Investigating the Development of the Internal and External Service Tasks of Non-executive Directors: The Case of the Netherlands (1997-2005)

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Investigating the development of the internal and external service tasks of non-executive directors: The case of the Netherlands (1997-2005)

ABSTRACT

During the last decade, globalization and liberalization of financial markets, changing societal expectations and corporate governance scandals have increased the attention for the fiduciary duties of non-executive directors. In this context, recent corporate governance reform initiatives have emphasized the control task and independence of non-executive directors. However, little attention has been paid to their impact on the external and internal service tasks of non-executive directors. Therefore, this paper investigates how the service tasks of non-executive directors have evolved in the Netherlands. Data on corporate governance at the top-100 listed companies in the Netherlands between 1997 and 2005 show that the emphasis on non-executive directors' external service task has shifted to their internal service task, i.e. from non-executive directors acting as boundary spanners to non-executive directors providing advice and counseling to executive directors. This shift in board responsibilities affects non-executive directors' ability to generate network benefits through board relationships and has implications for non-executive directors' functional requirements. **(Word count: 156)**

Key words: Corporate governance codes, non-executive directors and the Netherlands

INTRODUCTION

Over the last ten years, the globalization and liberalization of financial markets and stronger societal demands for accountability and transparency of companies have placed the fiduciary duties of non-executive directors in the centre of the corporate governance debate. Recent corporate governance scandals such as Enron and WorldCom in the United States, Parmalat in Italy and Ahold in the Netherlands have heated the international corporate governance debate (Ingley and Van der Walt, 2005; Jonsson, 2005; Kiel and Nicholson, 2003) and they have triggered worldwide corporate governance reforms (Aguilera and Cuervo-Cazurra, 2004; Enrione et al., 2006; Sheridan et al., 2006). This has resulted in the Sarbanes-Oxley Act in the United States, corporate governance directives in the European Union and additional national corporate legislation across the European Continent. In addition, most European countries have introduced new corporate governance codes such as the Cromme Code in Germany (2002), the Bouton Report in France (2002) and the Combined Code in the United Kingdom (2003).

Although the effectiveness of corporate governance codes in disciplining corporations and preventing corporate governance scandals has been questioned (Cools, 2006; Enrione et al., 2006), these codes are important reflections of corporate governance developments, societal norms and values, and expectations of key stakeholders. They highlight to society which improvements are central for regaining the trust in corporate governance systems and how corporations can enhance their legitimacy (Dacin, 1997; Ocasio, 1999; Oliver, 1997). Given this background, it is not strange that corporate governance codes, in line with principles from the agency theory, have attempted to strengthen the control task and the independence of non-executive directors (Daily et al., 2003; Enrione et al., 2006). However, the impact of these reform initiatives on the service tasks of non-executive directors has been largely neglected. In fact, the emphasis on board control and board independence may hamper non-executive directors' external service task in providing access to resources on which corporations are dependent (Boyd, 1990; Pfeffer, 1972; 1973) and they may limit their task in corporate learning through board relationships (Mizruchi, 1996; Westphal et al., 2001). Furthermore, the emphasis on board control and independence may undermine non-executive directors' internal service task in providing advice and counseling to executive directors (Carpenter and Westphal, 2001; McNulty and Pettigrew, 1999). After all, interdependence, maintenance of closeness and a focus on joint value creation are necessary for fostering the external and internal service tasks (Forbes and Milliken, 1999; Hamel et al., 1998).

This raises the question as to how the external and internal service tasks of non-executive directors have been affected by corporate governance codes, triggered by broad corporate governance developments. By addressing this question in the Dutch financial market, the paper makes two main contributions. *First*, it describes how two Dutch corporate governance codes with an emphasis on the control task and the independence of non-executive directors relate to the external and internal service tasks of non-executive directors. We find empirical evidence that corporate governance measures taken to reinforce board control may hamper non-executive directors' external service task, while reinvigorating their internal service task. *Second*, by describing how non-executive directors fulfill their service tasks in a two-tier board context, we provide a more thorough understanding of the functioning of the two-tier board model regarding these tasks.

The paper is structured as follows: Section one provides a short description of the Dutch corporate governance context, i.e. the two-tier board system, recent developments and corporate governance reform initiatives. Section two elaborates on the external and internal service tasks of non-executive directors and discusses how provisions in two Dutch corporate governance codes - aimed at strengthening the control task of non-executive director - are related to their service tasks. Section three portrays the evolution of the service tasks of non-executive directors on supervisory boards of the top-100 listed corporations at the Euronext in Amsterdam between 1997 and 2005. Section four concludes with a discussion of our main findings and their implications for corporate governance scholars and practitioners.

CORPORATE GOVERNANCE IN THE NETHERLANDS

Most Dutch listed corporations have a two-tier board consisting of a management board and a supervisory board. The supervisory board solely consists of non-executive directors to assure its independence. It is responsible for the supervision of the management board and it assists executive directors with advice and counseling (Maassen and Van den Bosch, 1999; Hooghiemstra and Van Manen, 2004). In line with this board model, the supervisory board has the fiduciary responsibility to act in the best interests of the company and all the company's stakeholders.

Over the last ten years, Dutch financial markets have seen dramatic changes. The liabilities of non-executive directors have increased, the influence of shareholders has grown significantly, the financial press and general public have become more vocal and critical, and private equity and hedge funds have become more active (Hamel et al., 1998; Maassen, 1999). Moreover, Dutch supervisory boards have internationalized and the financial board' networks have changed (Heemskerk et al., 2003; Heemskerk, 2007; Spencer Stuart, 2006). These developments have resulted in an increasing convergence of the Anglo-American shareholder model and the Rhineland stakeholder model in the Netherlands, i.e. increasing communalities between the one-tier board model and the two-tier board model (Collier and Mahbub, 2005; Maassen and Van den Bosch, 1999). In this context two Dutch corporate governance codes have been introduced since 1997. Both codes address the above mentioned corporate governance developments, societal norms and values and the expectations of key stakeholders. Thereby, they highlight several important topics of the corporate governance debate in the Netherlands and their development and introduction might have affected and adjusted what non-executive directors in reality are doing (Mace, 1971; 1972; Ocasio, 1999; Huse, 2007).

The first corporate governance committee, the *Peters Committee*, was an initiative of representatives from the Association of Securities Issuing Companies and the Amsterdam Stock Exchange. The committee published its forty recommendations in 1997 and initiated a public corporate governance debate to introduce best practice provisions and to improve board practices on the basis of self-regulation (Maassen, 1999).

In 2003, a second corporate governance committee published the *Tabaksblat Code*. In contrast to its predecessor, this code was an initiative of the Ministry of Finance and Economic Affairs, its scope was wider and aimed at legislative changes if needed. Although the Tabaksblat Code is based on self-regulation, a recent amendment to Dutch corporate law legally binds listed companies to explain deviations from the Tabaksblat code's recommendations in their annual reports. The amendment also requires companies to obtain the approval of the general meeting of shareholders for any deviation from the code based on a "comply or explain" regime. Table 1 provides an overview of the main commonalities and differences between the Peters Code and the Tabaksblat Code.

Insert Table 1 here

THE EXTERNAL AND INTERNAL SERVICE TASKS OF NON-EXECUTIVES

Traditionally, the primary responsibility of the supervisory board has been to control the management board to assure that executive directors are acting in the best interests of shareholders. This control responsibility is rooted in agency theory and deemed necessary for counteracting the potential for managerial opportunism, which can arise as a result of the separation between corporate ownership and management (Davis et al., 1997; Zahra and Pearce, 1989). Supervisory boards are an important internal control mechanisms for shareholders (Daily et al., 2003; Hendry and Kiel, 2004) as they have the authority to nominate, reward and remove executive directors from office and to ratify audit reports, capital investments and other key corporate decisions (Baysinger and Hoskisson, 1990; Johnson et al., 1996). Based on principles from the agency theory, corporate governance reform initiatives have generally emphasized board independence to avoid conflicts of interest of directors and third parties. By maintaining a distance from executive directors and by having a focus on the prevention of failures, non-executive directors are ascribed the position to adequately supervise management boards.

As an additional task, scholars have recognized the service tasks of non-executive directors and supervisory boards. Social Network Theory, Resource Dependence Theory and the Resource Based View have emphasize that non-executive directors are able to contribute positively to corporate decision-making as sources of knowledge (Huse, 1998; Zahra and Pearce, 1989). Huse (2005; 2007) distinguishes between the external and internal service tasks of non-executive directors. The external service task focuses on value that is created through the relationships non-executive directors have with external actors and is rooted in Social Network Theory and Resource Dependence Theory. The internal service task emphasizes corporate value that is created by non-executives by providing advice and counseling to executive directors and originates from the Resource Based View. In contrast to the control task with its emphasis on board independence, the maintenance of interdependence, closeness and a focus on joint value creation is necessary to be able to utilize the external relations and internal knowledge and capabilities that non-executives bring along (Forbes and Milliken, 1999; Hamel et al., 1998). Table 2 provides an overview of the external and internal service tasks and juxtaposes them against the control task. The following sections discuss both service tasks in more detail.

Insert Table 2 here

The External Service Task of Non-Executive Directors

Social Network Theory and Resource Dependence Theory emphasize corporate value that accrues from the external network position of non-executive directors (Huse, 2005; Mizruchi, 1996). Social Network Theory asserts that interlocking directorates constitute an important learning vehicle through which corporations can tap into the knowledge base of interlock partners (Mizruchi, 1996). Past evidence suggests that these board ties can influence a whole array of corporate decision-making outcomes, such as mergers and acquisitions (Haunschild, 1993), the initiation of strategic renewal (Westphal et al., 2001) and the adoption of board protection devices (Davis, 1991). Furthermore, Resource Dependence Theory asserts that board ties are used to incorporate resources from the environment, like legal expertise, political lobbying power and financial resources on which companies are dependent. Past evidence suggests that organizations indeed use board relationships to secure access to financial resources (Pfeffer, 1972) and adjust their board structure and composition to cope with environmental uncertainties (Boyd, 1990; Hillman et al., 2000).

While interlocking directorates may provide corporations with network benefits and improve corporate performance, Dutch corporate policy makers have been worried about these relationships for several reasons. *First*, board relationships might jeopardize the independence of non-executive directors. Stakeholders, while influencing companies through interlocking directorates, may become too involved in the boards' decision-making processes and may have serious conflicts of interests. *Second*, a highly centralized and dense network of non-executive directors might create a social insular system in which board members are loyal to each other and merely act as rubber stamps. *Third*, as the number of board positions of non-executive directors increases, it may become more difficult for non-executive directors to devote enough time and effort to profoundly understanding the particularities of a company and to be an effective monitor. To negate these board network effects, the Peters Code (1997) and the Tabaksblat Code

(2003) have introduced (1) a limitation on the total number of board positions a non-executive director may have on supervisory boards of listed companies (a maximum of five within listed corporations; chair positions count as two board positions) and (2) a limitation on the election of non-executive directors who had significant business relationships with the company one year prior to their appointment. Table 3 provides an overview of the recommendations in the Peters Code (1997) and the Tabaksblat Code (2003).

Insert Table 3 here

The Internal Service Task of Non-Executive Directors

The Resource Based View of the firm emphasizes value that accrues from the internal position of non-executive directors (Huse, 2005). With their (management) experience, industry knowledge and decision-making capabilities, non-executive directors may provide valuable advice and counseling during corporate decision-making processes (Johnson et al., 1996; Pettigrew and McNulty, 1995; Rindova, 1999; Stiles, 2001). Recent evidence from Anglo-American oriented countries suggest that non-executive directors perceive their contributions in this area to be important to the performance of corporations (Heracleous, 2001; Ingley and Van der Walt, 2005; Stiles, 2001). Other studies indicate that non-executive directors are increasingly involved in decision-management (Hendry and Kiel, 2004; McNulty and Pettigrew, 1999). Joint board meetings of executive and non-executive directors on the board and board committees composed of executives and non-executives facilitate the internal service task of non-executive, because these two structural communication mechanisms enable the regular exchange of knowledge and ideas between executive and non-executive directors.

Although joint board meetings and board committees composed of executive and non-executive directors might compromise the independence of non-executive directors and hamper the adequate execution of the control task, Dutch policy makers have been relatively silent about this. The Peters Code (1997) and the Tabaksblat Code (2003) only suggest that the supervisory board evaluate its own functioning and relation with the management board once a year without executive directors being present. Generally, supervisory boards in the Netherlands comply with this principle (83,5%; Spencer Stuart, 2006). Furthermore, seen from an agency perspective, both Dutch corporate governance reforms have advocated the use of independent monitoring committees (selection and appointment, remuneration and audit committees) to support the internal control task of supervisory boards (see table 4 for the code recommendations).

At the same time, the code provisions may have supported the internal service task with their emphasis on the installation and role of board committees. *First*, executive directors often attend meetings of supervisory board committees, which in the Dutch two-tier board system by default consist of non-executive directors (Maassen, 1999; Maassen and Van den Bosch, 1999). Thereby, board committees become consultative forums also. *Second*, the scope of topics discussed in (monitoring) board committees tends to go beyond control issues and touches upon service issues as well (Spira and Bender, 2004). *Third*, the use of additional board committees associated with the internal service task, such as strategy and integrity committees, might have been promoted as well (Maassen and Van den Bosch, 1999; Spencer Stuart, 2006). In a similar vein, the stronger emphasis on board control might have stimulated the number of supervisory board meetings. As it is common practice in the Netherlands that executive directors join the meetings of non-executive directors, the intensity of advising and counseling may have increased also. In conclusion, the strengthening of the control task of non-executive directors as a result of corporate governance developments and the introduction of the codes may therefore have fostered the internal service task simultaneously.

Insert Table 4 here

METHODS AND SAMPLE

The empirical research focuses on the supervisory boards of the top-100 listed companies at the Euronext in Amsterdam, including all AEX, AMX and AScX companies. Together, these companies represent seven industries (construction, manufacturing, transport and communication, wholesale, retail, financial services, and other services) and constitute the backbone of the Dutch economy. The top-100 listed corporations for each year were selected on the basis of the average market capitalization. Supervisory board data for the companies were collected for the period 1997-2005. During this period, 54 percent of the composition of the top-100 remained the same. During the first year of this period, the Peters Committee published their forty recommendations and started a formal national corporate governance debate in the Netherlands which resulted in the Tabaksblat Code in 2003. The data were obtained from the *Spencer Stuart Netherlands Board Indexes* that contain information on non-executive directors who occupied more than 8,000 board positions on supervisory boards in the Netherlands during this time period. The data were checked and complemented by data obtained from the Worldscope and Reach databases, and annual reports. Overall, this resulted in 900 firm-year observations.

To utilize the external relationships and internal knowledge and capabilities that non-executive directors bring along and to manage resource dependencies (Forbes and Milliken, 1999; Hamel et al., 1998), interdependence, maintenance of closeness and focus on joint value creation are necessary (see table 2). Therefore, an important indicator for the functioning of the service tasks is the presence of organizational mechanisms that facilitate the actual exchange of knowledge, information and resources, i.e. structural communication mechanisms at the board level (Zahra and George, 2002). In this study we assess how several board communication mechanisms related to the functioning of the external and internal service tasks have evolved in the light of corporate governance developments and reform initiatives in the Netherlands.

To portray developments in the external service task of non-executive directors, the following indicators were used: (1) the average number of ties a focal top-100 listed company has with other top-100 listed companies through formal ties at the supervisory board level, (2) the average number of ties a top-100 listed company has with financial service providers listed in the top-100 (banks, insurance companies and investment funds) through formal ties at the supervisory board level, and (3) the average number of ties a focal top-100 listed company has with the top-3 listed banks (ABN Amro, ING, Fortis) through formal ties at the supervisory board level. Multiple interlocks with the same company were counted as one, because we are not interested in the strength of network relationships in the light of our research question. All indicators represent formal board mechanisms that facilitate the external service task of non-executive directors, i.e.

the first indicator represents networking and the other two indicators used represent the presence of financial resource dependencies at the supervisory board level (see table 2).

To portray developments in the internal service task of non-executive directors, the following indicators were used: (1) the average number of joint board meetings of non-executive and executive directors per listed company, (2) the average number of board committees per listed company, (3) the average number of board committee meetings of listed companies that operate at least one board committee, and (4) the average size of board committees of listed companies that operate at least one board committee. The indicators reflect characteristics of two formal board communication mechanisms (joint board meetings and board committees) that facilitate the internal service task of non-executive directors, i.e. providing advice and counseling to executive directors (see table 2).

EMPIRICAL FINDINGS

Developments in the External Service Task of Non-Executive Directors

As corporate policy makers in the Netherlands are concerned with the adverse impact of board relations on the independence of non-executive directors, the corporate governance codes introduced a limitation on the number of board memberships and a restriction on resource dependencies within board relationships. Table 5 provides an overview of the developments with regard to interorganizational board relations. As shown, the average number of board relationships has decreased over time (-34.3%). Interestingly, the largest drop in the average number of board ties is observable right after the Tabaksblat Code became effective: from 6,1 ties in 2003 to 5,0 ties in 2004 (-18.3%). Overall, this indicates that the potential for board network benefits is diminishing.

Scholars have noted that financial services providers often have a central role in the network of interlocking directorates. These network relationships provide financial services providers an ability to monitor and control indebted firms, while organizations may have greater access to financial resources (Mizruchi, 1996; Pfeffer, 1972). Although Dutch financial services providers have been the most highly networked corporations for a long period, their position has been declining since 1976 (Heemskerk et al., 2003). The provisions in the Dutch corporate governance codes seem to have affected their network position also. Table 5 reveals that the average number of ties top-100 listed companies have with listed financial service providers (banks, insurance companies and investment funds) through ties at the supervisory board level decreased from 0.94 ties in 1997 to 0.66 ties in 2005 (-29.8%). Furthermore, the average number of board relations focal top-100 listed companies have with the top-3 listed banks (ABN Amro, ING, Fortis) through ties at the supervisory board level decreased from 0.56 ties in 1997 to 0.28 ties in 2005 (-50.0%). Interestingly, the largest drops in average numbers of finance-related board relationships are again observable right after the Tabaksblat Code became effective.

Insert Table 5 here

Developments in the Internal Service Task of Non-Executive Directors

As noted earlier, the attention paid to the monitoring task and the independence of non-executive directors has prevailed in the Netherlands. Corporate policy makers have been relatively silent about the internal service task of non-executive directors. Table 6 portrays the developments of two board mechanisms that facilitate the internal service task of non-executive directors: (1) joint board meetings with executive and non-executive directors, and (2) board committees (the average number, number of meetings and size). As shown, the average number of joint board meetings increased from 5.9 to 7.0 meetings between 1997 and 2005 (+18.6%). During this period, the average number of board committees per company increased as well from 0.67 board committees in 1997 to 1.04 and 1.94 board committees in 2001 and 2005 (+ 189.6%). Interestingly, most corporations seem to have established board committees in anticipation of the Tabaksblat Code, as the largest growth in the number of board committees is observable during the period 2001-2003 and the trend increasingly flattens thereafter. The average number of meetings of these board committees increased from 2.3 to 3.5 times annually (+ 36.2%). The average size of board committees developed differently. Until 2002, the average size decreased from 3.3 to 3.0, while it subsequently increased to 3.5 in 2005 (+ 4.9% over the period). However, the change in average committee size appeared to be not significant.

Insert Table 6 here

CONCLUSIONS AND DISCUSSION

Several self-regulatory and legislative corporate governance initiatives were introduced to financial markets during the last decade. These initiatives are important reflections of corporate governance developments, societal norms and values and expectations of key stakeholders. Seen from an agency perspective, these reform initiatives have emphasized the control task of non-executive directors, while non-executive directors' service tasks have not been in the center of policy makers' attention. Archival data of the top-100 listed companies in the Netherlands between 1997 and 2005 reveal that the two Dutch corporate governance codes have affected non-executive directors' external and internal service tasks. Non-executive directors in the Netherlands have become less involved in their external service task between 1997 and 2005 as:

- the average number of ties with top-100 listed firms through supervisory board ties decreased significantly (-34%),
- the average number of ties with top-100 listed financial firms through supervisory board ties decreased significantly (-30%),
- the average number of ties with top-3 listed banks (ING, ABN Amro and Fortis) through supervisory board ties decreased significantly (-50%).

At the same time non-executive directors in the Netherlands have become more involved in their internal service task between 1997 and 2005 as:

- the number of joint board meetings increased significantly (+19%),
- the average number of board committees per company (+190%) and the intensity of their involvement increased significantly (+36%).

The changing involvement of non-executive directors in their external and internal service tasks in response to corporate governance reform initiatives has three major implications for non-executive directors and corporations. *First*, as the task of providing advice and counseling to executive directors grows in importance, the scope of board's responsibilities broadens and non-executive directors increasingly spent more time and effort on fulfilling their internal service task adequately. Together with increasing board liabilities, more pressure is put on the non-executive function and therefore the pool of willing and well-qualified non-executive directors becomes more limited. According to Peij (2005), this will increasingly lead to a professionalization of the non-executive directors' function in the Netherlands. *Second,* the changing service position of non-executives has implications for the selection of non-executive directors. Instead of mainly selecting non-executives on the basis of their external board network position, other qualifications may become more important. This suggests that selection criteria such as the cognitive fit with other board members, industry experience and decision-making capabilities will grow in importance in the near future (Rindova, 1999). *Third*, the declining importance of interlocking directorates may adversely affect the strategic and financial performance of listed companies. As learning opportunities become more scarce and the management of resource dependencies through board ties becomes more difficult, corporations have to search for alternative information means to secure their overall external network position.

The study has several limitations, but provides avenues for future research also. *First*, in the study we have solely focused on formal board communication mechanisms associated with the internal and external service tasks of supervisory boards. This raises for example the question how informal board communication mechanisms relate to these formal mechanisms. Scholars have for instance noted that informal board network relations may be more influential and insular than formal board network relations (Ghoshal et al., 1994;

Tsai, 2002). Future studies could investigate whether the development of these informal board communication mechanisms follows the same pattern as the development of formal board mechanisms (see for example Heemskerk, 2007) and what both developments jointly imply for board task performance and corporate performance.

Second, the board network measures we used provide no direct evidence on the quality and importance of board relationships. Companies may have reacted to corporate governance pressures by disposing non-vital board relations only. Furthermore, the board network measures used only take into account board relationships between top-100 listed corporations. Increasing levels of internationalization at the supervisory board level may have made the international board network more important (the number of foreign non-executive directors grew from 16.0% in 1997 to 24.6% in 2005 (Spencer Stuart, 2006)), while board network ties with non-listed corporations may provide valuable alternatives as well. Future research should take these issues into consideration when assessing developments in the board network in the Netherlands.

Third, the described board developments might be contingent on the specifics of the corporate governance context in the Netherlands. Future cross-country research studies could investigate to which extent the same patterns are observable in other countries with two-tier board systems (for instance Germany and Austria) and in countries with one-tier board systems (for instance Great Britain and the United States).

Fourth, the study is silent about the dynamic processes by which listed companies have reacted to corporate governance reform initiatives and have adapted the external and internal service tasks. Interestingly, the indicators show that in the case of board network ties (table 5), companies appear to react to code recommendations afterwards. In the case of internal communication mechanisms (table 6), companies appear to have anticipated the codes' recommendations. Future studies applying institutional theory (e.g. Dacin et al., 2002; Ocasio, 1999) would be valuable to investigate how corporations in different institutional contexts have responded to corporate governance reforms. And whether the different legal groundings of the Peters Code (self-regulation) and the Tabaksblat Code ('comply or explain') led to different changes and patterns in board practices discussed.

The study indicates that although corporate governance reforms have mainly emphasized the control task and independence of non-executive directors, they seem to have changed as unintended consequences the involvement in the external and internal service tasks of non-executive directors also. Corporate policy makers should take these unanticipated effects into account prior to the introduction of corporate governance reform initiatives.

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Table 1: The Peters Code versus the Tabaksblat Code

Code Attributes	Peters Code	Tabaksblat Code
● Publication Date	● October 28, 1997	● December 9, 2003
● Initiator(s)	● Association of Securities Issuing Companies (VEUO), Amsterdam Stock Exchange (AEX)	● Ministry of Finance and Economic Affairs
● Composition of the Governance Committee	● Representatives from the VEUO and AEX, non-executive directors, and professional experts	● Representatives from the VEUO and AEX, non-executive directors, and professional experts
● Main Purpose	● Initiating a national corporate governance debate	● Improving the corporate governance system by providing principle-based best practices
● Short Description	● 40 best practices about the relations between management boards, supervisory boards and investors	● Detailed principles and best practice provisions about the relations between management boards, supervisory boards and investors
● Audience	● All companies with registered offices in the Netherlands and whose shares are listed on a recognized stock exchange	● All companies with registered offices in the Netherlands and whose shares are listed on a recognized stock exchange
● Legal Grounding	● No; Self-regulation	● Yes; Comply or explain principle

Sources: Peter's Code (1997), Tabaksblat Code (2003) and Maassen (1999)

Table 2:The Building Blocks of the Control Task and External and Internal Services Tasks

Building Blocks	Control Task	External Service Task	Internal Service Task
● Description Task	● Monitoring and supervision of executive directors	● Acquiring access to resources on which the corporation is dependent and networking	● Provision of advice and counseling to executive directors
● Theoretical Perspective(s)	● Agency Theory	● Resource Dependence Theory and Social Network Theory	● Resource Based View of the Firm
● Value creation through...	● ..monitoring skills and capabilities of non-executives	● .. external relations of non-executives	● ... knowledge and cognitive capabilities of non-executives
● Characteristics	● Independence, distance, focus on prevention of failures	● Interdependence, closeness, focus on joint value creation	● Interdependence, closeness, focus on joint value creation

Sources: Zahra and Pearce (1989), Johnson et al. (1996), Daily et al. (2003). Adapted from Huse (2005:72, table 1), Huse (2007:39, table 3.1) and Hamel et al. (1998:201)

Table 3: Control Enhancing Code Recommendations that also Relate to the External Service Task

Board Mechanisms	Specific Recommendations in Peters Code and Tabaksblat Code
● Network Ties	● 'The number of supervisory seats at listed companies held by a single individual should be limited in such a way as to guarantee the satisfactory fulfillment of the allotted tasks' (*Recommendation 9, Peters Code, 1997*). ● 'A management board member may not be a member of the supervisory board of more than two listed companies. Nor may a management board member be the chairman of the supervisory board of a listed company' (*II.1.7, Tabaksblat Code, 2003*). ● 'The number of supervisory boards of Dutch listed companies of which an individual may be a member shall be limited to such an extent that the proper performance of this duties is assured; the maximum number is five, for which purpose the chairmanship of a supervisory board counts double' (*III.3.4, Tabaksblat Code, 2003*).
● Network Ties Representing Financial Resource Dependencies	● 'A supervisory board member shall be deemed independent if […] he has [not] had an important business relationship with the company, or a company associated with it, in the year prior to the appointment. This includes the case were the supervisory board member, or the firm of which he is shareholder, partner, associate or advisor, has acted as advisor to the company (consultant, external auditor, civil notary and lawyer) and the case where the supervisory board member is a management board member or an employee of any bank with which the company has a lasting and significant relationship' (*III.2.2.c, Tabaksblat Code, 2003*).

Table 4: Control Enhancing Code Recommendations that also Relate to the Internal Service Task

Board Mechanisms	Specific Recommendations in Peters Code and Tabaksblat Code
● Board Committees	● 'The supervisory board should consider the appointment of a selections and appointments committee from among its members, as well as an audit committee and a remunerations committee' (*Recommendation 15, Peters Code, 1997*) ● 'If the supervisory board consists of more than four members, it shall appoint from among its members an audit committee, a remuneration committee and a selection and appointment committee. The function of the committees its to prepare the decision-making of the supervisory board' (*III.5, Tabaksblat Code, 2003*)

Table 5: The Changing External Service Task of Non-executive Directors within Top-100 Listed Companies – Evidence from the Netherlands (1997-2005)

Board Mechanisms	1997	2005	% change 1997-2005
1) Average number of ties with top-100 listed firms through supervisory board ties	7.49 [a)]	4.92 [a)]	-34.3%*
2) Average number of ties with top-100 financial services providers through supervisory board ties	0.94 [a)]	0.66 [a)]	- 29.8 %*
3) Average number of ties with top-3 listed banks (ING, ABN, Fortis) through supervisory board ties	0.56 [a)]	0.28 [a)]	-50.0%*

* T-tests show that the difference is statistically significant at the 0.05-level

[a)] Number of cases is 100

Table 6: The Changing Internal Service Task of Non-executive Directors within Top-100 Listed Companies - Evidence from the Netherlands (1997-2005)

Board Mechanisms	**1997**	**2005**	**% change 1997-2005**
1) Average number of joint board meetings per listed company	5.90 [a)]	7.00 [a)]	+ 18.6%*
2) Average number of board committees used per listed company	0.67 [b)]	1.94 [b)]	+ 189.6%*
3) Average number of board committee meetings of listed companies that have at least one board committee	2.32 [c)]	3.51 [c)]	+ 36.2%*
4) Average size of board committees of listed companies that have at least one board committee	3.29 [d)]	3.45 [d)]	+ 4.9%

* T-tests show that the difference is statistically significant at the 0.05-level
[a)] Number of cases is 70 (1997) and 96 (2005); [b)] Number of cases is 85 (1997) and 100 (2005)
[c)] Number of cases is 14 (1997) and 70 (2005); 36 (1997) and 74 (2005) firms had committees
[d)] Number of cases is 21 (1997) and 74 (2005); 36 (1997) and 74 (2005) firms had committees

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