board members. As one instance, Lynall, Golden, & Hillman (2003) propose a model of how board composition is a reflection of a firm’s life cycle stages, and the relative power of the CEO. We would expect board organizational identities to change over the firm’s life cycle partly because of changes in board composition, and partly because of the board’s own functioning, including maturity among board members. A board’s contextual identity could change as a result of changes at the CEO position and the firm’s external
environment, as well as a result of the continuous process of identity negotiation with the incumbent CEO and the firm’s relevant external environment. The specific processes outlining these dynamics, in contexts charged with power and egos, would be fruitful avenues for future research.

In addition to the dynamic aspect of board identity, we would expect the degree of coherence of board’s identity to have a reciprocal effect on the power of the CEO. Boards with less coherent organizational identities are more likely to cede the power balance to CEOs than boards with highly coherent and distinct organizational identities, partially because of a lack of a unified board stance vis-à-vis the CEO, as well as a possibility of coalition formation with varying degrees of allegiance to the CEO. Boards with less coherent contextual identities are more likely to cede power balance to CEOs than boards with highly coherent and distinct contextual identities, partially because of a lack of knowledge about the top management, and the firm’s specific and general environmental contexts. Even more fundamentally, it would be useful to study the content of board identities – what specific components are salient in this composition, and how are they constituted. For instance, work on managerial elites (Hambrick, 2007; Chatterjee & Hambrick, 2007; Hambrick, Finkelstein, & Mooney, 2005) suggests that people serving at the top levels of organizations may have more complex identities, and therefore may need greater integration skills in a variety of contexts (including a board) to assume the appropriate identity for their role. Studies on composition and constitution of such identities with reference to boards would shed light on specific board behaviors
and group level characteristics, such as board independence. These research avenues can be pursued in the future.

Our paper has some implications for practice as well. Identities can be changed and shaped, and a balance between multiple identities can be negotiated, even in demanding occupations (Kreiner, Hollensbe, & Sheep, 2006), at a variety of levels (Chreim, Williams, & Hinings, 2007). We also suggest that there are individuals differ in the skills required in balancing and negotiating multiple identities. Combining these two considerations lead us to suggest that boards, CEOs, in addition to formal institutions (e.g. SEC, The Conference Board, etc.) may consider identity management as part of directors’ training to serve on the board.

**Conclusion**

In this paper, more generally, we provide a broad outline of the case for using identity theory in the study of boards of directors. We propose two specific components of board identity that have the potential of explaining significant variance in board’s operational effectiveness. We show that employing concepts from individual and social identity theory have potential to resolve some of the vexing questions of variance in board behavior, composition, and effectiveness, as well as have practical utility. Future studies from this perspective can only enhance our understanding of boards as distinct organizations.
References


Chreim, S., Williams, B. E., & Hinings, C. R. Interlevel influences on the reconstruction of professional role identity. Academy of Management Journal; Dec2007, 50: 1515-1539


