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Trust and control in Anglo-American systems of corporate governance: The individualizing and socializing effects of processes of accountability

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ABSTRACT

This article reformulates the problem of corporate governance through a shift of analytic focus, away from the problems of securing the interests of remote owners, to an understanding of processes of accountability and their effects, both objective and subjective, within Anglo-American systems of corporate governance. In place of the essentialist assumptions about human nature upon which both agency theorists and their organizational critics build, processes of accountability are instead held to be themselves constitutive of subjectivity. A distinction is drawn between different processes and practices of accountability in terms of either their 'individualizing' or 'socializing' effects. Individualizing effects, which are associated with the operation of market mechanisms and formal hierarchical accountability, involve the production and reproduction of a sense of self as singular and solitary within only an external and instrumental relationship to others. In contrast, socializing forms of accountability, associated with face-to-face accountability between people of relatively equal power, constitute a sense of the interdependence of self and other, both instrumental and moral. The article explores the complex interaction of these effects in the context of Anglo-American systems of corporate governance. The article concludes by offering a fourfold typology of the combinatory potentials of individualizing and socializing effects.

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KEYWORDS accountability ▪ agency theory ▪ control ▪ corporate governance ▪ ethics ▪ trust

Introduction

This article reformulates the problem of corporate governance through a shift of analytic focus, away from problems associated with securing the interests of remote shareholders, to an understanding of processes of accountability and their effects, both objective and subjective, within Anglo-American systems of corporate governance.

Arguably, the dominant theorizing of corporate governance relationships is to be found in agency theory. Although different agency theorists emphasize different characteristics of organization – the 'team production process' (Alchian & Demsetz, 1972), or the effects of managerial labour markets (Fama, 1980) – their models are constructed around a few simple assumptions. Donaldson characterizes these as 'a theory of interest, motivation and of compliance' (1990: 371). In line with neoclassical economics, the basic unit of analysis is the individual preoccupied with 'maximizing' their utility; generally, some trade off between work and leisure. The combination of individual autonomy and motivating lack creates the conditions and difficulties for social relationships.

The innovation of agency theory is to insist that relationships should be viewed as no more than a series of implicit and explicit contracts with associated rights (Jensen & Meckling, 1976). Given the utility maximizing nature of the individual, then the problem within such contracts is how to ensure that the agent will seek to maximize the welfare of the principal, rather than their own. Thus, agency theory is much preoccupied with the 'shirking' and 'opportunistic' behaviour of the agent; it assumes that the other cannot be trusted. Such behaviour is then the source of 'agency costs' whereby the principal can seek to limit any divergence from their interests by the agent through incentives that seek to align the agent's interests with those of the principal, and through monitoring that enforces the principal's interests.

Agency theorists' pessimistic conception of the self-seeking motives of agents and the associated problems of control has in turn stimulated a series of critiques that proceeds from contrary assumptions. Perrow (1986), for example, although acknowledging the importance of recognizing the potential for self-regarding behaviour, sees in this an opportunity for organizing in ways that encourage the cooperative potentials of agency. He also sees in agency theory's stark assumptions of the self-seeking character of human nature traces of a more routine feature of everyday life; the 'attribution' of

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base motives to others. He insists that the assumed symmetry of the agent–principal relationship is in fact an hierarchical authority relationship and on this basis would also like to enquire into the motives and conduct of the principals as well as the agents. In a more sympathetic critique, Eisenhardt (1989) nevertheless concludes that economics should be regarded as a subset of a more developed organization theory. Similarly, Donaldson (1990), and Donaldson and Davis (1991) offer the optimistic assumptions of McGregor's theory Y as a model for the director as 'steward' in sharp contrast to the theory X assumptions of agency theorists. A similar antagonism has recently been articulated between organization theory and transaction cost economics (Ghoshal & Moran, 1996; Williamson, 1996).

Rather than add further fuel to this divide by arguing for either the essentially trustworthy nature of humans or the necessity of controls to constrain an essentially untrustworthy human nature, in what follows, I want to argue that these contrasting ontological assumptions are better understood as effects generated by the operation of systems of accountability. In a recent discussion of trust-based forms of governance, Powell argues that 'trust is neither chosen nor embedded but is instead learned and reinforced, hence a product of ongoing interaction and discussion' (1996: 63). In similar vein, in what follows I will be looking at trust (and distrust) as an outcome of ongoing processes and practices of accountability in and around the corporation.

Individualizing and socializing processes of accountability

Accountability is typically argued to be central to effective corporate governance (Monks & Minnow, 1991). However, there has been relatively little attention paid to how *processes* of accountability work (Munro & Mouritsen, 1997). In what follows, I want to argue that the effects of processes of accountability are more profound, ubiquitous and varied than is typically assumed within agency theory.

Accountability is not just a necessary corrective in relation to the powerful. Whatever the relative power of different individuals, power, in the sense of the 'transformative capacity of action', is a feature of all agency and with this go routine processes of accountability (Giddens, 1979). Such processes of the 'rationalization of action' – the constant giving and demanding of reasons for conduct – cannot be viewed as a mere supplement to an already formed subjectivity, but rather need to be understood as central to the constitution of subjectivity itself. Thus whereas agency theorists see accountability as a constraint upon an essential, opportunistic and self-interested

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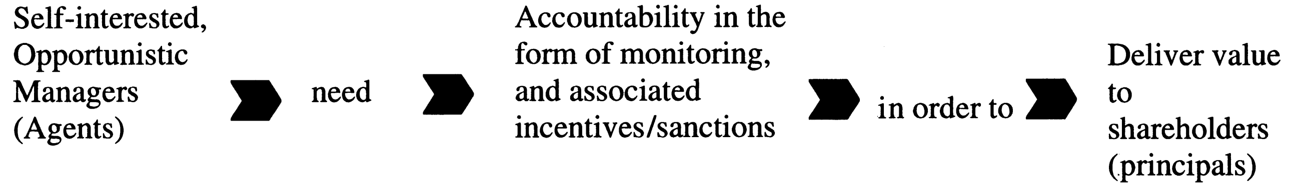
Agency version of governance problem



Accountability as constitutive of both subjectivity and objective consequences

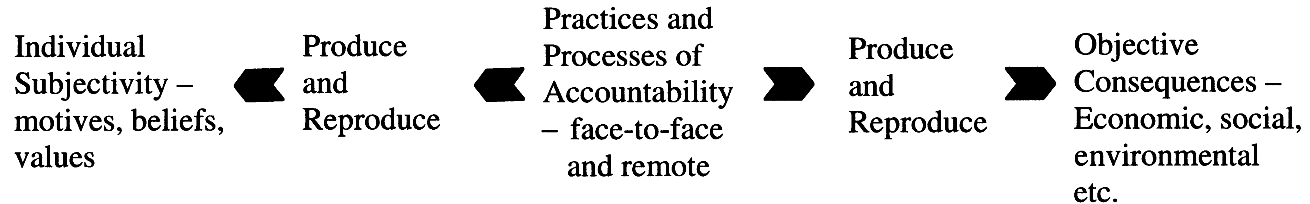


Figure 1 Reconceptualizing governance

human nature, here I want to argue that causality be reversed and made more complex by viewing processes of accountability as constitutive both of objective consequences and subjectivity itself.

There are diverse theorizations of the social construction of the self (cf. Berger & Luckman, 1967; Foucault, 1979; Giddens, 1984). What these theories arguably share is a refusal of the common sense dualism of subject and object, a rejection of an essentialist view of human nature – good or bad – and an insistence that the self is socially produced and reproduced in the routines of everyday interaction. Within these routines, there is an intimate relationship between motivation and this social constitution of the self. What are at stake here are the potentials of guilt vs. shame (pride) as different forces at work within processes of accountability. Shame 'bears directly on self-identity because it is essentially anxiety about the adequacy of the narrative by means of which the individual sustains a coherent identity' (Giddens, 1991: 65). The opposite of shame is pride: 'self esteem: confidence in the integrity and value of the narrative of self identity. A person who successfully fosters a sense of pride in the self is one who is able to feel that his biography is justified and unitary' (Giddens, 1991: 66). Whilst shame and pride depend upon the visibility of self to others, guilt as a motivating lever is stimulated by the transgression of an internalized sense of right and wrong. The focus of guilt is on the injurious effects of action on others, and its remedy the reparative act that makes good the social bond and thereby potentially restores the inner sense of goodness.

Within this constitutive view of accountability, it becomes important to take account of different forms of accountability and the very different effects that these realize. In what follows, I want to explore how what I term 'individualizing' processes of accountability generate a sense of self as essentially independent and autonomous with only an external and instrumental relationship to others. By contrast what I will term 'socializing' processes of accountability confirm the self in ways that enact and reinforce a sense of the interdependence of self and other; an interdependence that includes both an instrumental and a moral dimension (Roberts, 1991, 1996).

Individualizing processes of accountability

Within the corporate governance literature, much is made of the disciplinary potentials of markets. Primary here is the operation of equity markets in which the share price is held to reflect the discounted net present value of future corporate earnings. Relative movements in equity prices in turn make possible a 'market for corporate control' in which take-overs provide the capability for less efficient management groups to be displaced by more

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efficient groups. At an individual level, a 'managerial labour market' is held to provide incentives for individuals to act in ways that preserve and if possible enhance their reputation in the markets.

Although a great deal of attention has been given to the effectiveness or otherwise of these market mechanisms (Barker, 1998; Cosh et al., 1989; Dissanaike, 1999), much less attention within economics and finance has been given to *how* these mechanisms work; to the disciplinary process itself. Here I want to draw upon Foucault's influential account of what he calls 'disciplinary power' to explore these processes.

Conventionally, at the level of interaction, power has been treated as an individual possession that allows individuals to realize their will despite others' resistance (Pfeffer, 1981; Weber, 1978). Such approaches view power as an external constraint upon the individual or group such that one person's power is another's lack of power. Foucault rejects this 'sovereign' view of power in favour of a relational view which seeks to understand power in terms of the production of certain forms of subjectivity in both the powerful and those they subject (Clegg, 1989; Knights & Willmott, 1989). Central to the operation of such disciplinary regimes are certain discursive or representational practices and the 'field of visibility' that they create.

> he who is subjected to a field of visibility, and who knows it, assumes responsibility for the constraints of power, he makes them play spontaneously upon himself. He inscribes in himself the power relation in which he simultaneously plays both roles.
>
> (Foucault, 1979: 202–3)

Foucault offers Bentham's prison design for the 'panopticon' as the archetype for such disciplinary effects. The effects of a blind on the central tower are to render the guard invisible whilst reinforcing the sense in prisoners that they are being watched constantly. A whole host of contemporary social technologies produce similar disciplinary effects (Rose, 1989). Foucault argues that what these technologies share are processes through which people are compared, differentiated, hierarchized, homogenized and excluded. Taken together these processes serve to 'normalize' and 'individualize', producing in those subject to a field of visibility a defensive or assertive preoccupation with the self and how the self is seen.

In relation to corporate governance, in Anglo-American organizations it is arguably accounting information that serves to create the most authoritative and powerful 'field of visibility'. In relation to the operation of financial markets, accounting information offers individual investors, pension

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fund trustees, investment managers and analysts a remote view of corporate activity, and with it the possibility of the comparison of performance between periods and companies, and across different sectors. The publication of yearly and half-yearly financial accounts, and associated briefings for analysts and institutional investors, in turn animates processes of accountability within an organization. Here management accounting information and its representations of organizational activity in the form of departmental budgets and cost and profit centres, organizes the content and process of routine accountability through the comparison of individual performance with budget, one department with another, and one accounting period with another. Not surprisingly, a central concern in recent reforms of corporate governance has been to enhance the 'transparency' or visibility of corporate conduct through changes in accounting standards and fuller corporate disclosure.

The most potent disciplinary effects of accounting, and the processes of accountability that it organizes, are to be discerned in those who are 'subject' to the visibility that it creates and the constant surveillance that it makes possible. These processes are a constant reminder that the security of self depends upon being able to continually meet the standards of utility that accounting advertises. Whilst the occasional sacking or take-over reinforces this for everyone, most of these disciplinary effects are however realized, in anticipation, within the self.

These disciplinary effects individualize by creating a narcissistic preoccupation with how the self and its activities will be seen and judged; in the mirror of activity that accounting offers one discovers oneself as singular and solitary, as an 'individual' (Butler, 1997). This preoccupation is highly consequential for our sense of relationship to others. The preoccupation with self can be purely defensive in character; securing the self comes to depend upon one's ability to prejudge and correct action in the light of other's expectations. In the terms introduced above, the person is concerned to avoid the shame and humiliation associated with perceptions of inadequate performance; even in this form, preoccupation implies the relative neglect of other. Alternatively, it can be embraced more positively and actively as a mirror of one's own value; identification with the 'results' becomes a source of pride. In this respect, the hierarchy can be seen as a mirror of personal value, and the success of the self defined by one's progress towards its apex. In the process, relationships with others come to be defined competitively and instrumentally. Success depends not only on one being able continually to establish one's own utility, but also on doing better than one's peers and securing the conformity of subordinates to these standards.

The peculiar merit of Foucault's analysis of disciplinary processes is

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that it reveals how the atomized self-seeking 'individual' of agency theory is produced and reproduced. As he describes it:

> The individual is no doubt the fictitious atom of an ideological representation of society, but he is also a reality fabricated by the specific technology of power that I have called discipline.
>
> (1979: 194)

Socializing processes of accountability

Although accounting has arguably established itself as the language of business and in this respect shapes subjectivity as 'employee' and 'manager', a person's identity is not confined or wholly defined within its terms. Instead experience as consumer, parent, investor, citizen, etc. offers a variety of alternative discourses through which the self and the self's relation to others can be constructed. These alternative discourses or ways of making sense are a resource for what I will call here 'socializing' processes of accountability.

Two conditions support these alternative processes of accountability. They are fostered, firstly, where there is relatively frequent face-to-face contact between people and, secondly, where there is a relative absence of formal power differentials. The impersonality of formal hierarchical accountability has a double edge. Although formal accountability is consequential for the self's security within the hierarchy, it is also impersonal and asymmetrical; we must account for the self in accounting's terms. In contrast, lateral 'socializing' processes of accountability, have none of the inhibitions of power. The less guarded flow of communication (Argyris, 1990) – the opportunity to challenge, elaborate, clarify and question – has the potential to engage more fully the person and thereby offer a fuller sense of personal recognition and identity. At the same time, such open communication draws people into a deeper sense of their relatedness to each other. Indeed, in the absence of hierarchy it is only through such processes of dialogue that individual differences and interdependencies can be articulated. As such, what I am characterizing here as 'socializing' processes of accountability have the potential to be an alternative source of identity at work, to build an immediate sense of the interdependence of self and other, as well as to generate shared, credible and possibly alternative understandings of organizational reality. Importantly, reciprocal instrumental interests are only a part of such lateral face-to-face relationships. Such relationships readily develop beyond this into reciprocal claims and reciprocal senses of personal obligation and concern, friendship as well as animosity; relationships are seen in both instrumental *and* moral terms.

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Such socializing processes are a routine feature of work relationships at every level of the organization, conducted in and around the interdependencies of day-to-day work and in the informal conversations of all the unsurveilled spaces of organizational life. Here, however, I want to focus on the potential for socializing forms of accountability within board relationships. In the context of the UK/USA, boards are uniquely constituted as 'unitary' entities in which, meeting regularly in a face-to-face group, responsibility is jointly and severally shared by executive and non-executive directors. As such, processes of accountability within the board have the potential to build ties of loyalty and reciprocal dependence and obligation that go beyond the board's function as a relay within a wider disciplinary chain.

In the UK, the Cadbury Committee, and more recently the Hampel Committee made a number of recommendations that sought to influence board processes through determining elements of structure and composition. Some of these, such as the recommendations around the balance and 'independence' of the non-executives, can be seen to be seeking to enforce or provide a means to 'police' the wider disciplinary processes of the market. Alternatively, however, these reforms can be seen as an attempt to reinforce the balance of power within the board and thereby create the conditions for what I am describing here as socializing forms of accountability. Such a tendency is perhaps most evident in the central recommendation that the roles of chairman and chief executive be split to: 'ensure a balance of power and authority, such that no one individual has unfettered powers of decision' (Cadbury, 1992: 21).

The operation of systems of corporate governance

The above has argued that accountability should be viewed not merely as a constraint upon the powerful, but rather as a pervasive feature of organizational and social life. Moreover, it has been argued that processes of accountability are themselves constitutive of subjectivity, with shame/pride and conscience acting as motivational 'levers' within such processes. A distinction was then drawn between the 'individualizing' and 'socializing' effects of different forms of accountability in corporate governance relationships. The remainder of the article will explore some of the dynamics of these relationships by examining how the contrasting effects of these processes of accountability combine and collide. This exploration begins by looking at the organizational processes whereby opportunism and self-interest are produced and reproduced as a reality among corporate managers. It then moves to explore the paradoxical effects of one of the market remedies to this;

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executive compensation. A third section explores the empirically variable play of individualizing and socializing effects within boards of directors and the organizational consequences that flow from these. Finally, a fourfold typology of governance processes is developed based on the different combinatory potentials of individualizing and socializing forms of accountability.

The organizational production of self-interested opportunism

Foucault's analysis of discipline has appeared within organizational analysis largely in terms of its effects on lower levels of the organization; on its capacity to produce what Miller and O'Leary (1986) call the 'governable person'. Looking at the effects of disciplinary mechanisms on the hierarchically 'powerful' therefore has some rather unusual dimensions. Within the imaginary boundary of the 'firm', those who have reached the 'top' of the organization are by definition those who have successfully managed themselves within the disciplinary practices of the firm. Within its self-defining processes of hierarchization, homogenization, comparison and exclusion, those who reach the top are the 'successful' and 'powerful' individuals. Arguably they are the people who are most at risk from coming to believe in what Foucault calls the 'fiction of the individual', and as they reach the top of organizations they can fall prey to the illusory belief in a complete autonomy.

At a minimal level, having 'become a success' within the terms of the hierarchy, there is then possibly resentment or annoyance at finding oneself in a new set of relationships with fellow board members, and in relation to the disciplinary mechanisms of the market and investors; a resentment about being answerable to anyone. There is limited evidence to suggest that new directors encounter the board and investor relations as a shock to the imagined autonomy that their achievement of the top job was supposed to realize (Useem, 1993). At worst, however, the person falls prey to the seductions of power and continues to struggle for imagined autonomy through seeking to dominate and make their will sovereign within the board (Kets de Vries, 1991; O'Neil, 1993; Zaleznick & Kets de Vries, 1985).

Where agency theory imagines self-interested opportunism to be a given of human nature here I am pointing to the organizational processes that can potentially generate the essentially mad conviction of being an autonomous sovereign individual. It can be argued, therefore, that accountability is vital for the powerful not simply for reasons of economic efficiency but more personally as a process that keeps individuals sane by reminding them of their dependence upon others and their own human limitations. But, if accountability is vital, so too is the form of this accountability. In the next section, I will argue that, paradoxically, the remedies that agency theory

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offers to the problem of self-interested opportunism in practice serve to foster and feed the very mentality that they are seeking to constrain.

Feeding self-interested opportunism: bidding up executive pay by making it more visible

Arguably, one of the sharpest illustrations of this self-fulfilling process (Ghoshal & Moran, 1996) can be seen in the effects of recent attempts to control levels of executive remuneration. From the perspective of agency theory, levels of executive remuneration are both an expression and a potential remedy of the agency problem. As an expression of the problem, the relatively high levels of remuneration awarded by directors to themselves in the UK, and particularly in the USA, can be taken as evidence of the potential for these agents to become self-serving at the expense of the shareholder (principal). The remedy, however, is thought about in the same terms as the problem itself. Initially share option schemes and more recently long-term incentive plans were proposed as the potential remedy. In practice, however, levels of executive pay relative to other employees have continued to increase; heightened attention to the issue of executive pay is widely recognized to have led to an increase rather than decrease in the absolute levels of executive remuneration (Conyon & Peck, 1998). An understanding of the disciplinary process of accountability suggests how this effect has been realized.

One remedy to the supposed potential abuse has been to insist that companies establish remuneration committees within the board, from which the CEO is excluded so that they are not setting their own pay. The earlier discussion of socializing process within the board suggests the naiveté of imagining that a subcommittee of a unitary board somehow insulates such decisions from influence. A further remedy has been to increase the level of detail of disclosure of remuneration packages to shareholders (Greenbury, 1995). In practice, the process that has thereby been elaborated is one that gradually bids up the relative levels of senior management pay (Ezzamel & Watson, 1997). Each company, often with the help of compensation consultants, establishes a process of comparison with levels of pay in their industry and then uses the rationale of the managerial labour market to decide that they should be paying their senior executives within the top quartile of the relevant reference group. The inevitable result is the gradual bidding up of top salaries. The process, by instituting seemingly rigorous comparison, actually builds or at least heightens awareness of comparability between companies, as well as emphasizing the individual, instrumental interests that are deemed to motivate people at this level.

The processes through which levels of executive pay have sought to be

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constrained, along with their entirely contradictory effects, can be taken as evidence of the self-fulfilling nature of agency theory assumptions. Viewed processually, the market mechanisms that are held to constrain opportunism and the pursuit of self-interest can be seen actually to feed it. But, of course, agency theory takes its own pessimistic assumptions of self-interested opportunism as a given of human nature, and the only remedy is to align managerial self-interest to that of investors. Along with increasing relative levels of executive pay has come the new emphasis within companies on creating 'shareholder value', as well as an increase in the absolute level of returns to shareholders (Williams, 2000). Superficially, this seems to offer a justification for the intensification of market discipline in recent years. In practice, the longer term effects on organized wealth generation are less certain. Here I can only rehearse some of the complex issues involved.

The intensification of market discipline arguably produces a heightened awareness in the minds of directors of the perceived interests of shareholders as these are reflected in dividend policy, share price, etc. It encourages directors to identify themselves with these purely financial indices of business success. Particularly for corporate managers, who are at a considerable organizational distance from the actual businesses that they nominally control, and who understand what is happening in these largely through the accounting information through which they also seek to control them, the accounting representations of the business *are* the results. The potential danger in this close identification with the reported financial results is that the results, and the managerial careers and reputations that depend upon them, will be secured at the expense of others, or the long run development of organizational capabilities (Lazonick & O'Sullivan, 2000). The downsizing and destruction of organizational cultures and knowledge of recent years can be understood in this light (Useem, 1996). The conflict of principal/agent interests that agency theory has as its focus, may in fact underestimate the degree of congruence, and conceal how these interests are routinely secured at the expense both of other stakeholder groups and/or long-term organizational capabilities (Froud et al., 2000).

In the next section of the article I want to explore the potential for socializing processes of accountability within the board to counter and moderate the individualizing forces of individual ambition and market discipline.

The play of socializing and individualizing forces within the board

From a disciplinary perspective, the board can be seen as the creation and servant of the market. However, even externally driven processes of accountability will generate a unique board culture out of the response, more or less

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shared, of individuals to external pressures and perceptions (Schein, 1989). In other words, the effects of market discipline are at best indeterminate and depend upon how these external pressures are mediated through the board and its associated top team (Hambrick & Mason, 1984).

In so far as the operation of boards has been studied from within the assumptions of agency theory then the focus has been on seeking to test for the efficiency with which boards can fulfil their assumed role in the monitoring and control of management. From within the assumptions of agency theory two broad classes of controls are available to it; to change the structure of incentives for the executives or to dismiss them. There has been a host of studies, principally American, that conclude that poor firm performance predicts executive dismissal (Dalton & Kesner, 1985; Morck et al., 1989) and similarly extensive testing for the relationship between incentive structures and performance (Conyon et al., 1995; Coughlan & Schmidt, 1985). These attempts to test for a board's capacity for control have, however, led to extensive theorization and testing for how such 'internal controls' may be compromised (Walsh & Seward, 1990). Different inferences can be drawn in relation to poor performance, and these processes are made less certain by the information asymmetry that exists between executive and non-executive directors (Baysinger & Hoskisson, 1990). Controls can be resisted through various forms of entrenchment (Westphal, 1998; Westphal & Zajak, 1998), whilst such resistance can be countered by increasing the 'independence' of board members (Boeker, 1992; Kosnik, 1987).

In line with the arguments presented above it is important to observe the antagonistic assumptions that inform this research; for example Morck et al. (1989) take the replacement of the entire management team as a measure of corporate governance effectiveness. In so far as such theorization informs and reflects practice (Davis & Thompson, 1994; Useem, 1993), it points to the potential for controls actually to stimulate mistrust between board members and create what Daudi (1986) calls a 'vicious circle of control and counter control' between executive and non-executive directors. Exploring this potential, Gulati and Westphal have recently argued that 'Independent board control over management may actually produce a negative relationship between the CEO and the board characterised by a lack of mutual understanding and distrust' (1999: 477). The suggestion here is that the recent emphasis upon the control role of 'independent' directors can effectively split the board between executives and non-executives and has the potential to feed what then becomes an inter-group dynamic of mistrust in which negative qualities are projected onto the out-group. In terms of the play of individualizing and socializing forces within the board, the implication is that an increased emphasis upon control may intensify individual

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defensiveness and distrust. As with the earlier discussion of executive pay, there is a risk that suspicion and distrust become self-fulfilling; the possible failure of control leading only to an intensification of control and yet further individualized resistance. From within agency theory assumptions such self-fulfilling potentials are ignored and, instead, the limitations of internal control processes serve as a rationale for the intensification of external controls (Morck et al., 1989). However, there are other potentials.

Westphal (1999) has recently observed that agency theory assumptions of self-interested opportunism have led researchers to see close ties between executives and external board members as 'collusive', and something that compromises board independence and weakens board monitoring (Fama & Jensen, 1983). Following Pfeffer and Salancik (1978), Westphal has since attempted to develop what he calls a 'collaborative board model' that explores how boards provide 'advice and counsel as well as engage in control' (Westphal, 1999: 9). Within this model, he argues that 'personal ties encourage advice seeking by enhancing mutual trust'. In so far as trust involves a 'willingness to be vulnerable' (Mayer et al., 1995), personal ties may increase advice-seeking by reducing concern with impression management, the defensive need for political behaviour, or fears of appearing uncertain or incompetent, or acknowledging dependence. Having tested this alternative model against archival data on a large sample of firms, Westphal concludes that his results suggest that 'in fact board effectiveness and ultimately, firm performance may be enhanced by close, trusting CEO–board relationships combined with moderate to high levels of CEO incentive alignment' (1999: 19).

Given the deductive methodology employed in this research, Westphal is forced to rely on proxy indicators of ties such as friendship and appointment by the CEO. However, there have been other, more qualitative studies involving interview-based studies of board members which support Westphal's novel propositions. Although such qualitative studies of elites are less common (Pettigrew, 1992) they are arguably less laden with the prior assumptions of researchers, more open to the meanings that animate the actual conduct of particular executive and non-executive directors, and more alert to the unique effects of both market and organizational context, as well as the dynamics of board processes (Forbes & Milliken, 1999).

In line with Westphal's modelling of the different potentials of trust and distrust between executive and non-executive directors, a qualitative study of the relationship between chairmen and chief executives in the UK has explored the very different trajectories of what are termed 'competitive' and 'complementary' relationships (Roberts & Stiles, 1999). The separation of the roles of chairmen and chief executive has been justified in terms of limiting executive power and enhancing non-executive independence (Cadbury,

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1992), but this study points to the dangers of competition and conflict between individuals, as well as to the positive potential of a 'deepening reciprocal sense of both personal and professional trust, confidence and respect' (Roberts & Stiles, 1999: 46). Such a 'complementary' relationship, it is argued, serves as an invaluable source of advice and counsel for the chief executive in what is 'otherwise an isolated role', and in this way contributes to chief executive performance. Given the pivotal character of this relationship in the board, trust between a chairman and chief executive is itself a vital precondition for the effectiveness of the wider set of board relationships.

The workings of this wider set of relationships have been explored in an extensive qualitative and processual study by Pettigrew and McNulty (1995), who contrast what they call 'minimalist' and 'maximalist' board cultures. 'Minimalist' board cultures are those in which a 'set of conditions has been deliberately created to minimise the impact of part-time board members on the direction of the firm' (p. 857). Such a culture, they argue, is the product of effects of size and composition, the attitudes of a powerful chairman or chief executive, as well as the board process itself. By contrast, a 'maximalist' culture can emerge out of crisis but again depends on structures and composition, personal attitudes and board process. Crucially, the non-executives are encouraged to build their organizational awareness through contacts beyond the boardroom and, therefore, are much more able to contribute to dialogue within the board. These differences in turn map onto a differentiation of levels of board involvement in strategy which they explore in terms of non-executives' involvement in 'taking strategic decisions', or 'shaping strategic decisions', or 'shaping the content, context and conduct of strategy' (McNulty & Pettigrew, 1999: 48). Whilst non-executive involvement in 'taking strategic decisions' can support the view that boards serve only as 'rubber stamps' for the executive (Lorsch & MacIver, 1989; Mace, 1971), what their qualitative and processual analysis reveals are the more subtle processes of influence by non-executives. Executive thinking is shaped in advance of actual decision taking, in part through their anticipation of non-executive concerns. In addition, non-executives can also exert influence on the board agenda and process through informal contacts with other executives and non-executives.

Such studies point to the potential for a different balance in the play of individualizing and socializing forces in the board, in which face-to-face accountability builds a virtuous circle of openness and engagement between executives and non-executives (Charan, 1998). In at least some empirical instances, non-executive challenge and dialogue have the potential to contribute to strategic thinking and thereby make a more positive and extensive contribution to firm performance than that implied by agency theorists'

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narrow conception of board monitoring and control. Board accountability, in this elaborated form, can be seen to involve not just the policing of wealth distribution, but as a support to wealth generation (O'Sullivan, 2000).

In the emphasis that these studies of actual board conduct place on board processes as well as outcomes, there is an implicit acknowledgement of an ethical dimension to both individual and group conduct – a dimension that is excluded by agency assumptions. Narrowly, this can be conceived in terms of the norms that are the condition and consequence of interpersonal and group interaction over time (Powell, 1996). More broadly, such an ethical dimension is an important aspect of the board's corporate role. Although external financial accountability is arguably the most developed, concern to protect brand names and access to markets, along with public preoccupations with both the environmental and social impact of businesses, potentially make a board's management of 'reputational' risk an important aspect of its strategic work (Jones, 1995; Roberts, 2001). Similarly, the ability of corporate managers to pursue and implement corporate strategy requires at least some account to be taken of employee perceptions of corporate legitimacy. Indeed, for the advocates of strong cultures (Collins & Porras, 1994; Peters & Waterman, 1982) corporate vision and values are an essential condition for sustained organizational success.

Properly understood as a largely tacit set of shared assumptions, culture shapes leaders (Schein, 1989). In this respect, an organizational culture, along with individual conscience and integrity, provides corporate directors with a set of, partly moral, resources upon which to draw in seeking to navigate current strategic issues. Personal integrity, and its mediation through organizational culture, is one of the vital ingredients of what is normatively conceived as the business policy role of the board (Garratt, 1996; Tricker, 1980); the standards that the board set not only for its own conduct, but also for the treatment of employees and other stakeholders. Arguably, these standards will be clearest where the board, or at least a majority of the board, is constituted by people who have grown up together through an organizational culture that places emphasis upon such values. Consideration of such forces allows recognition of how personal standards of success may come to include not only the realization of 'individual' ambition, but also a felt sense of responsibility, obligation and identification with the institution of which they are part (Davis et al., 1997; Krammer, 1991). Such a construction comes close to Kay's (1996) conception of the director as 'trustee' of corporate assets rather than agent of the shareholder.

So, the play of individualizing and socializing forces within the board is empirically variable and depends upon the way that external pressures are mediated by board processes. Where the control role of non-executives

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reinforces external demands for shareholder value, there is always also the possibility of resistance by executives and the potential for a defensive dynamic of distrust. Conversely, there is empirical support for the conclusion that what agency theorists fear for its collusive potential – closeness between executive and non-executives – makes it much more possible for non-executives to contribute to firm performance through influencing strategic decision making. Here, the collective nature of the groups' formal responsibilities, the face-to-face structure of meetings and the relative balance of power between members can create a dynamic of openness and engagement. Accountability here is best conceived as a learning process in which dialogue can reveal the incompleteness of individual thought, and create a synthesis of the interplay of individual differences (de Mare et al., 1991; Hambrick, 1995). In the context of the board as group the minutiae of individual skill, motive and value and the processes through which they are combined will have great significance both for the quality of strategic decision making as well as for the standards of individual and collective conduct through which these goals are pursued (Pettigrew & McNulty, 1998).

A typology of combinatory effects

In the above, I have sought to illustrate how different forms and processes of accountability can be seen to produce very different effects. In this final section, I want to offer a fourfold typology of the different combinatory potentials of these individualizing and socializing effects in systems of corporate governance. As Walsh and Seward (1990) argued in their analysis of internal and external control mechanisms, these are 'inextricably linked and should be studied as such' (p. 445).

What I will term 'sovereign' governance characterizes a situation in which there is a lack of effective accountability in either form; that is an absence of effective face-to-face challenge or market-based controls. Although within economics the governance problem arises only with the separation of ownership and control, in terms of effective accountability corporate governance problems can precede this. At best, the relative absence of any form of accountability to others means that the conduct of the owner/manager is only constrained by their own felt sense of obligation to others, along with fear of the distant remedies of the law. However, what Kets de Vries (1989) calls the 'dark side of entrepreneurship' points to the abusive potentials of an entrepreneur who has absolute control over the conduct of his or her firm. The reactivation of fantasises of omnipotence and omniscience can be part of the seduction of absolute power and can be damaging

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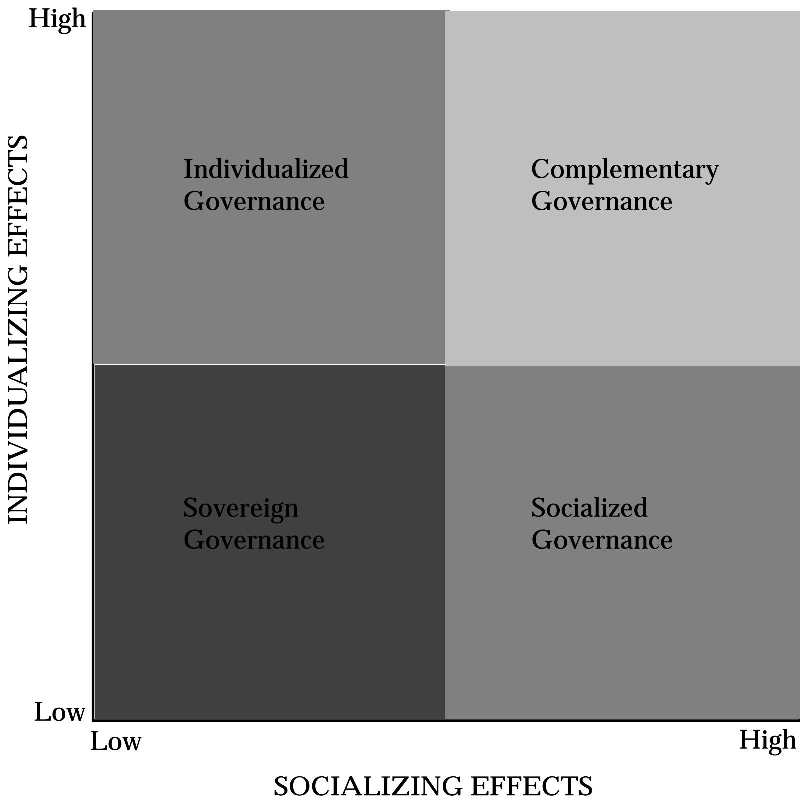

Figure 2 Typology of governance systems

both to those who are subject to the whims of the autocrat as well as to the strategic conduct of the firm. Even with the partial diffusion of ownership, the dominance of a minority shareholder who is also executive chairman, contains similar dangers associated with a lack of effective accountability; the corruption of absolute power.

'Socializing' forms of governance define situations in which there is effective face-to-face accountability in a board but a relative absence of external transparency provided by disclosure and its associated market mechanisms. In some instances, this may have characterized Anglo-American corporate governance prior to the recent reconcentration of ownership in the hands of institutional investors. In the UK at least, the reforms proposed by Cadbury, and refined by Hampel, were themselves drawn from examples of current best practice, which suggests that in some empirical instances

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institutional forces within the firm allowed for the creation of effective processes of board accountability even when external market forces were relatively weak. Although beyond the scope of this article, Japanese and German systems of corporate governance, although very different from each other, would both broadly fit this characterization, in so far as they rely on long-term face-to-face relationships between stakeholders to effect the governance of the firm (Charkham, 1994). Such forms of governance are arguably characterized by a relative absence of mobility between firms, and a consequent identification by stakeholders with the firm as a social institution. The problem with such socializing forms of governance is that from a distance it is difficult to distinguish them from 'sovereign' forms; they lack the ability to create trust at a distance. The reforms of UK governance were triggered by some spectacular corporate failures that in turn fuelled a more generalized fear among investors as to the adequacy of board accountability. Similarly, fears as to the adequacy of German and Japanese governance are fuelled by a lack of disclosure and transparency to distant shareholder interests.

What can be termed 'individualizing' forms of governance can be seen to have emerged from shareholder distrust of the adequacy of board accountability; a distrust that is always possible at a distance. Such forms are characterized by the dominance of market mechanisms externally – take-overs and the managerial labour market – and the dominance of monitoring, and individual incentives and sanctions within the board. Visible compliance with demands for non-executive independence, proper board structures and committee composition has proved very effective in recreating and sustaining trust at a distance for shareholders even if, paradoxically, this depends upon the maintenance of a vigilant distrust. However, as I have sought to suggest in the preceding analysis, there are also a number of potential negative effects associated with the dominance of individualizing forms of accountability. Although they seem particularly effective at installing a preoccupation with creating shareholder value in the minds of directors, the emphasis that is given to short-term financial performance indicators, risks or, at least, may inadvertently undermine the conditions for long-term wealth creation. Rather than merely constrain a pre-existing opportunism, I have argued that the use of financial incentives and sackings actually emphasizes and encourages a defensive or assertive preoccupation with 'individual' self-interest. Such instrumentalism can weaken identification both with board colleagues and with the wider corporation and promote an exclusive concern with visible and immediate financial performance. Relatedly, the emphasis that is placed upon the policing role of non-executives can divide the board and feed a dynamic of interpersonal distrust between executives and non-executives. At the very least, this can effectively exclude non-executives from effective

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involvement in shaping longer term strategic thinking, as well as foreclose consideration of wider sources of reputational risk.

The fourth, possibly ideal, form – 'complementary' governance – is characterized by the dominance of socializing forms of accountability within immediate face-to-face board processes, supported by extensive external disclosure. Such a form of governance is potentially complementary, in so far as market mechanisms act as a fail-safe device that remedy potential deficiencies in the operation of immediate board relationships. If processes of accountability within boards come to be compromised then this will, albeit in a less timely way, come to be visible to the market which can then enforce some remedy. So, for example, the effects of personal conflict between a chairman and chief executive, the effective dominance of an individual chief executive, poor strategic leadership or a board culture that has become arrogant or self-serving, have the potential through financial disclosure to become visible to the markets and thereby the object of external pressure for change. Of course, as with any disciplinary process, it is not so much the remedy of actual problems but rather the knowledge that such remedies exist that produces effects.

However, for the tension between these processes to take a 'creative' form requires a peculiarly difficult balance. Effective compliance processes within board committees need to be managed in such a way as to preserve the capacity for open dialogue within the main board around strategic issues. The disciplinary force of the market for corporate control and managerial labour market should ideally work only to sanction poor performance, rather than indiscriminately, in a way that threatens institutional continuity and coherence. Moreover, the positive motivational effects of senior executive compensation need to be balanced against the necessity to foster the perceived legitimacy of their institutional leadership.

Concluding comments

The central focus of this article has been on the effects of processes of accountability on corporate governance practices. Where agency theorists and some of their organizational critics build from assumptions as to the self-seeking or trustworthy character of human nature to define corporate governance needs, in the above, I have argued that it is processes of accountability that produce and reproduce both subjective and objective effects. Moreover, I have argued that different forms of accountability produce very different kinds of effects. Individualizing effects are routinely produced by hierarchical processes of accountability within the organization and by external market mechanisms.

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Both rely for their effectiveness on the remote visibility created by accounting information and encourage in those subject to them a defensive or assertive preoccupation with the self and an exclusively instrumental orientation to others. Although these effects are consonant with agency theory assumptions of self-interested opportunism, to see these as effects allows recognition of the potentially self-fulfilling nature of our attribution of base motives to others (Perrow, 1986). Such attributions are all the more possible at a distance (Rustin, 1988) but, as I have explored in relation to executive compensation, to attribute opportunistic motives to others and then install remedies that treat these attributions as real, can then create the very attitudes and behaviour that are assumed.

One of the vital benefits of face-to-face accountability between relative equals – what I have termed socializing forms of accountability – is that it allows us to test and challenge our own and others' assumptions through dialogue. On occasions, such testing may only reinforce our concerns, but it may also allow the other to overwhelm our assumptions in a way that deepens and refines our reciprocal understanding. Over time, such face-to-face accountability is a vital source of learning and can produce complex relationships of respect, trust and felt reciprocal obligation, which far exceed the purely instrumental orientation to action that agency theory assumes. As I have explored above in relation to the operation of the board as a group, such processes can, in some empirical instances, allow non-executives to contribute to strategic thinking in a way that balances the pursuit of purely financial objectives with a wider set of perceived corporate responsibilities. In such instances, board governance processes are as concerned with creating the conditions for long-term wealth creation as with the policing of wealth distribution between senior managers and shareholders.

Whereas agency theorists conceive of the governance problem in terms of a potential bipolar opposition between the interests of shareholders (principals) and managers (agents), a focus on the constitutive effects of different forms of accountability suggests an alternative, more complex formulation of the problem of governance. It is the need for effective processes of corporate accountability, rather than the control of self-interested agents, that defines the problem of corporate governance. From this perspective, the problem created by the separation of ownership and control is arguably better understood as a problem of trust at a distance rather than an inherently errant human nature. The remote visibility created by rigorous disclosure although embodying distrust, paradoxically serves as the basis for trust at a distance. But such remote distrust should be seen as a complement to rather than a model for effective face-to-face accountability within the board. In so far as distrust characterizes face-to-face board accountability, it

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not only feeds a defensive individualism, but also forecloses the openness and engagement that is necessary for the board to contribute to strategic decision making. At best, distrust within the board should be a temporary phenomenon to be remedied by changes of personnel or board or executive practices.

Whereas within agency theory assumptions governance failures can only be remedied by an intensification of both internal and external controls, this 'complementary' view of governance processes suggests the potentially positive effects that could be achieved both by broadening external accountability while also strengthening socializing forms of accountability within the organization. Externally there are at least tentative moves in this direction in the development of new forms of social and environmental reporting as a complement to financial disclosure (Elkington, 1997; Zadek et al., 1997). One might also think of creating new subjects for such remote accountability; one of the legacies of the agent/principal construction of governance is that attention has been deflected away from the accountability of institutional investors. These changes in the balance of external accountability may in turn support attempts within companies to create processes of accountability that encourage challenge and open dialogue, and that allow directors to balance the pursuit of profit with a recognition of wider responsibilities to employees and communities. The most damaging unintended effect of individualizing processes of accountability is that they promote a preoccupation with self rather than an awareness of reciprocal dependence. The effectiveness of socializing processes of accountability will always depend upon individuals' willingness to risk exercising the power of 'voice', but, if viewed as a process of learning, such accountability has the potential to reinforce awareness of reciprocal dependencies and make these manageable.

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