Table of contents

| | | page |
|-------|---|------|
| | List of figures | viii |
| | List of tables | ix |
| | List of abbreviations | хi |
| 1 | Introduction | 1 |
| 1.1 | Problem definition | 1 |
| 1.2 | Objectives of this dissertation | 3 |
| 1.3 | Relevance of this research | 4 |
| 1.4 | Structure of the thesis | 5 |
| 2 | The role of boards in corporate governance | 8 |
| 2.1 | What is corporate governance? | 8 |
| 2.2 | Theoretical perspectives in corporate governance research | 11 |
| 2.2.1 | Agency theory | 11 |
| 2.2.2 | Transaction cost theory | 14 |
| 2.2.3 | Managerialism | 14 |
| 2.2.4 | Stewardship theory | 15 |
| 2.2.5 | Upper echelon or strategic leadership perspective | 16 |
| 2.2.6 | Resource dependency and new institutionalism | 17 |
| 2.2.7 | Class hegemony | 18 |
| 2.2.8 | Conclusions: What is good corporate governance? | 18 |
| 2.3 | Different corporate governance mechanisms | 21 |
| 2.3.1 | An organisation framework of corporate governance | 21 |
| 2.3.2 | Active shareholders | 22 |
| 2.3.3 | Markets for corporate control | 24 |
| 2.3.4 | Large creditors | 25 |
| 2.3.5 | Executive labour markets | 27 |
| 2.3.6 | Competitive product markets | 27 |
| 2.3.7 | Conclusions: The effectiveness of external control mechanisms | 27 |
| 2.4 | The board of directors | 28 |
| 2.4.1 | The board of directors as a governance mechanism | 28 |
| | 2.4.1.1 The roles of the board of directors | 28 |
| | 2.4.1.2 A model of research on boards of directors | 30 |

| | | page |
|-------|---|----------|
| 2.4.2 | Board composition | 32 |
| | 2.4.2.1 Board size | 32 |
| | 2.4.2.2 Board heterogeneity | 34 |
| | 2.4.2.3 Board independence | 37 |
| | 2.4.2.4 Board leadership structure | 42 |
| | 2.4.2.5 The summarised impact of board composition | 44 |
| 2.4.3 | Decision-making processes of boards | 45 |
| | 2.4.3.1 Board power | 45 |
| | 2.4.3.2 Group processes | 48 |
| 2.4.4 | Board actions and behaviour | 50 |
| | 2.4.4.1 Formal performance assessment | 50 |
| | 2.4.4.2 Dismissals and succession processes | 52 |
| | 2.4.4.3 Executive and director remuneration | 54 |
| | 2.4.4.4 Board committee structure | 58 |
| | 2.4.4.5 Board information | 59 |
| | 2.4.4.6 Board involvement in strategic decision-making | 60 |
| 2.4.5 | Conclusions on board effectiveness | 62 |
| 3 | Interlocking directorships: Do they matter? | |
| 3.1 | What is an interlocking directorship? | 64 |
| | matte an interiording directorship? | 64 |
| 3.2 | Different kinds of interlocking directorships | 65 |
| 3.2.1 | Dimensions to characterise different kinds of interlocks | 65 |
| 3.2.2 | Directionality | 66 |
| 3.2.3 | Strength | 67 |
| 3.2.4 | Inter-organisational relationships | 68 |
| 3.3 | What are the determinants of interlocking directorships? | 70 |
| 3.3.1 | The social power perspective | 70 |
| 3.3.2 | The company perspective | 70 |
| | 3.3.2.1 Interlocks in general | 71 |
| | 3.3.2.2 Horizontal interlocks: collusion | 72 |
| | 3.3.2.3 Vertical interlocks: cooptation and transaction costs | 73 |
| | 3.3.2.4 Bank interlocks: monitoring and cooptation | 75 75 |
| | 3.3.2.5 Ownership ties: control | |
| | 3.3.2.6 Neutral ties: information and communication | 76 76 |
| | 3.3.2.7 Sent ties: management development | |
| 3.3.3 | The individual perspective | 77 78 |
| 3.3.4 | Reconstitution of broken interlock ties | /8 70 |
| | | |

| | | page |
|-------|---|------|
| 3.4 | What are the impacts of interlocking directorships? | 80 |
| 3.4.1 | The societal perspective | 80 |
| 3.4.2 | Impacts on corporate and board behaviour | 81 |
| | 3.4.2.1 Inter-organisational ties and corporate behaviour | 81 |
| | 3.4.2.2 Interlocking directorships and corporate takeovers | 83 |
| | 3.4.2.3 Interlocks and executive remuneration | 85 |
| | 3.4.2.4 Interlock ties and administrative innovations | 86 |
| | 3.4.2.5 Interlock ties and corporate strategy | 89 |
| 3.4.3 | Interlocking directorship and corporate performance | 90 |
| 3.5 | Conclusions | 90 |
| 4 | The Swiss corporate governance system | 92 |
| 4.1 | International comparison of corporate governance systems | 92 |
| 4.1.1 | Market- versus network-oriented systems of corporate governance | 92 |
| 4.1.2 | One-tier versus two-tier board systems | 95 |
| 4.1.3 | International corporate governance principles | 96 |
| 4.1.4 | Convergence of national corporate governance systems | 97 |
| 4.2 | Corporate governance in Switzerland | 98 |
| 4.2.1 | The Swiss market for corporate control | 98 |
| 4.2.2 | The role of Swiss banks | 100 |
| 4.2.3 | Swiss corporate law | 101 |
| | 4.2.3.1 The joint stock company ('Aktiengesellschaft') | 101 |
| | 4.2.3.2 Shareholder rights in Switzerland | 102 |
| 4.3 | The role of the board (Verwaltungsrat) in Switzerland | 105 |
| 4.3.1 | Discretion in designing internal governance structures | 105 |
| 4.3.2 | Legal responsibilities of the board | 106 |
| 4.3.3 | Legal rights of directors | 109 |
| 4.3.4 | Legal restrictions to the composition of the board | 110 |
| 4.3.5 | Interlocking directorships in Switzerland | 110 |
| 4.4 | Current reforms in Swiss corporate governance | 111 |
| 4.4.1 | Recent corporate crisis in Switzerland: an overview | 111 |
| 4.4.2 | The international critique on Swiss corporate governance | 114 |
| 4.4.3 | Current developments and reforms | 115 |
| 45 | Conclusions | 116 |

| | | page |
|-----------------|--|-------------------|
| 5 | Conceptual framework and hypotheses | 118 |
| 5.1 | Gaps in the literature | 118 |
| 5.2 | Research questions | 119 |
| 5.3 | Research framework | 120 |
| 5.4 | Development of hypotheses | 122 |
| 5.4.1 | Hypotheses on the determinants of board composition | 122 |
| 5.4.2 | Hypothesised impacts of board composition on performance | 123 |
| 5.4.3 | Hypothesised determinants of board behaviour | 123 |
| | 5.4.3.1 Hypothesised determinants of board monitoring | 124 |
| | 5.4.3.2 Hypothesised determinants of board strategic involvement | |
| 6 6.1 | Research methodology Sample | 129 129 |
| 6.2 | Data collection | |
| 6.2.1 | Archival data | 129 |
| 6.2.2 | Survey data | 129 |
| | -, | 130 |
| 6.3 | Construction of variables | 400 |
| 6.3.1 | Company factors | 132 |
| 6.3.2 | Roard composition | 132 |
| 6.3.3 | Interlocking directorships | 134 134 |
| 6.3.4 | Comorate performance and trans- | 134 136 |
| 6.3.5 | Board behaviour | 137 |
| | | 13/ |
| 6.4 | Data analysis | 140 |
| 6.4.1 | Regression analysis | 140 |
| 6.4.2 | Logit regression | 142 |
| 6.4.3 | Poisson regression | 144 |

| | | page |
|-------|---|-------------------|
| 7 | Descriptive empirical results: Governance in listed | |
| | Swiss companies | 145 |
| 7.1 | Ownership structure | 145 |
| 7.2 | Board composition | 148 |
| 7.3 | Interlocking directorships among listed Swiss companies | 149 |
| 7.3.1 | The network of interlocking directorates | 149 |
| 7.3.2 | Directionality of interlocking directorships | 152 |
| 7.3.3 | Business relatedness of interlocking directorships | 154 |
| 7.4 | Transparency | 157 |
| 7.5 | Board behaviour | 158 |
| 7.5.1 | Board functions | 158 |
| 7.5.2 | Board monitoring | 159 |
| 7.5.3 | Board information | 161 |
| 7.5.4 | Board strategic involvement | 162 |
| 8 | Empirical regults II: Determinants and performance impa | cte |
| 0 | Empirical results II: Determinants and performance impacts of board composition | |
| 8.1 | Determinants of interlock centrality | 164 165 |
| 8.1.1 | Results | 165 |
| 8.1.2 | Discussion | 167 |
| 0.1.2 | Discussion | 107 |
| 8.2 | Determinants of different kinds of interlocks | 170 |
| 8.2.1 | Directionality of interlocking directorships | 170 |
| | 8.2.1.1 Results | 170 |
| | 8.2.1.2 Discussion | 175 |
| 8.2.2 | Business relatedness of interlocking directorships | 178 |
| | 8.2.2.1 Results | 178 |
| | 8.2.2.2 Discussion | 185 |
| 8.3 | Determinants of other factors of board composition | 187 |
| 84 | Conclusions on the determinants of board composition | 188 |

| p | а | g | е | ٧ |
|---|---|---|---|---|
| | | | | |

| | | page |
|---------|---|------------|
| 8.5 | Performance impacts of board composition | 400 |
| 8.5.1 | Results | 190 |
| 8.5.2 | Discussion | 190 |
| | | 194 |
| 8.6 | Board composition and transparency | 40- |
| 8.6.1 | Results on the disclosure of board remuneration | 197 |
| 8.6.2 | Discussion on the disclosure of board remuneration | 198 |
| | of board remuleration | n 202 |
| 9 | Empirical results III: The impact of board compo | osition on |
| 9.1 | | 204 |
| 9.1.1 | Board composition and board monitoring Independent audit committee | 204 |
| J. 1. 1 | 9.1.1.1 Results | 205 |
| | 9.1.1.2 Discussion | 205 |
| 9.1.2 | Board committees in general | 207 |
| 9.1.3 | Remuneration incentives | 210 |
| | 9.1.3.1 Results | 211 |
| | 9.1.3.2 Discussion | 211 |
| 9.1.4 | | 215 |
| | The determinants of board monitoring in general 9.1.4.1 Results | 218 |
| | 9.1.4.2 Discussion | 218 |
| | Discussion | 221 |
| 9.2 | Board composition and board information | |
| 9.2.1 | Results | 225 |
| 9.2.2 | Discussion | 225 |
| | | 227 |
| 9.3 | Board composition and board strategic involvement | |
| 9.3.1 | Results Results | 231 |
| 9.3.2 | Discussion | 231 |
| | | 234 |
| 9.4 | Summary on board composition and board behavious | r 238 |

| | | page vii |
|------|------------------------------------|----------|
| | | page |
| 10 | Conclusions | 241 |
| 10.1 | Summary of empirical findings | 241 |
| 10.2 | Limitations of the empirical study | 250 |

252

252

255

257

263

AppendicesAppendix 1: Overview of empirical studies

Implications of this study

Implications for academic research

Implications for corporate governance in Switzerland

Advice to companies, their boards and their shareholders

10.3

10.3.1

10.3.2

10.3.3

| Appendix 2: | Survey | 288 |
|-------------|---|-----|
| Appendix 3: | List of variables | 295 |
| Appendix 4: | Descriptive empirical results | 298 |
| Appendix 5: | Additional results on the determinants and on the | |
| | performance impacts of board composition | 311 |
| Appendix 6: | Additional results on the determinants of board | |
| | behaviour | 323 |

Bibliography 333

List of figures

| | | page |
|-----------|---|------|
| Figure 1 | Structure of thesis and research process | 5 |
| Figure 2 | Corporate governance as a set of relationships | 10 |
| Figure 3 | Agency relationship and corporate governance | 11 |
| Figure 4 | An organisation framework of corporate governance | |
| Figure 5 | Options for involvement of owners | 21 |
| Figure 6 | Three overlapping and interrelated board roles | 23 |
| Figure 7 | A model of research on boards of directors | 28 |
| Figure 8 | A simplified model of the impact of team heterogeneity | 31 |
| Figure 9 | The effects of outsider dominated boards | 36 |
| Figure 10 | | 41 |
| Figure 11 | The tripartite analysis of power and influence A model of CEO dismissal | 45 |
| Figure 12 | | 53 |
| • | What is an interlocking directorship? | 64 |
| Figure 13 | The distinction of one-tier and two-tier board models | 96 |
| Figure 14 | Simplified board models in Switzerland | 105 |
| Figure 15 | Research framework | 120 |
| Figure 16 | Ownership concentration in sample companies | 146 |
| Figure 17 | Interlock intensity of sample companies | 150 |
| Figure 18 | Directionality of interlocks in sample companies | 152 |
| Figure 19 | Empirically analysed set of governance relationships | 241 |

List of tables

| | | page |
|---------------------|--|------|
| Table 1 | Overview of theoretical perspectives | 19 |
| Table 2 | Balance of factors in board composition | 44 |
| Tab le 3 | Differentiating several kinds of interlocking directorships | 65 |
| Table 4 | Three forms of organisation-market interfaces | 74 |
| Table 5 | Proposed effects of inter-organisational relationships | 82 |
| Table 6 | Effects of structural network positions | 87 |
| Table 7 | Market- versus network-oriented governance systems | 93 |
| Table 8 | Swiss ownership structure compared to other countries | 99 |
| Table 9 | Recent corporate crises in Switzerland: an overview | 111 |
| Table 10 | International critique on Swiss corporate governance | 114 |
| Table 11 | Representativeness of survey respondents | 131 |
| Table 12 | Shareholder participation in a firm's leadership structure | 146 |
| Table 13 | Who owns larger stakes in Swiss companies? | 147 |
| Table 14 | Most interlocked Swiss companies | 151 |
| Table 15 | Chairmen's evaluation of sent interlocking directorships | 154 |
| Table 16 | Business relatedness of interlock ties in sample companies | 154 |
| Table 17 | Chairmen's evaluation of neutral interlocking directorships | 155 |
| Table 18 | Chairmen's evaluation of bank interlocks | 156 |
| Table 19 | Chairmen's evaluation of vertical interlocking directorships | 157 |
| Table 20 | Importance of board functions according to Swiss chairmen | 159 |
| Table 21 | Monitoring structures in sample companies | 160 |
| Table 22 | Sources of board information and their importance | 162 |
| Table 23 | Board strategic involvement in sample companies | 163 |
| Table 24 | Determinants of interlock degree | 166 |
| Table 25 | Determinants of received ties | 171 |
| Table 26 | Determinants of sent ties | 173 |
| Table 27 | Determinants of non-directional ties | 174 |
| Table 28 | Determinants of ownership ties | 178 |
| Table 29 | Determinants of bank ties | 180 |
| Table 30 | Determinants of horizontal ties | 182 |
| Table 31 | Determinants of neutral ties | 183 |
| Table 32 | Performance impacts of interlock degree | 191 |
| Table 33 | Performance impacts of different kinds of interlock ties | 193 |
| Table 34 | Board composition and disclosure of board remuneration | 199 |
| Table 35 | Board composition and independent audit committees | 206 |
| Table 36 | Board composition and options in executive remuneration | 212 |
| Table 37 | Board composition and shares in executive remuneration | 214 |

| | | page |
|----------|--|------|
| Table 38 | Determinants of board monitoring | 219 |
| Table 39 | Determinants of active board information | 226 |
| Table 40 | Determinants of board strategic involvement | 232 |
| Table 41 | Overview of empirical findings on hypothesised relationships | |
| Table 42 | Determinants of board size | 311 |
| Table 43 | Determinants of the percentage of outside directors | 313 |
| Table 44 | Performance impacts of interlock directionality | 315 |
| Table 45 | Performance impacts of business related interlocks | 316 |
| Table 46 | Non-linear performance impacts of interlock degree | 317 |
| Table 47 | Non-linear performance impacts of interlock directionality | 319 |
| Table 48 | Non-linear performance impacts of business related ties | 321 |
| Table 49 | Effects on monitoring board committees in general | 323 |
| Table 50 | Effects on incentives in board remuneration | 325 |
| Table 51 | Non-linear effects on board monitoring | 327 |
| Table 52 | Non-linear determinants of active board information | 329 |
| Table 53 | Non-linear effects on board strategic involvement | 331 |