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THE IMPLICATIONS OF OWNERSHIP CONCENTRATION FOR SHAREHOLDER PROTECTION AND STRATEGIC DECISION-MAKING

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ABSTRACT: *The purpose of corporate governance mechanisms is to prevent opportunistic behaviour by managers, in order to align the interests of owners and managers. Following from this, our research topic is the analysis of ownership concentration as an internal mechanism to protect the interests of shareholders. In the study of the interdependence between ownership concentration and shareholder protection, particular importance needs to be given to the relationship between ownership structure, the role of the board, and strategic decision-making. Starting from this interdependence, our research aim is to examine the impact of ownership concentration on the protection of shareholders'*

interests and the board's responsibility for firm strategy. This paper presents the results of an empirical, pilot study in the Republic of Serbia. The research confirms the interdependence of corporate governance mechanisms and strategic decision-making. Our findings indicate that ownership concentration protects majority shareholder interests and leads to lower board responsibility for strategic decision-making.

KEY WORDS: *corporate governance, corporate governance mechanisms, ownership concentration, protection of shareholders' interests, board of directors, strategic decision-making*

JEL CLASSIFICATION: D23, G34, M10, M20

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1. INTRODUCTION

Corporate governance is related to the problem of the separation of ownership and control, even though in practice the two are not completely separate. Owners have control over a corporation in proportion to their share of equity, and managers also often have an ownership share. According to the blocks of shares held by owners, the ownership structure can be concentrated or dispersed. Ownership dispersion occurs when there is a large number of shareholders who do not have a controlling block of shares, and therefore cannot supervise and control managers. Thus the main problem of ownership dispersion is that the owners do not have control, which leads to managers behaving opportunistically and the traditional agency problem. According to agency theory, large corporations with dispersed ownership are faced with a conflict of interest between owners and managers, or the principal-agent problem (Jensen and Meckling 1976).

One way to resolve this problem is ownership concentration, where at least one majority shareholder owns a controlling block of shares and influences strategic decision-making. The role of the majority owner is to actively control managers in order to overcome the problem of a control vacuum (Babić and Nikolić 2016). However, majority owners have the power to use corporate resources in order to obtain private benefits. This means that although ownership concentration can mitigate the traditional agency problem between owners and managers, it causes principal-principal conflict between majority and minority shareholders (Faccio and Lang 2002; Thomsen, Pedersen and Kvist 2006; Young, Peng, Ahlstrom, Bruton and Jiang 2008; Renders and Gaeremynck 2012). Numerous studies in the field of corporate governance confirm that the principal-principal conflict is particularly pronounced when there is low legal protection of shareholder rights, which is typical of transition economies (La Porta, Lopez-de-Silanes, Shleifer and Vishny 2000; Young et al. 2008; Renders and Gaeremynck 2012; Peng and Sauerwald 2013). Thus, our research topic is the analysis of ownership concentration as an internal mechanism to protect the interests of all shareholders.

Research on the interdependence of ownership concentration and protection of shareholders' interests attaches particular importance to the issue of the board's responsibility for strategic decision-making, as an important internal mechanism of corporate control. Scholars generally agree on the interdependence of internal mechanisms of corporate governance and strategic decision-making (Ravasi and Zattoni 2006; Ongore and K'Obonyo 2011; Sur, Lvina and Magnan 2013; Machold and Farguahar 2013; Yoshikawa, Zhu and Wang 2014). Nevertheless, partial, isolated studies of ownership concentration and the board of directors as internal

mechanisms of corporate control still dominate. Thus there is a research gap in the analysis of the factors that connect the different dimensions of ownership structure, the board of directors, and strategic decision-making.

Addressing this research gap, we examine the interdependence of corporate governance mechanisms and strategic decision-making. In fact, we test the impact of ownership concentration on protection of shareholder interests and the responsibility of the board for strategic decision-making. Since research in this problematic field is limited in transitional economies, particularly in Serbia (to the best of the authors' knowledge, no such research has yet been conducted) this pilot study fills the gap in the literature regarding the influence of internal mechanisms of corporate governance on strategic decision-making in the context of transitional economies.

The paper is organised as follows. We first present the key issue of ownership concentration as an internal mechanism of corporate governance and its impact on the protection of shareholder interests and agency problem-solving. The board's role as a complementary internal mechanism of corporate governance, especially as regards its involvement in strategy, is then analysed. Finally, we explore the causal relationships between the internal mechanisms of corporate governance and strategic decision-making through the conceptual model. Starting from the conceptual model, the pilot study tests the derived hypotheses and the obtained results are analysed.

2. OWNERSHIP CONCENTRATION AS AN INTERNAL MECHANISM OF CORPORATE GOVERNANCE

The assumed separation of ownership and control, introduced by Berle and Means (1933) and further developed by Jensen and Meckling (1976), has long been the main concept in the field of corporate governance research. The problem with ownership dispersion is the minority shareholders' lack of motivation and resources to supervise and control managers and influence decision-making. This concept underpins agency theory, postulating that widely dispersed corporate ownership leads to a situation where the conflicting goals of shareholders (principals) and managers (agents) become the primary source of conflict in corporate governance (Young, Peng, Ahlstrom and Bruton 2003). Agency theory deals with the study of relationships that occur as a result of delegating principals' decision-making rights to agents, and it presumes that the interests of principals and agents do not coincide (Babić, Nikolić and Erić 2011). The conflict of interest

leads to agency problems when agents conceal information and/or make decisions for their own benefit.

In developed economies, such as the United States and Great Britain, the institutional context allows for effective implementation of agency contracts which solve the traditional agency problem between principals and agents, i.e., dispersed owners (principals) and professional managers (agents). In the absence of appropriate incentives or sufficient monitoring, agents will be in a position to exercise their discretion, to the detriment of principals (Jensen and Meckling 1976). Owners wish to maximize profits, but their agents (managers) may have neither the interest nor the incentive to put this into practice. Thus, corporate performance relies on owners' ability to effectively monitor and control managers. Furthermore, ownership concentration becomes the key internal mechanism of corporate control. In line with these arguments, understanding the effects of ownership concentration on management behaviour and control is one of the main research avenues in economic theory. This leads to the need for research on the implications of ownership concentration for the protection of shareholders' interests.

2.1 Ownership concentration and protection of shareholder interests

Ownership concentration occurs when the majority owner/s owns a controlling block of shares, on the basis of which they can influence key strategic decision-making. In the absence of external mechanisms of corporate governance, ownership concentration is an alternative mechanism for resolving the agency problem and controlling managerial opportunism. As an internal mechanism of corporate control, a high level of ownership concentration enables effective supervision and control of managers (Thomsen and Pedersen 2000; Thomsen et al. 2006). Supervision motivation is high because the majority owner/s assume the total residual profits. Moreover, the power they assume based on voting rights forces managers to make decisions in the best interest of majority owners (Babić and Nikolić 2011). In fact, the majority shareholders are in a position to mitigate agency problems, given that their large equity holdings provide them with an incentive to collect information and monitor managers (Renders and Garemynck 2012, p.127). Accordingly, when the ownership structure is characterised by a high degree of concentration, the agency problem between managers and owners is alleviated (La Porta et al. 1999). Recent corporate governance studies show that this positive effect of ownership concentration can be justified by the efficient monitoring hypothesis, based on which higher concentration of ownership

provides large shareholders with stronger incentives and greater power to monitor managers at lower cost.

2.2 Ownership concentration and principal-principal conflict

Majority shareholders may exercise private benefits of control through expropriation of cash flow from increased share price. Furthermore, given their voting rights, majority shareholders gain other benefits through making decisions about the use of company resources, which leads to a conflict of interest between majority and minority shareholders (Shleifer and Vishny 1997; La Porta et al. 1999; Faccio, Lang and Young 2001; Young et al. 2008; Lin and Chuang 2012; Renders and Gaeremynck 2012). Ownership concentration mitigates the traditional principal-agent conflict but leads to principal-principal conflict, when the majority shareholders abuse ownership control in order to realise the private benefits of control at the expense of minority shareholders (Young et al. 2003; Young et al. 2008; Renders and Gaeremynck 2012; Peng and Sauerwald 2012; Peng and Sauerwald 2013). In fact, in terms of strong ownership concentration, the managers are often associated with the controlling shareholders who participate in the expropriation of minority shareholders' rights (La Porta et al. 1999; Claessens, Djankov and Lang 2000; Faccio and Lang 2002). The emergence of principal-principal conflict explains the limited success of interventions in solving the free rider problem and information asymmetry, because controlling shareholders often represent a greater threat to the expropriation of minority shareholders' interests than managers' ability to jeopardise their interests. This means that ownership concentration is a mechanism for controlling managers, which also leads to the expropriation of minority shareholders' interests (Peng et al. 2008; Young et al. 2008).

These two-way effects of ownership concentration indicate that ownership concentration has to be analysed in the context of legal and institutional characteristics (Babić and Nikolić 2016). In developed countries, characterised by a high degree of legal protection of owners' interests, shareholders are not forced to use ownership concentration as a mechanism of protection from managerial opportunism. However, in transition economies, ownership concentration leads to a conflict of interest between majority and minority shareholders. In this context, regulatory reforms concerning corporate governance in most transition economies should aim to protect the ownership rights of minority shareholders (Nikolić Babić and Erić 2013). In fact, implementation of developed countries' solutions, proposing an increase in ownership concentration in order to alleviate the conflict between owners and managers, can be wrong or even disastrous

in transition economies, which are characterised by a low level of protection of shareholders' rights and the potential risk of expropriation of minority shareholders (Arthurs Hoskisson, Busenitz and Johnson 2008; Lin and Chuang 2012). The greater the decision-making power of majority shareholders, the bigger the risk of expropriation of minority shareholders (Gutiérrez and Tribó 2004). However, "the possibility of expropriation has a non-linear effect, since beyond a certain level of ownership concentration, large shareholders bear the costs of their actions to a greater degree" (Thomsen and Pedersen 2001).

Although the findings presented above confirm that ownership concentration affects the level of protection of shareholders' interests, such a partial analysis as the isolated study of ownership concentration as one of the internal mechanisms of corporate control cannot fully consider their interdependence. The board's role ratifying and monitoring major strategic decisions made by dominant owners can play an important part in mitigating the agency problem (Huyghebaert and Wang 2012).

3. THE BOARD OF DIRECTORS AS A COMPLEMENTARY INTERNAL MECHANISM OF CORPORATE GOVERNANCE

Starting from the causes and consequences of the agency problem analysed above, seen from the standpoint of principal-agent and principal-principal conflict, one of the approaches to resolving the conflicts is an adequate manager compensation system, motivating managers to act in the interests of the owner. However, owners are often restrictively rational and insufficiently informed to be able to define an adequate manager compensation system. Therefore, boards of directors are introduced as an additional internal mechanism for controlling managers (Babić Nikolić and Erić 2011). The board is an internal governance mechanism, "which has the authority to perform ultimate control of agents, which means the right to ratify decisions and select, dismiss, and compensate managers who make decisions at the highest level" (Fama and Jensen 1983). The main role of the board is to monitor and control the managers in order to maximize the share value and protect shareholders' rights. Thus defined, the control role of the board is dominant in a dispersed ownership structure.

A dispersed ownership structure leads to managers being more dominant than company owners. This means that managers can put their own interests and objectives before maximizing shareholder profits. The separation of ownership and control leads to a dispersed ownership structure, in which the power of

shareholders is reduced. This relative weakness of shareholders to exercise control of managers leads to the need to strengthen the control role of the board (Hendry and Kiel 2004). The emergence of the agency problem is the basis for understanding the control role of the board, which includes control of decisions made by managers. The main board role is to reduce the divergence of interests between shareholders and managers, minimize agency costs, and protect shareholders' interests through decision-making aimed at creating value for shareholders or owners. In this way, reducing agency costs increases the value of the company (Shleifer and Vishny 1997). This means that the board represents a defence mechanism of shareholders against incompetent managers, leading to a reduction of agency problems at the principal-agent level. In addition to the board's primary responsibility of controlling managers, the board also has a strategic role, measured by its degree of involvement in strategic decision-making (McNulty and Pettigrew 1999). When analysing board involvement in the process of strategic decision-making, there are two research approaches or perspectives.

According to the passive perspective, the board of directors controls the ratification, evaluation, and implementation of strategic decisions, which represents a low level of involvement in the process (Daily, Dalton and Cannella 2003; Hendry and Kiel 2004). Mace (1971) argues that this concept may be theoretically clarified within the constraints of managerial hegemony theory, in which the board merely 'rubber-stamps' strategy decisions and strategy per se is solely the responsibility of top management (Pugliese et al. 2009; Babić et al. 2011). The board's strategic role is by and large reviewing and ratifying the strategy process, and boards are not actively involved in strategy formulation and implementation (Babić et al. 2011).

According to the active perspective, the board of directors has a high degree of strategic responsibility and is involved in all stages of strategic decision-making (McNulty and Pettigrew 1999; Carpenter and Westphal 2001; Babić et al. 2011). In this case, "boards are legally responsible for the strategy and they are in an excellent position to contribute to strategy" (Pugliese et al. 2009). Board members' managerial experience in other corporations makes them competent to make strategic decisions and increases the level of boards' involvement in the strategic decision-making process (Babić et al. 2011). Contrary to the passive perspective, this analysis of the board's strategic role assumes that both the board and top management are responsible for strategy formulation and implementation. Therefore, the active perspective advocates – and results of extensive empirical research confirm – that boards of directors are an important strategic mechanism of corporate governance (Ravasi and Zattoni 2006; Schmidt and Bauer 2006;

Pugliese et al. 2009). Researchers' different views as to whether the board plays an active or passive role depend on the evolution of the research in this area.

4. OVERVIEW OF RESEARCH ON BOARD INVOLVEMENT IN STRATEGIC DECISION-MAKING

Research on board involvement in the process of strategic decision-making has been through several stages (Table 1). Between 1980 and 2015 there were four research periods, which essentially differ by research subject, theoretical background, and findings on the degree of board involvement in the strategic decision-making process (active vs. passive perspective). The central theoretical perspectives used to examine strategic board role are agency, resource dependence, upper echelons, stewardship, social network, and institutional.

The first research period. From the late 1970s until the late 1980s, agency theory was the theoretical basis of research in the field of corporate governance. From the agency theory perspective, the board has the authority to control agents through ratification and monitoring during the decision-making process (Fama and Jensen 1983). At the same time, in the field of strategic management, in the context of a changing business environment, special attention was being paid to the choice of strategy. Research examined the need for an active role for the board in strategic decision-making. Although boards were seen as actors in the strategic decision-making process they were not expected to formulate strategy (Andrews 1981). The dominant view was that the board did not need to be actively involved in strategy formation because strategic development required the involvement of those actors that possessed relevant inside information about the company. This meant that external, independent board directors might adversely affect board involvement in solving strategic issues, and the dominant board role was the ratification of decisions (Fama and Jensen 1983; Zahra and Pearce 1989). The first research period were characterized by following features: lack of a single theoretical framework, researchers dealt with the issue of the desirability of strategic board involvement, and empirical research on the strategic role of the board was in its infancy.

The second research period. The early 1990s were marked by two important studies, whose findings prompted further research in this area. Zahra and Pearce (1989) pointed out the importance of understanding the relationship between board structure and board role. Baysinger and Hoskisson (1990) emphasized the importance of the relationship between the board and top managers, and its

implications for strategy. Similarly, Pettigrew and McNulty (1995) and Forbes and Milliken (1999) emphasized the importance of the board's strategic activities.

These findings, which relate to the service role of the board, are supported by the resource dependence theory. The resource dependence theory implies that the board has a service role in management's decision-making activities: co-opting external influences, realising contacts between board members and relevant individuals to ensure pivotal company resources, ceremonial activities, enhancing the company's reputation, and advising managers during the strategic decision-making process (Babić et al. 2011). These assumptions gave rise to multiple studies related to the analysis of the board structure and its impact on strategic outcomes such as acquisitions, corporate restructuring, and corporate entrepreneurship. In late 1990s, results of Forbes and Milliken's (1999) and McNulty and Pettigrew's (1995) research on the role of the board as a group in the process of strategy formulation pointed to the need for a deeper exploration of strategic board responsibilities. Thus, during the second research period, two research directions were developed. First refers to the study of assumptions of strategic board involvement, and second concerns the exploration of the relationship between the board and top managers, and their roles in the process of strategic decision-making.

The third research period. Based on the findings of Forbes and Milliken (1999) and McNulty and Pettigrew (1999), research on the strategic contribution of the board in this period was characterized by a cognitive and behavioural approach. The main objective was to explore and understand how the board participates in the strategic decision-making process using a multi-theoretical approach, relying on the 'upper echelon' theory and the stewardship model. The central idea of upper echelon theory has "two interconnected parts: (1) executives act on the basis of their personalized interpretations of the strategic situations they face, and (2) these personalized construals are a function of the executives' experiences, values, and personalities" (Hambrick 2007).

The stewardship model starts from the assumption that managers are good stewards of the corporation. The development of the stewardship model changes the perception of the board's role: the board's role is to support managers who act as good stewards (Babić et al. 2011). Based on these perspectives, Jensen and Zajac (2004) and Useem and Zelleke (2006) indicate that the board is continuously involved in the process of strategic decision-making through interaction with managers. Furthermore, Fiegener (2005) argues that the board's role is not limited to ratification and monitoring, pointing out the importance

of board involvement in all stages of the decision-making process. In fact, the board's control role requires its independence, as well as an active strategic role (in cooperation with the management) – which is why our research subject is the influence of board dynamics as a group on strategic issues, as well as the competencies of board members.

Thus, a competency is a combination of the knowledge, skills, personal characteristics, and behaviours needed to effectively perform a job. While competencies in general aspects of corporate governance and monitoring capabilities may be a necessary condition for being an effective director, they are not sufficient. In addition, the effective director must have specific competencies that contribute to or compensate for the lack of those competencies that the board must have to fulfil its strategic goals (Leblanc and Gillies 2005). The following board competency profile has been found to be useful for practical implementation. It consists of three basic types of competency, which are then entered into a board matrix. Personal/Interpersonal competencies describe those personal and interpersonal skills that individuals should exhibit when they come onto the board of directors. For example, being able to communicate well, be a team member, being honest, and so on. Governance competencies are the competencies applicable to all directors. Examples are thinking strategically, appreciating the difference between governance and management, understanding risk management, and so on. Specific competencies are of two kinds: technical skills which assist the organization with specific and ongoing aspects of organizational or governance business (such as accounting, marketing, human resources, law, information technology), and strategic competencies which are specialized competencies that relate to strategic decision-making (Babić 2015). Essentially, this implies that strategic board competencies lead to better strategic decisions. Based on the research in this period, we can draw several conclusions. There was increased interest in exploring the board's role in the process of strategic decision-making, while emphasizing the importance of board involvement in all stages of the decision-making process. Furthermore, group dynamics and competence of the board members determine board effectiveness in the process of strategic decision-making.

The fourth research period. Based on the perceived strategic importance of the board's role, the fourth research period is predominantly characterized by the need for detailed research into the factors that determine strategic board responsibilities and the quality of strategic decisions. In accordance with these findings, it is clear that the strategic board role cannot be viewed in isolation but must be viewed in the context of its interdependence with other corporate

governance mechanisms. Research on the interdependence of corporate governance mechanisms is based on the multi-theoretical approach, which partly relies on social network theory and institutional theory. Social network theorists recognize that corporate actions are embedded in social networks, and the patterns of connectedness and relationships affect the behaviour of the network actors – owners, managers, boards, and other stakeholders (Shropshire 2010).

Zattoni (2006) confirms this perceived interdependence and shows that ownership structure has a strong influence on board structure and its key role. Consequently, interdependence of the ownership structure and the board determines board involvement in the process of strategic decision-making. Recent studies have focused on a deeper analysis of the impact of not only concentration but also the owners' identity on the board's role (Sur, Lvina, and Magnan 2013; Machold and Farguahar 2013; Ararat, Aksu and Cetin 2015). In other words, ownership structure, seen through ownership concentration and owners' identity, affects the board structure and especially board involvement in the process of strategic decision-making.

As ownership concentration decreases and reaches a point at which no individual shareholder holds a majority of votes, decisions must satisfy the interests of all shareholders. In terms of ownership dispersion, all shareholders participate in the election of the board members who are to represent their interests. This means that if ownership is dispersed among different actors, where no shareholder controls the majority of votes, the board involvement in strategic decision-making increases, and the outcome of the strategic decision-making process largely depends on the interests represented by board members. In accordance with these views it can be concluded that the process of strategic decision-making is determined by ownership structure, which, through the mediating role of the board, affects strategic choices and company performance.

Table 1. Overview of research on strategic board role

	Time period I (1980-1989)	Time period II (1990-1999)	Time period III (2000-2009)	Time period IV (2010-present)
RESEARCH TOPIC	The basic research question is whether boards should be involved in the process of strategic decision-making	The basic research question refers to the analysis of determinants and consequences of strategic board responsibility	The basic research question is the board's role in the process of strategic decision-making	The basic research question is the analysis of strategic decision-making, depending on ownership structure
THEORETICAL BACKGROUND	Agency theory	Agency theory and resource dependence theory as a common framework for the study of the board's role	Multi-theoretical approach to the study of strategic board responsibility, which does not preclude the agency theory but combines it with other theoretical directions (upper echelons theory, stewardship theory)	Multi-theoretical approach to the study of strategic board responsibility, which includes social network and institutional theory.
DEFINITION OF BOARD INVOLVEMENT IN THE PROCESS OF STRATEGIC DECISION-MAKING	Board involvement in the process of strategic decision-making is insufficiently clearly defined or is not defined at all	Researchers try to define board involvement in the process of strategic decision-making, but mainly focus on strategic outcomes	Increased interest in investigating the board role in all stages of the strategic decision-making process, emphasizing the importance of strategic board role	Research of key stakeholders of the process of strategic decision-making based on ownership concentration and owners' identity

Source: Authors

Based on the evolution of research on board involvement in the strategic decision-making process, we can draw the following conclusions. Increased interest in exploring board involvement in the process of strategic decision-making partly contradicts the principles of agency theory. The obtained results and conclusions

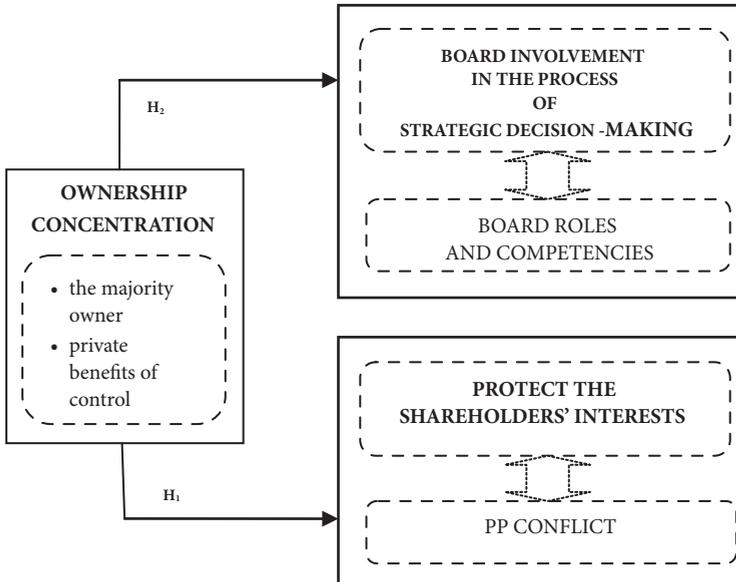
depend on the theoretical background, data source, conditions, and context in which the research is conducted. Researchers' different views on the issue of the board's role in the process of strategic decision-making are associated with the impact of ownership concentration on strategic decision-making. The study of the problem of the interdependence of ownership concentration and protection of owners' interests attaches particular importance to the issue of strategic board responsibility as a complementary internal mechanism of corporate control.

5. CAUSAL RELATIONSHIPS BETWEEN INTERNAL MECHANISMS OF CORPORATE GOVERNANCE AND STRATEGIC DECISION-MAKING

Although there is a growing body of literature addressing ownership structure, the board of directors, and strategic decision-making as separate research topics, there is limited research exploring their interdependence. Previous research suggests that ownership concentration leads to lower strategic board responsibility, i.e., a passive strategic role (Ravasi and Zattoni 2001, 2006). This means that strategic decisions are conditioned by the ownership structure, which determines the board's responsibility for strategy (Ongore and K'Obonyo 2011; Sur et al. 2013; Machold and Farguahar 2013; Yoshikawa et al. 2014; Ararat, Aksu and Cetin 2015; Melkumov, Breit and Khoreva 2015).

In this context, it is important to focus research on the analysis of the different dimensions of ownership structure, the board of directors, and strategic decision-making. The most important dimension of ownership structure that determines strategic decision-making is ownership concentration. Following this argument, analysis of the interdependence between internal mechanisms of corporate governance and the strategic decision-making process is a response to the identified research gap. Their relationship is presented in Figure 1. This conceptual model enables us to establish hypotheses about the causal relationships between ownership concentration, shareholder protection, and board responsibility for strategy.

Figure 1. Conceptual model



Source: Authors

In accordance with the assumption that in conditions of a market with underdeveloped corporate control the role of majority owners is to actively control managers, the first hypothesis is set to examine the interdependence between the protection of shareholder interests and ownership concentration. In addition to the benefits that arise as a result of increased supervision and control of managers, the basic shortcoming of ownership concentration is reflected in the expropriation of minority shareholders' rights. Relying on theoretical assumptions and the results of empirical studies pointing to the importance of ownership concentration as a mechanism to protect shareholder interests (Shleifer and Vishny 1986; La Porta et al. 1999; Thomsen and Pedersen 2000; Thomsen et al. 2006; Arthurs et al. 2008; Crepci and Renneboog 2010; Peng and Sauerwald 2013), according to which the basic shortcoming is the principal-principal conflict between majority and minority shareholders (Young et al. 2003; Arthurs et al. 2008; Young et al. 2008; Renders and Gaeremynck 2012; Peng and Sauerwald 2013), we state the hypothesis:

H1. Ownership concentration protects shareholders' interests and leads to principal-principal conflict.

Previous research results confirming the assumption that the process of strategic decision-making is dependent on ownership structure (Ravasi and Zattoni 2001; 2006; Ongore and K'Obonyo 2011, Sur et al. 2013; Machold and Farguhar 2013; Yoshikawa et al. 2014; Ararat et al. 2015; Melkumov et al. 2015) indicate the need for a deeper examination of the strategic role of the board. The arguments presented above indicate that, in terms of ownership concentration, the basic role of the board of directors is to protect the interests of majority owners and to ratify and control strategic decisions.

As ownership concentration decreases and reaches the point where no individual shareholder holds a majority of votes, the decisions made must satisfy the interests of all shareholders. In terms of ownership dispersion, all shareholders participate in the election of board members who are to represent their interests. Boards have a large number of members, and meet more often and have more power than managers. This means that if ownership is dispersed among different actors and no shareholder has a majority vote, board involvement in strategic decision-making increases and the outcome of strategic decision-making largely depends on the interests represented by board members (Ravasi and Zattoni 2001; 2006). Thus, in order to examine the impact of ownership concentration on board involvement in the process of strategic decision-making, we propose the hypothesis:

H2. Ownership concentration leads to a lower level of board involvement in strategic decision-making.

6. RESEARCH METHODOLOGY

6.1. The sample

In order to collect primary data, a total of 151 questionnaires were sent to board members and top managers in 23 companies. Of these, 43 were completed in 10 companies that agreed to participate in the research (a response rate of 28.4%). Two questionnaires were regarded as invalid, because they were only partly completed. A total of 41 valid questionnaires were collected. Our overview of the literature found that response rates in studies of the role of company boards are very low because of the sensitive nature of the questions asked and the necessity to obtain approval from executive directors (Ravasi and Zattoni 2006; Bailey and Peck 2013; Machold and Farguhar 2013; Melkumov, Breit and Khoreva 2015). The number of respondents was significantly lower than in studies where the

respondents are employees since the questionnaires were completed only by board members and top managers.

In order to achieve sample diversity and ensure comparability of collected data the sample included companies in various industries. No industry comprised more than 20% of the sample, so no industry dominated. 97.6% of the sample consisted of companies with concentrated ownership of various levels, i.e., number of shares owned by the majority shareholder/s. The structure of the sample according to respondents' position in the company shows that general directors (i.e., top managers) comprised the largest number of respondents and that 9.3% of respondents were presidents of the board of directors (i.e., the chairman). The percentage share of executive board members, i.e., executive directors, (18.6%) was higher than the percentage share of non-executive and non-executive independent board members, i.e., non-executive directors (14%), which was expected, given that executive members dominate the board.

6.2. Data collection and measures

Questionnaires used in empirical research on the role of boards and key factors of their effectiveness (Zona and Zattoni 2007; Van Ees et al. 2008; Ong and Wan 2008; Minichilli, Zattoni, and Zona 2009; Machold and Farguahar 2013), and on the interdependence of ownership structure and role of the board (Ravasi and Zattoni 2001; Ravasi and Zattoni 2006; Ongore and K'Obonyo 2011; Sur et al. 2013) were the starting point for the questionnaire design. Significant modifications were made according to the defined research framework and research hypotheses. The questionnaire comprised closed-type questions in order to avoid problems in the data systematisation and analysis.

The questionnaires were distributed with a cover letter explaining the purpose and significance of the research, in order to motivate respondents to participate. Respondents completed the questionnaire anonymously. The questionnaire contained general questions about the respondent (position, age, years of service, work experience, professional knowledge, etc.) and about the board of directors and company (size of the board, number of independent members, leadership structure, ownership structure).

Other questions were designed to measure the impact of ownership concentration not only on the board's responsibility for strategy but also on the relationship between owners, managers, and board members, so that the interdependence of ownership concentration and the board of directors could be analysed, as basic

internal mechanisms of corporate control that determine the level of protection of shareholder interests. Respondents answered questions based on their assessment of the extent to which they agreed with a given statement, using a Likert scale of 1 to 5, where 1 = completely disagree, 2 = partially disagree, 3 = not sure, 4 = partially agree, and 5 = completely agree. Reliability of the scale was analysed using Cronbach's Alpha coefficient (0.864).

The level of ownership concentration is an independent variable, measured by the share of the majority shareholder/s. The dependent variables are: protection of shareholder interests, measured according to the level of respondents' agreement with the statement, *The board members make decisions in accordance with the interests of all owners*; conflict of owners' interests, measured according to the level of respondents' agreement with the statement, *Board members make decisions solely in accordance with the interests of the majority shareholder*; and the degree of board involvement in the process of strategic decision-making (i.e., a passive or active role in strategic decision-making), measured according to the level of respondents' agreement with the statements, *The board of directors only controls and evaluates strategic decisions*; *The board of directors is involved in the process of strategic decision-making*; *The board of directors has a key role in the process of strategic decision-making*; *The board of directors controls the implementation of strategic decisions*.

7. RESULTS AND DISCUSSION

After analysis of the sample structure according to the selected characteristics, the results of the descriptive statistics were presented and interpreted. Descriptive statistical analysis, describing the measures of arithmetic mean and standard deviation, is elaborated in the following section. The respondents were asked to indicate the extent to which they agreed or disagreed with a number of statements about board responsibilities and the relationship between owners, board, and top managers (Table 2).

Within the identified dimensions for measuring board responsibilities, there was most agreement with the following statements: *The board controls the general director* and *The board supervises and controls managers*, indicating that respondents believe that the control role is the most important. Interestingly, the respondents believe that a *High degree of board control over managers has a positive influence on the financial success of the company*, which means that the indirect consequences of effective control are reflected in the financial performance of the

company. Regarding the strategic role of the board, there was most agreement with the statement, *The board has a key role in strategic decision-making*, and the least agreement with the statement, *The board controls and evaluates strategic decisions*. Thus respondents believe that the board should actively engage in strategic decision-making, not just control and ratify it (Table 2).

Table 2. Board responsibilities: mean and standard deviation

STATEMENTS	Mean	Standard deviation
<i>The board controls the general director</i>	4.72	.453
<i>The board supervises and controls managers</i>	4.41	.698
<i>High degree of board control over managers has a positive influence on the financial success of the company</i>	4.30	.708
<i>The board has a key role in strategic decision-making</i>	4.23	.840
<i>The board controls strategic decision implementation</i>	4.02	1.184
<i>The board is involved in strategic decision-making</i>	4.02	1.164
<i>The board of directors only controls and evaluates strategic decisions</i>	2.69	1.22

Source: Authors' survey data

Results of descriptive statistics concerning the relationship between owners, board, and top managers show that respondents strongly agree with the statements *There is a high degree of mutual trust between the board members and top managers* and *There is a clear division of responsibility between board members and top managers*. There was also a high degree of agreement with the statement *The board members make decisions solely in accordance with the majority shareholder interests*. The respondents agree least with following statements *The board members make decisions in accordance with the interests of all owners* and *There is a high degree of mutual trust between owners and top managers* (Table 3).

These results must be interpreted in light of country-specific differences in governance and ownership structure. The results of the descriptive statistics should be interpreted according to the level of ownership concentration, because the sample consists predominantly of companies with a high level of ownership concentration. The results show that respondents agree most with the statement, *The board members make decisions solely in accordance with the interests of the majority shareholder*, and agree least with the statement, *The board members make decisions in accordance with the interests of all owners* (Table 3). These results are consistent with the theoretical assumption that high ownership concentration

alleviates conflict of interests between owners and managers, causes conflict of interests between majority and minority shareholders, and leads to the expropriation of minority shareholders' interests.

Table 3. The relationship between owners, board, and top managers: mean and standard deviation

STATEMENTS	Mean	Standard deviation
<i>There is a high degree of mutual trust between board members and top managers</i>	4.26	.989
<i>There is a clear division of responsibility between board members and top managers</i>	4.20	.832
<i>The board members make decisions solely in accordance with the interests of the majority shareholder</i>	3.97	1.136
<i>There is a high degree of mutual trust between owners and top managers</i>	3.29	.808
<i>The board members make decisions in accordance with the interests of all owners</i>	3.26	1.210

Source: Authors' survey data

After the descriptive statistics, normality of distribution was analysed using Kolmogorov-Smirnov and Shapiro-Wilk tests. Since the data is not normally distributed we use statistical non-parametric techniques for testing the hypothesis, suitable for a small sample. Kruskal Wallis analysis, based on testing statistically significant differences between subsamples, is used to determine whether the protection of shareholders' interests depends on the level of ownership concentration.

Testing hypothesis H1 should show whether there are statistically significant differences in the protection of shareholders' interests. The Kruskal Wallis test is applied to test H1, as a suitable non-parametric technique for testing the impact of a discontinuous variable with more than two modalities (level of ownership concentration) on a continuous variable (protection of shareholders' interests). The significance of this test ($p=0.021$) is below the limit value ($p<0.05$), which means that there is a statistically significant difference (Table 4). The results show that the protection of shareholders' interests depends on the level of ownership concentration. When the ownership structure is highly concentrated (fraction of shares owned by majority shareholder is over 90%), the respondents largely agree

with the statement, *The board members make decisions in accordance with the interests of all owners.*

Table 4. Ownership concentration as a determinant of the protection of shareholders’ interests – results of Kruskal Wallis test

STATEMENT	OWNERSHIP CONCENTRATION	N	Mean Rank
<i>The board members make decisions in accordance with the interests of all owners</i>	Fraction of shares owned by majority shareholder is over 90%	15	24.97
	Fraction of shares owned by majority shareholder is between 71-90%	8	10.50
	Fraction of shares owned by majority shareholder is between 51-70%	17	19.79
	Total	40	
<i>Kruskal Wallis test</i>	<i>The board members make decisions in accordance with the interests of all owners</i>		
Chi-Square	9.782		
df	3		
p	.021		

Source: Authors’ survey data

Given that there is a generally accepted view in the theory that the basic shortcoming of ownership concentration is insufficient protection of all owners’ interests, especially those of minority shareholders (Shleifer and Vishny 1997; Faccio et al. 2001; La Porta et al. 2000; Lin and Chuang 2012), at first glance the results seem contradictory. However, a more detailed analysis of the sample structure according to level of ownership concentration shows that it is dominated by companies with extremely high ownership concentration. Thus the answer to this question actually shows the protection of majority shareholder interests. This means that an extremely high ownership concentration is a mechanism to protect the majority shareholders’ interests. Analysis of the other two ownership categories shows that more respondents from companies with a less concentrated ownership structure agree with the given statement than respondents from companies with a higher level of ownership concentration. In fact, at a lower level of ownership concentration the interests of all owners are taken into account, as compared to the high level of ownership concentration which functions as a strong internal mechanism to protect the interests of the majority shareholder. Since the results point to the conclusion that high ownership concentration favours the interests of majority shareholders, the question is whether this leads

to a conflict of interest between majority and minority shareholders, who are not in an equal position. In order to answer this question, Kruskal Wallis analysis, as a relevant non-parametric technique, is applied (Table 5).

Table 5. Ownership concentration as a determinant of principal-principal conflict - results of Kruskal Wallis test

STATEMENT	OWNERSHIP CONCENTRATION	N	Mean Rank
<i>Board members make decisions solely in accordance with the interests of majority shareholder</i>	Fraction of shares owned by majority shareholder is over 90%	15	21.97
	Fraction of shares owned by majority shareholder is between 71-90%	8	22.71
	Fraction of shares owned by majority shareholder is between 51-70%	17	19.38
	Total	40	
Kruskal Wallis test	<i>Board members make decisions solely in accordance with the interests of the majority shareholder</i>		
Chi-Square	3.521		
df	3		
p	.318		

Source: Authors' survey data

Given that the test significance ($p=0.318$) is above the limit value ($p<0.05$), it can be concluded that all respondents agree to a relatively equal extent with the statement, *The board members make decisions solely in accordance with the interests of the majority shareholder*, even though they belong to different ownership categories. Thus, Kruskal Wallis analysis shows that there is no statistically significant difference between the subsamples of ownership category, as defined by level of concentration. However, in this particular case this does not mean that ownership concentration does not affect the conflict of interest between majority and minority shareholders, because the results need to be interpreted according to the sample structure. Given that the sample consists of companies with concentrated ownership, which differ in level of ownership concentration, the view that ownership concentration does not affect conflict of interest should not be generalised. In fact, it can be concluded that ownership concentration leads to a conflict of interest between majority and minority shareholders, as most respondents agree with the above statement ($M=3.97$; Table 3), but that there is no difference between moderate and high ownership concentration. Therefore, in accordance with the results obtained and the previous discussion

about ownership concentration as a strong internal mechanism to protect the interests of the majority shareholder, it can be concluded that hypothesis H1 is partially confirmed.

Starting from the assumption that the issue of an active or passive strategic board role is related to ownership concentration, hypothesis H2 is formulated in order to examine the difference in the degree of board involvement in the process of strategic decision-making based on ownership concentration. Kruskal Wallis analysis, as a relevant non-parametric technique, is used for testing the hypothesis (Table 6). The results show that there is a statistically significant difference ($p=0.002$) in responses to the statement referring to control of the implementation of strategic decisions. Respondents in companies characterised by low ownership concentration (fraction of shares owned by majority shareholder is between 51-70%) agree the most with this statement, compared to respondents in companies characterised by high ownership concentration (fraction of shares owned by majority shareholder is 71%-90%) or extremely high ownership concentration (fraction of shares owned by majority shareholder is over 90%).

The results indicate that higher ownership concentration increases the significance of the control of implementation of strategic decisions. Thus an increase in ownership concentration affects the strength of the board role only in controlling the implementation of decisions. However, given that all of these subsamples represent a concentrated ownership, with a different fraction of shares owned by the majority shareholder, it can be confirmed that the respondents believe that the most important board role is the control of the implementation of strategic decisions. This means that the board role vis-à-vis strategy is passive, and, in terms of ownership concentration, board responsibility for strategy is low. The interpreted results confirm hypothesis H2.

Table 6. The role of the board in strategic decision-making - results of Kruskal Wallis test

STATEMENTS	OWNERSHIP CONCENTRATION	N	Mean Rank
<i>The board of directors only controls and evaluates strategic decisions</i>	Fraction of shares owned by majority shareholder is over 90%	15	21.87
	Fraction of shares owned by majority shareholder is between 71-90%	8	22.38
	Fraction of shares owned by majority shareholder is between 51-70%	17	18.41
	Total	40	
<i>The board of directors is involved in the process of strategic decision-making</i>	Fraction of shares owned by majority shareholder is over 90%	15	23.90
	Fraction of shares owned by majority shareholder is between 71-90%	8	14.13
	Fraction of shares owned by majority shareholder is between 51-70%	17	20.50
	Total	40	
<i>The board of directors has a key role in the process of strategic decision-making</i>	Fraction of shares owned by majority shareholder is over 90%	15	21.53
	Fraction of shares owned by majority shareholder is between 71-90%	8	16.56
	Fraction of shares owned by majority shareholder is between 51-70%	17	21.44
	Total	40	
<i>The board of directors controls the implementation of strategic decisions</i>	Fraction of shares owned by majority shareholder is over 90%	15	8.75
	Fraction of shares owned by majority shareholder is between 71-90%	8	21.63
	Fraction of shares owned by majority shareholder is between 51-70%	17	25.03
	Total	40	

Kruskal Wallis Test

STATEMENTS	Chi-Square	df	P
<i>The board of directors only controls and evaluates strategic decisions</i>	1.060	2	.589
<i>The board of directors is involved in the process of strategic decision-making</i>	4.264	2	.119
<i>The board of directors has a key role in the process of strategic decision-making</i>	1.309	2	.520
<i>The board of directors controls the implementation of strategic decisions</i>	12.240	2	.002

Source: Authors

8. LIMITATIONS

The conducted research has certain limitations, as well as significant theoretical and practical implications. From the standpoint of sample structure, some potential respondents (i.e., board members and managers) declined taking part in the research. Therefore the sample was defined by the readiness of companies and the motivation of board members and managers to become involved. Given that the sample covered companies from different sectors and of different sizes, it is not possible to draw conclusions regarding individual industries or company size.

From the standpoint of the sample size, the limitation is the small number of respondents. Because the sample size is small there are certain restrictions with regard to the generalizability of the results. Because of problems convincing respondents to take part in the research, it cannot be said that a robust sample was analysed. Low response rate was a big barrier to carrying out more extensive and comprehensive empirical research. Research on boards of directors often has a low response rate since board members are busy professionals, and have private information that cannot be revealed outside the company. The final response rate is often lower than 20%. However, given that board members and managers are much less numerous than the employees that are most frequently interviewed in research, the number of respondents was relatively satisfactory. It exceeded the minimum threshold of 30 respondents, required as a condition of statistical data processing for this pilot study. In order to validate the results a follow-up study

with a bigger sample is needed, but the research questions and results are a solid starting point for further, methodologically more complex research.

A further limitation was using a questionnaire to collect data. The questionnaire was sent to each respondent usually without direct contact, and without observing respondents and conducting interviews. Nevertheless, despite the shortcomings of this research technique, it was the only method available as no secondary data sources exist that can be used for this type of data collection. Similar studies in other countries were all conducted using a questionnaire (Zona and Zattoni 2007; Van Ees et al. 2008; Van Ees et al. 2009; Minichilli et al. 2009; Huse, Hoskinsson, Zattoni and Vigano 2011).

9. CONCLUSIONS AND FUTURE RESEARCH

Given that corporate control mechanisms are insufficiently developed in Serbia, and that research in this area is rare, original empirical research results have significant practical implications for the improvement of corporate governance in Serbia. First, the results indicate that the protection of shareholders' interests depends on the ownership structure. Furthermore, high ownership concentration is an important mechanism to protect majority shareholders' interests, which corresponds to results of empirical research conducted in other countries. Second, it was confirmed that ownership concentration leads to a conflict of interest between majority and minority shareholders. However, further exploration is needed to determine whether there is a difference between moderate and high ownership concentration. The results of our pilot study indicate that ownership concentration is an important mechanism to control managers and protect majority shareholder interests from managerial opportunism, but that it leads to the problem of expropriation of minority shareholder rights. These findings are significant because they show the need to improve the position of minority shareholders and protect their rights through improved legislation and the development of market institutions.

Our findings confirm the interdependence of ownership concentration and passive strategic board role. Our results shed new light on the relationship between ownership concentration and strategic-decision making by showing that higher ownership concentration decreases the significance of an active strategic role of the board. The findings are a useful framework for improving corporate governance through better understanding of the interdependence of corporate governance mechanisms and the strategic decision-making process.

Nevertheless, the presented results point to the need for more comprehensive research that encompasses not only ownership concentration but also analysis of the identities of the owners, a neglected dimension of ownership structure. Future research could examine how the characteristics and different interests of the majority owner influence the strategic decision-making process. Ownership concentration and the heterogeneity of owners' interests, as key dimensions of the ownership structure, affect the board role and, consequently, strategic decision-making.

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