

# The cost of conformity to good governance: Board design and compensation

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## Abstract

**Research question/issue:** Albeit the fact that the “one-size-fits-all” corporate governance model has been mostly discarded, the debate on what constitutes a well-governed firm has converged toward a set of practices that comprise what we refer to as the *global good governance norm*. Whereas extant research has focused mainly on the benefits of good governance, we build on neo-institutional theory to explore how firm conformity or nonconformity to this global norm is associated with the cost of board governance, captured as board compensation.

**Research findings/insights:** Using a fuzzy set qualitative comparative analysis (fsQCA) of firms listed in the Stockholm Stock Exchange, we find that the configurations of board practices conforming to the global good governance norm are associated with higher board compensation than those that score low on conformity. Based on our findings, we deduce four archetypical board design strategies jointly shaped by two central forces: the pressure toward conformity to the good governance norm and the extent of governance discretion, denoting firm agentic behavior.

**Theoretical/academic implications:** First, our study highlights that conformity to the global good governance norm is accompanied with higher costs than nonconformity. Second, while most of the extant research discusses conformity and agentic behavior as two opposing forces, we uncover that they simultaneously co-exist in board governance, stressing their interconnectedness.

**Practitioner/policy implications:** Conformity to the global good governance norm influences the strategic choices of board designs and the costs associated with such choices.

## KEY WORDS

corporate governance, board of directors, director compensation, qualitative comparative analysis, neo-institutional theory

## 1 | INTRODUCTION

Ample research shows the heterogeneity of corporate governance models around the world, suggesting that the “one-size-fits-all” tenet

is a utopia (Aguilera et al., 2019). At the same time, the debate about what constitutes a well-governed firm appears to have converged toward a set of global best-practice recommendations for board structures and behaviors, labeled *good governance*, that are considered as

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both efficient and legitimate (Aguilera & Cuervo-Cazurra, 2004; Cuervo, 2002; Van Essen et al., 2013). As a result, firms all over the world face intensifying isomorphic pressure to reconfigure their boards to conform with a set of governance practices that constitute a globally accepted good governance norm (Bell et al., 2014; Xie et al., 2021; Zattoni & Cuomo, 2008).

Despite a large number of studies examining the performance benefits of good governance practices, the literature is vague about the costs associated with conformity to the increasingly influential global good governance norm, such as increasing independence and diversity of the board of directors. These costs, broadly defined as the “value of inputs to corporate governance,” comprise an essential element of the governance system (Aguilera et al., 2008: 476), reflecting the firms' strategic choices (Oliver, 1991). Thus, understanding the costs associated with conformity to the global good governance norm, be this conformity substantive or symbolic (Westphal & Park, 2020), becomes paramount for explaining the firms' board design choices as well as the effects of these choices on organizational outcomes. Previous studies examining the costs of conformity to the good governance norm in various national settings have drawn attention to the potential decoupling between formal adoption and implementation of governance practices (Cuervo, 2002; Zajac & Westphal, 2004) and the costs of over-governance (Aguilera et al., 2008; Bell et al., 2014). An important issue that is yet to receive attention concerns: *How does conformity to the globally accepted good governance norm influence firm governance costs?*

One way to capture the governance costs of adopting board practices consistent with the global good governance norm is the cost of the board of directors, that is, board compensation. The lack of research on board compensation as a conformity/nonconformity cost of good governance is surprising given the economic and symbolic importance of boardroom remuneration practices as well as their discretionary nature. Board compensation refers to a direct systemic cost of remunerating the firm's board directors (Aguilera et al., 2008) which, in recent years, has been increasing across the globe (e.g., Boivie et al., 2015; Dah & Frye, 2017; Haron & Akhtaruddin, 2013; Li & Roberts, 2017). Given the team nature of the board's work, the largest portion of board compensation includes the fixed fees paid regardless of members' individual contributions, making it especially difficult to determine and measure the directors' input to firm performance. In the presence of uncertainty stemming from the weak link between directors' inputs and firm performance, existing institutional norms are expected to play an important role in determining board compensation (Boivie et al., 2015; Budsartragoon et al., 2020), making it a useful tool to examine the cost of conformity/nonconformity to global good governance norm.

Most research exploring the relationship between board compensation and good governance practices identifies the directors' monitoring capacity (Burns et al., 2021) and social and human capital (Collin et al., 2017; Fedaseyev et al., 2018) to play an important role in setting directors' fees. However, these studies largely examine board practices in isolation without considering their key interdependencies. Given that the good governance norm mandates boards to create

value through both monitoring and resource provision (Hillman & Dalziel, 2003), accounting for the interplay between the practices associated with each of the two board functions is imperative. To this end, recent work adopting a configurational perspective has drawn attention to the interconnected nature of governance practices, suggesting that monitoring and resource provision can be complementary (Bell et al., 2014; Schiehll et al., 2017) and/or substitute each other (Misangyi & Acharya, 2014). For example, Federo and Saz-Carranza (2018) find that boards may provide resources through different combinations of board governance practices, while Rediker and Seth (1995) highlight the substitution effects between the monitoring undertaken by the board and that of large shareholders.

We build on this configurational perspective (Fiss, 2007; Furnari et al., 2021) to examine how good governance practices complement and/or substitute each other to form complex and unique board configurations (or bundles) associated with high and low levels of governance costs. We draw on neo-institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1995; Tolbert & Zucker, 1983) to analyze how publicly listed Swedish firms conform to the global good governance norm. While our theoretical proposition is not exclusive to the Swedish context, Sweden provides a fertile ground to analyze the costs of conformity to good governance due to the openness of its economy and its high level of integration in the global market. Although the Swedish context differs from that of the United States due to the presence of few highly empowered owners, the Swedish corporate governance system has some traits of the Anglo-American governance model such as the board's core role. In addition, the Swedish context displays small-world characteristics that denote a strong sense of community and contribute to the rapid diffusion of governance norms (Sinani et al., 2008), which generates within-country variations in board designs.

Our findings indicate that conforming to the global good governance norm has high costs in terms of board compensation. In particular, we uncover four bundles conforming to the good governance norm and associated with high levels of board compensation and four bundles nonconforming to the good governance norm and associated with low levels of board compensation. Based on our analysis, we deduce four archetypical board design strategies jointly shaped by two central forces: the pressure to conform to the global institutional norm and the firm governance discretion, denoting “the latitude of accessible governance practices” (Aguilera et al., 2018: 87) which captures firm's agentic behavior.

We contribute to board governance research in three ways. First, rather than focusing on the performance benefits of good governance—a topic that has spurred a considerable amount of research—we examine the costs associated with conformity to the globally accepted good governance practices. Our results indicate that conformity with the global good governance norm by adopting a set of specific governance practices is associated with high direct firm costs through board compensation, which could be problematic given the considerable empirical ambiguity regarding the performance benefits of such practices (Boivie et al., 2016; Dalton & Dalton, 2011; Johnson et al., 2013).

Second, we provide support to the theory of firm heterogeneity explaining why firms within a national governance environment vary in their corporate governance practices (Witt et al., 2021). In particular, we theorize and provide empirical evidence indicating that conformity and nonconformity with the good governance norm result in multiple board design strategies. This research exercise converses with the classic debate on neo-institutional theory about the inherent tension between conforming to institutional pressure and agentic choices (Aguilera et al., 2018). Rather than characterizing these two central forces shaping board design—the pressure toward conformity to the good governance norm and the extent of governance discretion—as opposite sides of the spectrum (Oliver, 1991), we uncover their interconnectedness and joint influence on board design strategies.

Third, we contribute to the growing research on boardroom compensation—which has been criticized for the lack of theoretical development (Budsartragoon et al., 2020). Although previous work on this topic has mainly relied on the economic explanations of boardroom pay, we advance research by bringing attention to the global institutional norm as an important institutional reference used by firms when setting board compensation and design strategies (Boivie et al., 2015; Budsartragoon et al., 2020) and as a conformity instrument to reach both efficiency and legitimization simultaneously (Tolbert & Zucker, 1983).

Our study is organized as follows. We first review the literature on the institutionalization of the global good governance norm and discuss why board compensation captures the cost of conformity/nonconformity to the global good governance norm. Next, we apply a configurational approach to formulate an overarching proposition that links conformity with the good governance norm and board compensation. We then present our methodology to test our proposition and discuss our findings from which we deduce four archetypical board design strategies. We conclude by discussing the implications of our study, its limitations, and suggested avenues for future research.

## 2 | THEORETICAL BACKGROUND

### 2.1 | Good governance as a globally accepted institutional norm

Corporate governance researchers, practitioners, and policymakers have long been concerned with what constitutes an effective board (Boivie et al., 2016; Hambrick, Misangyi, & Park, 2015; Hillman & Dalziel, 2003; Misangyi & Acharya, 2014). The notion of good governance has evolved around two main board functions: (1) monitoring, which refers to the directors' mandate to assess managerial performance and provide incentives to managers, and (2) resource provision or advising, denoting the directors' ability to manage environmental dependence by granting access to valuable resources and enhancing the legitimacy of their firms (Hillman & Dalziel, 2003). The consensus and emphasis on these two board functions result in boards becoming

increasingly independent (Spencer Stuart, 2018) and highly diverse in human and social capital (Hunt et al., 2018), which is also observed in the director labor market trends (James Drury Partners, 2018).

In this study, we draw on neo-institutional theory (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1995) to argue that the globally accepted set of good governance practices (OECD, 2019), which several subsequent studies labeled *good governance* (Aguilera & Cuervo-Cazurra, 2004; Cuervo, 2002; Van Essen et al., 2013; Zattoni & Cuomo, 2008), is a product of a rationalized norm. Several forces, in addition to heightened globalization and digitalization, have contributed to the institutionalization of the global good governance norm. First, the introduction of good corporate governance codes and other regulatory changes such as separation between board chair and CEO positions and gender quotas aimed at increasing board independence (Collier & Zaman, 2005; Zattoni & Cuomo, 2008) and enriching board capital respectively (Credit Suisse, 2012; Milne, 2009) have generated strong *coercive pressure* for listed firms worldwide. Second, *normative pressure*, which refers to the process of professionalization, has led to the rapid expansion of the market for independent and demographically diverse directors (Chen & Moers, 2018; James Drury Partners, 2018). Finally, previous studies show evidence of some firms yielding to *mimetic pressures* as executives and directors to copy practices—for example, creating a governance committee before being mandated by legislators (Jones et al., 2015) and hiring independent directors (Bertoni et al., 2014)—that they experience in other boards on which they serve (Zajac & Westphal, 1996). Because of the presence of multiple forces to conform to the globally legitimate good governance norm, firms face considerable legitimacy pressure (Galaskiewicz & Wasserman, 1989) to adopt a set of globally recommended board practices presuming good governance (Zattoni & Cuomo, 2008).

Neo-institutional theory suggests that coercive, normative, and mimetic pressures can compel firms to conform to the good governance norm because of two main reasons: *efficiency* and *legitimacy*, which are not necessarily incompatible but may coexist and complement each other (Ntim & Soobaroyen, 2013; Tolbert & Zucker, 1983; Zattoni & Cuomo, 2008). By conforming to the institutional pressure, firms can enhance their ability to compete for critical resources and survival capabilities that generate substantive benefits for firm performance (Meyer & Rowan, 1977). Scholars suggest that firms conforming to the good governance norm can gain efficiency by reducing agency costs via enhanced monitoring and facilitating access to valuable resources through resource provision (Aguilera & Cuervo-Cazurra, 2004). It can also attract capital, avoid penalties for noncompliance or prevent future regulation (Aguilera et al., 2008). Furthermore, firms adopting practices that are accepted, understood, and globally recognized may not only enhance efficiency but also obtain social legitimacy *vis-à-vis* the stakeholders' expectations (DiMaggio & Powell, 1983; Scott, 1995; Zucker, 1987). The legitimacy benefits generated through conformity to good governance practices enhance firms with social acceptance, ensuring their “license to operate” and reducing turbulence and ultimately promoting organizational survival and success (Zajac & Westphal, 2004).

Yet, despite the increasing pressure for firms to conform to the global good governance norm, research has demonstrated considerable heterogeneity among firm board governance practices, indicating that, while firms tend to conform to the dominant governance logic, this may not be their principal concern (Aguilera et al., 2018). Instead, firms may choose a nonconformity strategy to attain the goals of powerful stakeholders such as family owners (Federo et al., 2020; Ponomareva & Ahlberg, 2016), thereby highlighting the presence of organizational agency alongside the institutional pressure to conform. Agentic behavior in the context of board governance is termed *governance discretion* (Aguilera et al., 2018), which assumes a presence of active choice as opposed to passive conformity (Oliver, 1991).

The choice whether to conform to good governance norm likely depends on the trade-offs between the expected efficiency and legitimacy benefits and the costs associated with the conformity. Although a large amount of previous research on the good governance norm focuses on the benefits of conformity to this globally legitimate norm with little consensus about performance benefits of such practices (Boivie et al., 2016; Dalton & Dalton, 2011; Johnson et al., 2013), an important question that has not received much attention to date is the cost of conformity. Understanding these costs is especially relevant and timely, given, on the one hand, the increasing institutional pressure on firms to adopt these practices (Zattoni & Cuomo, 2008) and, on the other hand, the observed heterogeneity in board governance practices (Aguilera et al., 2018; Witt et al., 2021). We propose that theorizing and empirically examining the relationship between conformity to the good governance norm and the costs associated with such conformity provide a missing link in understanding why firms exhibit governance discretion given the intensifying isomorphic pressure. In the next section, we discuss how the level of board compensation can be construed as a cost of conformity or nonconformity to good governance.

## 2.2 | Board compensation as cost of conformity to good governance

Board compensation refers to a direct systemic cost related to the directors' remuneration (e.g., Aguilera et al., 2008). These costs are not uniform across firms but vary depending on the firm's strategic choices and environmental contingencies (Collin et al., 2017). Because of its substantive and symbolic value for the firm, as well as its discretionary nature (Boivie et al., 2015; Budsartragoon et al., 2020), board compensation captures the observable cost of conformity or nonconformity to good governance.

Board compensation design and practice differ from those of executive compensation in several important ways. First, in contrast to individually set executive fees, board compensation is set at the team level to be uniform across the board (Boivie et al., 2015). In most countries, firms pay their boards through fixed fees with some additional compensation for attending meetings and holding leadership roles such as chair or participating in and chairing board committees

(Burns et al., 2021). Even in the US context where stock options are widely used, the variation of board compensation across firms is not very significant (Boivie et al., 2015), and stock compensation is used mainly to "to establish an ongoing interest in the long-term prospects of the business" (Tonello, 2020: 3). Second, being involved in strategy-making rather than its implementation makes the pay-for-performance rationale of agency theorists less applicable to the board. Compensation is typically structured around the complexity of the firm, the time devoted, and leadership roles (Andreas et al., 2012). Thus, it becomes challenging to determine board compensation in an objective way, provoking uncertainty in terms of how boards should be paid (Dalton et al., 1998).

There is growing evidence suggesting that an institutional norm can be a key tool defining board compensation when faced with the uncertainty of objectively evaluating directors' performance (Boivie et al., 2015; Budsartragoon et al., 2020). Namely, benchmarking board compensation against the good governance norm can simplify the decision-making process as it is generally associated with enhanced efficiency and legitimacy (Fernandez-Alles et al., 2006). Since it is difficult to predict the individual directors' contribution to the board *ex ante*, firms will grant high rewards in terms of compensation to boards with directors that conform with the good governance norm (Aguilera et al., 2016; Boivie et al., 2015).

In sum, we expect that conformity to the globally legitimate good governance norm will be associated with high board compensation. We use the term *conformity* to denote a strategic choice regarding board design that follows a set of recommended practices. In the context of our study, the term *conformity* is not synonymous with *compliance*. Compliance with good governance norms assumes the adoption of all the characteristics noted by best-practice recommendations, but it does not account for agentic behavior. By contrast, conformity may entail strategic deviations from selected recommended practices, manifested through specific combinations of board design attributes. In other words, while compliance refers to a "ticking-the-box" approach, conformity may also include decisions driven by governance discretion.

## 2.3 | A configurational approach to global good governance

Extant research contends that board practices are interdependent elements assumed to work in tandem, ultimately forming governance bundles to protect shareholder value (Rediker & Seth, 1995; Schiehll et al., 2017). Applying a configurational logic, we analyze how bundling board practices translates into conformity to good governance (Aguilera et al., 2012). In doing so, we can account for the complementarity and substitution concepts (Misangyi & Acharya, 2014). On the one hand, complementarity refers to the complex interconnected systems where the effect of each element depends on the effect of other elements (Milgrom & Roberts, 1995). There is growing evidence of complementarity both within and between the two main board functions (Hambrick et al., 2015; Li & Hambrick, 2005; Schiehll

et al., 2017). For example, Misangyi and Acharya (2014) demonstrate the complementarity between CEO incentive alignment and board monitoring. On the other hand, Ward et al. (2009: 652) maintain that “substitution can occur since the relative costs of each mechanism vary and are reflected in shifts and movements of the cost constraint line” suggesting that CEO incentive alignment and board monitoring may not be only complements but in some contexts may also substitute one another.

Considering the complementarity and substitution effects is important for our theoretical argument, we account for the interconnected nature of different board practices that constitute the global good governance norm. This notion also implies equifinality, suggesting that the same organizational outcome can be achieved through multiple combinations of practices (Aguilera et al., 2008). Taken together, the configurational approach provides a useful view to examine the relationship between the practices reflecting the good governance norm and board compensation. Thus, we formulate the following proposition:

**Proposition.** Conformity to multiple interconnected globally accepted good governance practices is likely to be associated with high board compensation.

### 3 | METHODOLOGY

#### 3.1 | Set-theoretic approach

We use fuzzy set QCA (qualitative comparative analysis) (fsQCA) to explore the combination of board practices related to good governance. QCA is the prevalent analytical tool applied to understand complex set-theoretic relationships in management and organization studies, particularly in corporate governance research (e.g., Federo & Saz-Carranza, 2018; García-Castro et al., 2013; Haxhi & Aguilera, 2017; Misangyi & Acharya, 2014). QCA has advantages over correlation-based approaches when analyzing configurational relationships because it allows researchers to have an intimate understanding of the cases to reveal more probable explanations regarding the relationship being studied (Greckhamer et al., 2018; Parente & Federo, 2019). It also enables exploring the three features of set-theoretic relations in the analysis: conjunction, equifinality, and asymmetry (Misangyi et al., 2017).

Adopting this approach allows us to embrace causal complexity by accounting for the following: (1) conjunction, that is, how the interdependencies among good governance practices jointly shape board compensation; (2) equifinality, that is, the simultaneous existence of multiple pathways to good governance; and (3) asymmetry, that is, the elements related in one configuration of the outcome may not necessarily be related in another that is associated to the inverse of the outcome. Unlike regressions that focus on the individual effect of each variable, QCA analyzes the presence or absence of different conditions to understand how their combinations are associated with an outcome. In this study, we explore which

combinations of board practices are associated with conformity/nonconformity to good governance. Furthermore, interaction effects in regressions may have nuanced our understanding of the combinatory effects of variables, but they offer only a single path of the relationship studied. QCA overcomes the limits of interaction effects by exploring multiple paths to the same outcome (Ragin, 2008). Finally, accounting for the possibility of asymmetry (Berg-Schlosser et al., 2009), we explore whether the inverse conditions in the configurations associated with conformity to good governance will result in nonconformity.

#### 3.2 | Sample and data collection

We examine our proposition using data on publicly listed Swedish firms. Our initial sample included all firms listed on the OMX Stockholm Stock Exchange from 2010 to 2012. Information about the boards was hand-collected from the annual reports of all 250 firms. However, due to the lack of information, some observations were dropped from the sample. Based on a t-test on our board compensation variable (see Appendix, Table A1), the final dataset of 587 observations from 222 firms still represents the entire population of listed Swedish firms.

Our empirical context is relevant to explore the relationship between conformity to the good governance norm and board compensation for two reasons. First, in the last two decades, the Swedish governance system has developed into a hybrid between the Eurasian stakeholder-oriented model and the Anglo-American shareholder-oriented system (Heidrick & Struggles, 2009). Although Sweden has one of the highest concentrations of ownership rights in the world (Euroclear Sweden, 2019), the dominance of incumbent blockholders such as families and business groups in Swedish firms is increasingly challenged by both institutional investors (Fogel et al., 2013). This increasing presence of global institutional investors along with the firms' integration in the global economy has created strong institutional pressure for companies to conform to the global good governance norm.

Second, the Swedish Corporate Governance Code highlights the adoption of good governance practices. Designed in line with the Organisation for Economic Co-operation and Development's (OECD) Principles of Corporate Governance and applying the “comply or explain” principle, the Swedish code identifies the board as the central body in the corporate governance system and emphasizes board independence as a necessary condition to show the directors' ability to exercise vigilant monitoring. The Swedish Corporate Governance Code mandates boards to have a majority of independent board members, and it does not permit CEO duality. Only one executive can be a member of the board, and this is typically the CEO. Furthermore, the code requires the board to “collectively exhibit diversity and breadth of qualifications, experience and background [...] [and] to strive for gender balance on the board” while maintaining an efficient size (Swedish Corporate Governance Board, 2016, Rule 4.1).

### 3.3 | Outcome: Board compensation

We operationalized board compensation using the average compensation for each director, calculated as the sum of total compensation for all directors divided by the number of directors. We converted the outcome into a fuzzy set using the 75th percentile as the fully-in threshold and the 25th percentile as the fully-out threshold. Following Fiss (2011), the crossover point is set at the midpoint of the fully-in and fully-out thresholds.

### 3.4 | Global good governance norm conditions

With the goal of identifying board practices that are regarded as both legitimate and efficient, we examined the various corporate governance codes from around the world (including the Swedish Corporate Governance Code), corporate law, the OECD's Principles of Corporate Governance, and related research on the topic. We then selected eight highly visible board practices and followed the seminal work of Hillman and Dalziel (2003) to group these practices into two broad categories, corresponding to the two central board functions (i.e., monitoring and resource provision) that constitute the good governance norm.

Under the monitoring function umbrella, we include practices that are commonly associated with both efficient oversight and that are socially expected, that is, director independence from the management/majority shareholders, absence of CEOs in the board (Bertoni et al., 2014; Witt et al., 2021), and low audit fees (Desender et al., 2013). Similarly, under the resource provision function, we include practices that are commonly associated with improved corporate governance due to their potential efficiency benefits and social acceptance, that is, the presence of international (Oxelheim & Randøy, 2003) and female directors (Gregorić et al., 2017), director interlocks (Davis et al., 2003), and optimal board size (Federø & Saz-Carranza, 2020; Guest, 2008). As these practices are disclosed in most annual reports, they can be easily observed by interested stakeholders and thus become important signals of firm conformity to the good governance norm.

Given that the purpose of our study is to examine conformity to the globally legitimate norm of good governance, we do not distinguish whether these practices are substantive or symbolic in nature. We also caution that this is an ideal-type categorization and does not imply that each practice is necessarily exclusive to either function. For example, stakeholders may perceive CEO's presence on the board as efficiency loss due to its potential negative effect on the board's ability to monitor and a legitimacy threat as it indicates lack of board independence which deviates from the accepted institutional norm of good governance. At the same time, the conformity to such practice may be perceived as a potential efficiency gain from providing an arena for information exchange between executives and directors.

#### 3.4.1 | High board independence from management

With regard to board independence, the Swedish code emphasizes board independence as a necessary condition to demonstrate the directors' ability to exercise vigilant monitoring. It mainly refers to the conventional notion of *board independence from management*. We measured this condition using the percentage of directors deemed as independent in the annual reports and converted this to a fuzzy set. The crossover point was pegged at 37.5%, which is the critical mass of three (Konrad et al., 2008; Torchia et al., 2011) over the maximum recommended board size of eight (Collin et al., 2014). Fully-in is set at 75% (i.e., the minimum recommended number of directors over the maximum recommended number, 6/8), and fully-out is set at 12.5% (i.e., one over the maximum recommended number, 1/8).

#### 3.4.2 | High board independence from majority shareholders

Since blockholding-dominant owners can be found in highly independent boards in Sweden, we argue that low levels of director share ownership are a demonstration of *board independence from the majority shareholders*. It should be noted that, although permitted, stocks and options do not generally form part of the compensation structure of Swedish directors. A low level of director share ownership can thus reflect the independence of directors from majority shareholders, be it substantive or symbolic in nature. We measured this as a percentage of total director share ownership, specifically voting rights, relative to the total outstanding shares (Collin et al., 2017). We converted the condition to a fuzzy set where full membership is pegged at the 75th percentile (0.35), whereas full nonmembership is set at the 25th percentile (20.58). Following Fiss (2011), the crossover point is the midpoint of full membership and full nonmembership thresholds (10.47). A value above the midpoint is considered a high percentage of board shares, and a value below the midpoint is considered a low percentage of board shares.

#### 3.4.3 | Absence of the CEO on the board

As mentioned earlier, the Swedish code does not permit CEO duality, though it allows one member of the management team, typically the CEO, to be appointed as a director. Thus, the *absence of the CEO on the board* represents the independence of the directors from management. We operationalized this factor according to whether the CEO was also a board member. We coded for the absence of CEO on the board as 1 and presence as 0.

#### 3.4.4 | Low audit fees

Auditors can substitute board monitoring activities, and the audit fees are discretionary in nature, that is, they are not mandated by the

Swedish code, falling into the “realm of strategic board behavior” (Desender et al., 2013: 824). In the Swedish system, the same committee that nominates directors also recommends the auditors and their corresponding fees. Strong monitoring by external auditors reflected in high audit fees is expected to reduce the need of board monitoring. Thus, we expect *lower audit fees most likely* to exhibit stronger board monitoring. We used the condition showing the percentage of external audit fees in relation to total sales and converted this to a fuzzy set. Full membership is set at the 75th percentile (0.10%), whereas full nonmembership is set at the 25th percentile (0.33%). The crossover point is set at the midpoint (0.21%).

### 3.4.5 | Presence of international directors

Board capital is an important element of board design as it presumably represents the board's ability to provide resources to the firm. The highly international orientation of Swedish firms incentivizes the inclusion of international directors who possess resources that can benefit the firm. Thus, their presence is important to exhibit conformity to the good governance norm, positively viewed by international investors, suppliers, and customers. We distinguished between Scandinavian directors who belong to the group of Nordic countries (i.e., Denmark, Norway, and Sweden) and share strong cultural and, in some cases, language similarities, from international directors, that is, directors of non-Scandinavian origin present on the board. We coded for the presence of international directors as 1 and their absence as 0 as a crisp set.

### 3.4.6 | Presence of female directors

Although the Swedish Corporate Governance Code only exercises soft regulatory pressure regarding gender balance on corporate boards—that is, there is no gender quota law in Sweden, there is strong normative pressure to conform, since both the code and public opinion explicitly support gender diversity in Swedish boards (Freidenvall, 2018; Umans & Smith, 2013). Thus, we account for the presence of *female directors* as a structural feature that potentially exhibits board diversity. We coded for the presence of female directors on the board as 1, and their absence as 0, a crisp set.

### 3.4.7 | High director interlocks

Since the Swedish governance system is characterized by small-world features, there is also a small pool of candidates who have the necessary social and human capital to serve on boards, resulting in tight interconnections among the corporate elites through multiple board appointments (Sinani et al., 2008). Therefore, the presence of *high director interlocks* presumably represents good governance, as it suggests the firm's network connections that provide access to social capital. We operationalized director interlocks using the average

number of directorate positions for the entire board. We calibrated this into a fuzzy set where full membership is pegged at the 75th percentile (4.50), and full nonmembership is set at the 25th percentile (2.71). The crossover point is pegged at the midpoint (3.61).

### 3.4.8 | Presence of an optimal board size

In addition to the pressure to enrich board capital, the Swedish code mandates firms to maintain an efficient board size. We thus consider *optimal board size* as potentially exhibiting that the nominating committee can manage the strong pressure from stakeholders seeking board presence while addressing the pressure to enhance the diversity of board capital, all the while maintaining efficient board size. Board size is the number of board directors. Previous studies suggest that the optimal board size in Sweden ranges from six to eight directors (e.g., Collin et al., 2014). We coded values that fell within the ideal board size range as 1, whereas we coded those outside the range as 0, a crisp set.

## 3.5 | Fuzzy sets QCA

The use of fuzzy sets refines set membership, particularly when conditions are continuous in nature (Ragin, 2008). It provides the degree of membership within a specific set in a certain condition. Given that some of our conditions are continuous, we used fsQCA to preserve the richness of our dataset when identifying the configurations. We specifically used the fsQCA software to perform our analysis.

In doing so, we followed three steps. The first was transforming the conditions to either crisp or fuzzy sets (see Table 1; see also Appendix Table A2 for the descriptive statistics and correlation of the outcome and conditions). On the one hand, we manually coded binary conditions into crisp sets of 1 (presence of the condition) or 0 (absence of the condition). On the other, we calibrated continuous conditions as fuzzy sets using specification thresholds based on our theoretical and substantive knowledge. For instances where no theoretical basis was possible, we adopted the calibration thresholds using data distribution (Greckhamer, 2016; Parente & Federico, 2019). Cases in the upper range had values closer to 1, whereas cases in the lower range had values closer to 0. We carried out the conversion to fuzzy sets through the fsQCA software feature (see Table 1 below for the summary of calibration of variables).

The second step was building the truth table (see Appendix Tables A3 and A4), showing the different rows of all the possible combinations of conditions that yielded the outcome. The theoretically possible number of rows was 256, which represents  $2^k$  (where k is 8 and the number of conditions used in the analysis). The goal in this stage was to cover as many rows as possible to maximize the data for our analysis. There were 106 combinations with at least one observed case. However, our frequency threshold was set at four cases to cover at least the recommended minimum 80% of the cases. The final number of rows was 42.

TABLE 1 Calibration of outcome and conditions

Variable	Operationalization	Type	Calibration		
			Membership degree	Criteria	Threshold/ code
<b>Outcome</b>					
Conformity to good governance	Board compensation	Fuzzy	Fully-in	75th percentile	342,857.00 SEK
			Crossover	Midpoint	247,931.12 SEK
			Fully-out	25th percentile	153,005.25 SEK
<b>Conditions</b>					
Monitoring	High board independence from management	Fuzzy	Fully-in	6/8	75%
			Crossover	3/8	37.5%
			Fully-out	1/8	12.5%
	High board independence from majority shareholders	Fuzzy	Fully-in	75th percentile	0.35%
			Crossover	Midpoint	10.47%
			Fully-out	25th percentile	20.58%
	Absence of CEO on board	Binary	Fully-in	Absence	1
			Fully-out	Presence	0
	Low audit fees (percentage of audit fees over sales)	Fuzzy	Fully-in	75th percentile	0.10%
			Crossover	Midpoint	0.21%
			Fully-out	25th percentile	0.33%
Resource provision	Presence of international directors	Binary	Fully-in	Presence	1
			Fully-out	Absence	0
	Presence of women directors	Binary	Fully-in	Presence	1
			Fully-out	Absence	0
	High director interlocks	Fuzzy	Fully-in	75th percentile	4.50
			Crossover	Midpoint	3.61
			Fully-out	25th percentile	2.71
	Ideal board size	Fuzzy	Fully-in	Within the range	6 to 8
			Fully-out	Outside the range	<6 > 8

The third step involved logically reducing the truth table to simplified configurations. The fsQCA software using Boolean algebra facilitated this reduction. Our raw consistency threshold when performing the analysis was set at the recommended minimum value of 0.80 (Ragin, 2006). Although intermediate solutions are typically reported as results, we chose to report the complex solutions in the configuration table for two reasons. Firstly, we conducted our analysis with a relatively large sample size. Although prior research argues that counterfactual analysis may be helpful in addressing limited diversity, this is only particularly relevant to analyses with small samples (Ragin, 2008). Secondly, our cases represented nearly the total population. Hence, if the configuration is not observed, the counterfactual is likely to be rare or nonexistent. Our decision to report the complex solution resulted in configurations as close as possible to our dataset (e.g., Garcia-Castro et al., 2013).

## 4 | FINDINGS

In line with best practices when conducting QCA analyses, we first examined the necessity and sufficiency of individual conditions. A necessary condition produces the outcome if its presence or absence occurs consistently in the configuration (with a consistency score of at least 0.90), whereas a sufficient condition produces the outcome by itself (with a consistency score of at least 0.80) (Ragin, 2006).

During our analysis, we did not find any sufficient condition that would lead to an outcome by itself, indicating that none of the individual board practices are sufficient to be associated with high/low board compensation. However, we found that the presence of female directors on the board was a necessary condition within a set of conditions that are jointly associated with high board compensation (see

Appendix Table A5). This is not surprising as gender diversity is one of the most widely publicized aspects of good governance worldwide and is explicitly stipulated in the Swedish Corporate Governance Code (Freidenvall, 2018; Umans & Smith, 2013). In addition, we also found that a high level of board independence from management is a necessary condition in configurations associated with low levels of board compensation, primarily because of the Swedish code's strict requirement regarding the minimum percentage of independent directors on the board.

Table 2 shows the configurations that emerged from our analysis, with their corresponding coverage, that is, the distribution of cases to indicate the empirical relevance of the configurations (Ragin, 2006). We used the following notations to present the results (Fiss, 2011; Ragin & Fiss, 2008): “●” represents the presence of the condition, “⊗” represents the absence of the condition, and a blank space represents a “do not care” condition that may be either present or absent in configurations.

#### 4.1 | Configurations of high board compensation

We found four configurations that are associated with high levels of board compensation (see solutions H1–H4 in Table 2). These four configurations have at least four common practices, indicating that conforming to good governance through the adoption of multiple board practices is associated with high levels of board compensation—and this supports our overarching proposition.

Based on our familiarity and qualitative knowledge of our empirical subjects, further analysis allowed us to group the resulting configurations associated with conformity to the good governance norm into two categories: full compliance strategy (H1) and selective compliance strategy (H2–H4). As firms choose to conform to good governance, they can do so by pursuing a full or selective compliance strategy. Under the full compliance strategy, boards are designed to maximize the number of characteristics associated with good governance (a “ticking-the-box” approach). Fully compliant boards (solution H1)

TABLE 2 Configurations of conformity and nonconformity to good governance

Configurations	High				Low			
	H1	H2	H3	H4	L1	L2	L3	L4
<u>Monitoring conditions</u>								
(1) High board independence from management	●	●	●	●	●	●	●	●
(2) High board independence from majority shareholders	●	●	●	●	⊗	⊗	⊗	
(3) Absence of CEO on board	●	⊗	⊗	⊗	⊗	●	●	●
(4) Low audit fees	●	●	●	●	●	⊗	⊗	⊗
<u>Resource-provision conditions</u>								
(5) Presence of international directors	●	●	⊗	●	⊗	⊗	⊗	⊗
(6) Presence of female directors	●	●	●	●	●		●	●
(7) High director interlocks			●	⊗	⊗			⊗
(8) Ideal board size	●	⊗			●	⊗		
Consistency	0.89	0.99	0.82	0.93	0.81	0.91	0.87	0.83
Raw coverage	0.07	0.09	0.10	0.05	0.06	0.08	0.14	0.16
Unique coverage	0.07	0.06	0.10	0.02	0.06	0.03	0.04	0.09
Solution consistency	0.89				0.85			
Solution coverage	0.29				0.31			
Sample cases:	Millicom CDON Tele2	Electrolux Volvo Ericsson	JM Boliden	Meda Duni	Traction Intellecta Softronic	Allenex Dedicare Ortivus	Betsson Cellavision Heba	Aspiro Biogaia DGC one

Note: ●, presence of condition; ⊗, absence of condition; blank space, “do not care” condition.

include all the structural elements associated with board monitoring, and resource provision is present in the configuration (even though “high director interlocks” is a “do not care” condition). Several technological companies such as Millicom International Cellular SA (a telecommunications and media company), CDON Group (a digital commerce firm), and TELE2 (a European telecommunication provider) exemplify this strategy. These are multinationals with international capital, obtained through listings on multiple stock exchanges, and they have a dispersed ownership structure—which probably indicates strong institutional pressure to conform to good governance practices (Oliver, 1991).

For example, institutional investors who represent the interests of minority owners and typically have diverse portfolios have considerable ownership in these firms. They could exert pressure for such firms to mimic what constitutes good governance based on their experience in other firms (e.g., Federo et al., 2020). Thus, full compliance illustrates the interplay of different institutional forces influencing board design strategies. Fully compliant boards not only adhere to the conditions enforced by the coercive pressure of the Swedish Corporate Governance Code (i.e., required percentage of independent directors and the presence of female directors on the board) but also abide by normative pressures (i.e., high board independence from majority shareholders, the absence of the CEO on the board, and *internalizing* some governance practices by paying low external audit fees) and perhaps by mimicking what other major actors are doing (e.g., the presence of international directors and having the ideal board size).

Our findings also reveal that good governance does not necessarily mean incorporating all the recommended board practices into the board design to achieve conformity (i.e., solutions H2, H3, and H4). Boards can also deviate from H1's full compliance strategy (H2–H4), thereby demonstrating agentic behavior through governance discretion (Aguilera et al., 2018). With regard to the monitoring aspect, all three solutions (H2–H4) share the condition of CEO presence on the board. Perhaps having a high percentage of independent directors on the board already suggests a weakened CEO power, and this may prevent compromising the monitoring function of the board. Moreover, granting voting rights to CEOs may incentivize their board engagement and the provision of information to nonexecutive directors, which are important for carrying out board functions (Adams & Ferreira, 2007). Alternatively, the presence of the CEO on the board can also be an indicator of strong managerial power vis-à-vis the board; thus, it is possible that this CEO may influence the board to increase executive and/or board compensation (Bebchuk et al., 2010).

With regard to the resource provision aspect, there is variation in practices among the solutions. In solution H2, the striking board practice is having a larger board than the recommended size, and the configuration requires having international directors on the board. For some cases showing a suboptimal board size of nine directors (e.g., AB Electrolux, Atlas Copco AB, Enquest Plc, and Volvo AB), the CEO likely occupies the extra board seat. Meanwhile, solutions H3 and H4 suggest a substitution effect between the presence of international directors and high director interlocks. Solution H3 includes the

absence of international directors and high director interlocks, whereas H4 includes the presence of international directors and low director interlocks. Further exploration of the cases reveals that firms exhibiting solution H3, such as JM AB (a real estate developer) and Boliden AB (a mining and smelting company), have their local directors also serving on other corporate boards outside Scandinavia. Perhaps national directors with extensive international networks already reduce dependence outside of Scandinavia, thereby also reducing the need for international directors.

Similar to H2, firms showing H3 probably require resources from highly connected representatives of business groups sitting on their boards. Meanwhile, firms exhibiting solution H4, such as Meda AB (a pharmaceutical company) and Duni AB (a food packaging company), already have international directors who possess the resources to help build connections abroad. This suggests that firms may rely on attracting international directors or directors with high international interlocks to their boards to convey conformity to good governance. The choice may depend on the efficiency motive (i.e., resource needs) and legitimacy concerns (i.e., giving an image of a more inclusive board). Taken together, when designing their boards, firms may opt for a selective compliance strategy that still indicates conformity to good governance. Firms may either increase the size of their boards by adding the CEO while preserving board practices associated with good governance (H2) or choose to fortify their boards with directors with strong international social and human capital (H3 and H4).

Overall, the configurations suggesting conformity to good governance range from full (solution H1) to selective compliance strategies (solutions H2–H4). Configurations with full compliance show that all the recommended board practices can be observed. Whereas in selective compliance scenarios, firms do not substantially deviate from recommended practices. We also observe that practices with coercive pressure are adopted across all four configurations (i.e., a high level of independence from management and the presence of female directors are uniform across all four configurations), while practices that are subject to normative and mimetic pressures show more deviations (CEO presence on the board, presence of international directors, director interlocks, and ideal board size). Interestingly, all four configurations associated with high board compensation show the presence of low audit fees. In general, our findings indicate that high levels of board compensation are associated with conformity to good governance in that high compensation is driven by designing the board to exhibit good governance. However, CEO presence on the board in H2–H4 could support two alternative explanations: one indicating an enhancement of the resource provision function by incentivizing the CEO to share information with the directors or, alternatively, it may indicate the CEO's power over the board.

## 4.2 | Configurations of low board compensation

We also found four configurations that are associated with low levels of board compensation (see solutions L1–L4 in Table 2). Among these,

we observe fewer practices associated with good governance. However, we also note that all four configurations have high board independence from management as a necessary condition (see Appendix Table A5). Three out of four configurations (L1, L3, and L4) explicitly require the presence of a female director, whereas the condition is not important in L2. The presence of independent directors and female directors in these configurations can be attributed to the coercive force exerted by the Swedish Corporate Governance Code that stipulates both practices (Swedish Corporate Governance Board, 2016). These findings indicate that examining the individual effect of board independence from management and the presence of women directors does not actually offer definitive conclusions; instead, they should be analyzed in combination with other factors to draw meaningful conclusions about their actual influence on board compensation. Meanwhile, we find that adopting other practices—such as CEO duality, recommended board size, and audit fees—is a subject of normative and mimetic pressures.

The bundles associated with low board compensation are noticeably distinct from those associated with high board compensation. Firstly, these boards have little independence from majority shareholders—although this condition is not important in solution L4. Secondly, none of the configurations require the presence of international directors or high levels of director interlocks. Thus, these configurations indicate nonconformity to good governance. Based on our findings, we deduce two ideal-type strategies used by firms that choose not to conform to good governance. Namely, these firms are more likely to internalize board functions, as reflected by boards that are dominated by insiders such as the CEO and majority shareholders (solution L1). Alternatively, nonconforming firms may externalize board governance by relying on external mechanisms, such as independent auditors reflected in high audit fees (solutions L2–L4).

In solution L1, the presence of the CEO and majority shareholders on the board, together with low audit fees, suggests low levels of board independence vis-à-vis the insiders: powerful managers and shareholders, which goes against the good governance norm. This configuration can be typically observed in entrepreneurial service-oriented firms (e.g., Traction, Intellecta, and Softronic) controlled by either the founder or a family group. These firms may experience high resource dependency and thus face resource versus power tradeoffs (cf., Garg & Eisenhardt, 2017) reflecting the shareholders' heightened involvement on the board. The deviation from the good governance norm indicates the presence of an active governance choice, that is, the choice to internalize board governance. Accordingly, firms that exhibit this configuration reveal their governance discretion.

In contrast, firms can also choose to externalize their monitoring function by relying on external auditors (solution L2–L4), a strategy that lowers the costs of board monitoring. Moreover, the CEO is not part of the board, and this suggests reduced managerial power in board decision-making. Dedicare (one of the two largest staffing agencies in Sweden), Cellavision (the largest digital microscopy provider in Sweden), and Biogaia (a globally established probiotics firm) are among the firms exhibiting this configuration. We observe that these companies cater to industries such as healthcare and real estate,

which are in the public spotlight and receive considerable public attention. Thus, because of the high cost of full compliance, we infer that they adopt a minimum level of monitoring through auditors rather than through the board. Transferring the monitoring function from the domain of the board to other governance domains may not necessarily imply an active choice, indicating low governance discretion.

For firms that rely on dominant insiders to contribute to governance needs (which we term ‘internalized strategy’) or when delegating governance to external mechanisms (which we refer to as an ‘externalized strategy’), the influence of coercive force to comply with code requirements on board independence and gender diversity appears to be particularly strong, while other institutional forces seem to play a reduced role in board designs that do not conform to good governance. In particular, we show that the board configurations associated with low board compensation do not necessarily yield to external normative and mimetic pressures to adopt specific board design practices. However, configuration L1 differs from the rest of configurations associated with nonconformity (L2–L4). L1 reflects the presence of dominant insiders which deviates from the good governance logic, while configurations L2–L4 do not appear to manifest active agency by externalizing the monitoring function to other corporate governance practices (external auditors).

### 4.3 | Board design strategies

Our findings indicate that both conformity and nonconformity to the good governance norm can be achieved through multiple board configurations, illustrating the discretionary nature of board designs and, thus, the presence of active agency (Oliver, 1991). These two distinct forces revealed through our empirical analysis have been explored in the classic debate on the tension between institutional and agentic forces in institutional theory (Zucker, 1991) and in research on the heterogeneity of corporate governance practices (Aguilera et al., 2018; Bell et al., 2014; Xie et al., 2021). Drawing on the notion of firm strategic choice being the product of both institutional and agentic forces, we deduce four archetypical board governance strategies jointly shaped by distinct combinations of conformity to good governance and agentic behavior in the form of governance discretion (see Figure 1 for details). By considering the two forces uncovered in our empirical analysis, we theorize that firms appear to follow four distinct board design strategies: full compliance, selective compliance, internalized governance, and externalized governance.

Firms that conform to the good governance norm may choose between full compliance and selective compliance. The full compliance strategy (H1) reflects adherence to institutional pressure, be it because of efficiency and/or legitimacy reasons. Conversely, the selective compliance strategy (H2–H3) indicates a presence of agentic behavior through governance discretion by selecting particular combinations of good governance practices constituting a board design that suits the firm's governance needs. Moreover, firms that do not conform to the good governance norm may either externalize or

internalize board governance. The internalized board governance strategy (L2-L4) indicates a presence of agentic behavior through governance discretion by adopting practices that deviate the dominant institutional logic. In contrast, the externalized board governance strategy (L1) indicates low governance discretion (as the function is performed through a governance mechanism other than the board). Taken together, we attribute these four archetypical board design strategies to the interplay between the pressure to conform to the institutional norm and the extent of governance discretion that shows firm agentic behavior.

The notion of complementarity between the two central forces that jointly shape board governance refines the extant research on firm heterogeneity which has theorized that conformity to institutional pressure and active agency are two opposite forces, implicitly assuming that conformity to institutional norms implies the loss of governance discretion (Oliver, 1991). Exploring this tension in the context of board governance, we further unpack the debate about the relationship between institutional and agentic forces (Aguilera et al., 2018), proposing that these two forces are interconnected and

are not necessarily mutually exclusive; rather, they jointly shape organizational governance outcomes.

#### 4.4 | Robustness checks

To test the robustness of our results, we performed two additional explorations (see Table 3). First, we examined the effect of other conditions, such as the board's structural characteristics and firm size, both of which are typically associated with board practices related to good governance. For example, we added conditions pertaining to board committees. We investigated if the number of committees, the structure of these committees, and their types affected our results. We found no changes in the results. We observed that there are no noticeable variations in board committee practices, perhaps due to the explicit requirements in the Swedish code that call for uniformly structured board committees. This suggests that the many Swedish firms abide by the code's requirements. We also added board meetings and the directors' ages as possible conditions that might influence

Board design strategies

		Conformity to the good governance norm	Nonconformity to the good governance norm
		Full compliance H1	Externalized governance L2-L4
Low governance discretion	High governance discretion	Selective compliance H2-H3	Internalized governance L1

FIGURE 1 Board design strategies

TABLE 3 List of performed robustness checks

Robustness checks	Change in the configurations	Change in consistency	Change in coverage
<u>Added conditions</u>			
Number of committees	None	None	None
Structure of committees	None	None	None
Type of committees	None	None	None
Board meetings	None	None	None
Director age	None	None	None
Firm size	Yes (logically equivalent)	Yes	None
<u>Changed calibrations</u>			
Percentage to presence of independent directors	None	None	None
Presence to percentage of international and female directors	None	None	Slight decrease
Presence to critical mass of female directors	None	None	None
Using the means instead of midpoint for the cross-over point of director compensation, board shareholding, audit fees, and director interlocks	Yes (no consistent configurations)	Yes	Yes
Using 95th percentile for fully-in and 5th percentile for fully-out thresholds of fuzzy sets	None	None	None

the compensation paid to the board. These variables have not shown any effect, possibly because Swedish board compensation is relatively homogeneous within the board.

In addition, we performed further analysis to check whether firm size influenced the configurations. In line with our interpretations of results, we found that large firms are associated with high levels of board compensation and small firms tend to appear in the configurations associated with low board compensation. However, we also uncovered that large firm size is associated with low board compensation, suggesting that although firm size matters for high levels of board compensation, other factors that could distinguish the level of board compensation among firms are likewise important. Nevertheless, when we added firm size to our analysis, the resulting configurations were logically equivalent, which means that the shown configurations in Table 2 do not contradict those configurations that emerged from adding firm size into the model<sup>1</sup> (e.g., Ragin & Sonnett, 2005; Schneider & Wagemann, 2007, 2010).

Secondly, we explored the effect of applying different calibrations of the conditions in our analysis. For instance, we checked whether changing the percentage of independent directors and the presence of independent directors affected the results. The results did not change because the condition was constant across the cases. This is due to the Swedish code requiring all firms to have an independent director on the board. We also checked whether changing the presence of female and international directors to their percentage relative to board size would affect the results. This resulted in a slight decrease in coverage, but the configurations remained the same. Moreover, with regard to female directors, we also explored whether the critical mass of three (Torchia et al., 2011) would change the results. The results remained the same. Thus, we decided to keep the crisp sets for the sake of parsimony, while maximizing the number of observations. We also recalibrated the fuzzy sets of continuous variables (director compensation, board shareholding, audit fees, and director interlocks) by using the means rather than the midpoint. However, no consistent results emerged. This is attributable to the mean being closer to the full membership threshold of director compensation, and the mean is above the full membership threshold for audit fees. We then expanded the thresholds to reflect the 95th (fully-in) and 5th (fully-out) percentiles. However, the results remained logically equivalent to our final results above. Thus, we maintained the current thresholds used in the final analysis.

## 5 | DISCUSSION AND CONCLUSION

In this study, we sought to address the shortcomings of extant board research by examining the joint effects and costs of adopting board practices in keeping with the global good governance norm. Our findings reveal that bundling the recommended board practices to conform to this norm has high costs. Second, an attempt to conform to the norm can manifest through distinct board design strategies that seek both efficiency and legitimization. Although some firms appear to follow a “ticking-the-box” approach, others carefully combine select

board practices to design a board that fits with their governance needs (e.g., Ponomareva & Ahlberg, 2016). This implies that conformity to good governance is in the overall configurational board design, rather than the sum of individual board practices.

### 5.1 | Implications

Our study contributes to board governance literature in several ways. First, our findings support research on the institutional pressure to conform to the global good governance norm, as boards that yield to the interplay of coercive, normative, and mimetic pressures—by following the recommended practices—are associated with high levels of board compensation; that is, they are willing to assume high costs to adopt a conformity strategy with high levels of compliance. Rather than debating about the performance benefits of conformity to the good governance norm, we focus on the costs of such conformity, an issue that has received little attention in previous research. By analyzing the bundles associated with high and low board compensation, we identify that conformity to good governance, be it symbolic or substantive in nature, entails high costs for firms, which could be an important factor when designing boards.

Furthermore, we also observe that having more independent and female directors appears in all configurations (which are associated with both high and low levels of board compensation), indicating the acquiescence of firms to the coercive pressure of the Swedish code. Noticeably, adopting other board practices (e.g., the absence of the CEO on the board, the presence of international directors, the high level of director interlocks, or maintaining an optimal board size), which are expected by normative and mimetic pressures on firms, is discretionary in nature. In addition, these practices can be mixed and matched in the overall board design. Thus, our findings suggest that coercive pressures alone do not determine a firm's choice to adhere to good governance. Instead, normative and mimetic pressures, that is, the discretionary part of board design, may be the elements which influence the cost of conformity to good governance.

Second, we contribute to the theory of heterogeneity of firm governance (Aguilera et al., 2018) by showing that, despite the global institutionalization of good governance, board designs differ across firms. Our analysis reveals four distinct archetypes of board design strategies jointly shaped by the institutional forces pressure to conform to the good governance norm and the agentic forces through firm governance discretion. Our findings offer a fresh perspective on the classic debate in institutional theory about the inherent tension between institutional and agentic forces (Zucker, 1991) and more recent research on corporate governance deviance (Aguilera et al., 2018; Xie et al., 2021). By exploring the tension between conformity to the good governance norm and governance discretion in the board governance context, our study demonstrates that these two forces can coexist and they are, in fact, interrelated rather than antagonistic. We thus question the prevailing global governance logic, which advocates full compliance of recommended board practices according to the existing corporate governance codes (e.g., Aguilera &

Cuervo-Cazurra, 2004; Desender et al., 2013; Rosenstein & Wyatt, 1990).

Finally, our study contributes to the understudied topic of board compensation. We first highlight the economic and symbolic significance of boardroom pay and subsequently provide evidence on the role of institutional forces that shape board compensation (e.g., Boivie et al., 2015; Budsartragoon et al., 2020). We find evidence suggesting that coercive pressures do not determine board compensation; instead, we show that normative and mimetic pressures do. Although the current literature on board compensation is largely dominated by economic perspectives, such as agency theory, our study deviates from the prominent approach by drawing attention to the interplay between institutional and agentic forces that influence the relationship between conformity to good governance and board compensation.

## 5.2 | Limitations and future research

Our research has several limitations. First, our study focuses on one particular cost of conformity: board compensation. In this study, we do not account for other types of costs associated with conformity to good governance, such as opportunity costs (Aguilera et al., 2008) that could be explored in future research. Similarly, our measure of conformity does not inform us whether good governance practices are symbolic or substantive in nature and conformity to the good governance norm is driven by efficiency and/or legitimacy concerns. We thus encourage future studies to move beyond the implicit assumption that the presence of good governance practices guarantees their implementation and test it empirically. For example, future studies could conduct survey questionnaires asking the board and/or top management if they follow the good governance norm and then compare such responses with the practices observed in board structure and composition. This could show the potential decoupling between the formal adoption of good governance and its actual practice in the boardroom (Westphal & Zajac, 2001).

Second, our exploration of good governance practices is centered on Sweden, which may restrict our results to being context specific. However, given the global nature of the good governance norm and the comparability of Swedish board compensation practices to those around the world, our findings may be relevant for other institutional contexts. Despite resembling dominant practices around the world, the major difference between the Swedish board compensation practices and those in Anglo-Saxon contexts is the absence of stock- and option-based compensations in Sweden (Burns et al., 2021). Notwithstanding, even when accounting for stock and options grants and board committee and meeting attendance fees, “director compensation [in the US context] is generally fairly uniform across the board” (Boivie et al., 2015: 1589), thereby pointing to the relevance of our study to such contexts. Nevertheless, this is an empirical question, and we encourage future research to test our proposition in other countries. On the one hand, the presence of variable components in director compensation structures may amplify the cost of conformity,

as directors will be more sensitive to stock market reactions because board structure and composition constitute a powerful indicator for investors. On the other, regulation is more stringent in the United States. (i.e., more litigation and less room for discretion) than in other countries, narrowing firms' governance discretion (Aguilera et al., 2018) and thus indicating that the cost of conformity is already absorbed by overall high board compensation.

Third, QCA restricts us from using all the possible practices that suggest good governance. Since we use the most salient conditions that emphasize board monitoring and resource provision to embody good governance, we encourage expanding this to include other governance conditions such as external mechanisms (e.g., regulatory frameworks and media) and the structural characteristics of the executive team and their incentive structures which can also affect the configurations emerging from the analysis. Moreover, our analysis has not accounted for the temporal aspect. We urge future researchers to investigate whether changes in configurations affect governance costs (i.e., board compensation) over time. It is important to note that we do not claim if boards conforming to good governance practices imply high costs for investors in general, since we only explore one particular aspect of governance costs: those related to board compensation. We can only speculate that high costs are investments in addressing stakeholder concerns, which in turn can result in high gains on other aspects such as enhancing legitimacy and keeping and/or attracting investor capital. Furthermore, we do not claim that firms conforming to the good governance norm perform better than those that do not. It would be interesting, though, to explore how the good governance bundles affect firm outcomes to justify the high costs of conformity. Examining firm outcomes is a further natural step in understanding the consequences of the symbolic and/or substantive applications of good governance practices.

## 5.3 | Conclusion

The notion of good governance has evolved into a legitimate global norm that has been institutionalized across research, practice, and policymaking worldwide. However, our understanding of the consequences of adopting this global good governance norm is still limited. We thus urge future research to explore the costs associated with conformance to good governance and rebalance the currently one-sided view of the literature that largely emphasizes the benefits of good governance. We also hope that our findings can help business leaders make better strategic choices with regard to the design of their corporate boards, as we provide a more holistic picture that accounts for both the benefits and the costs of conformity to the global good governance norm.

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## DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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## NOTE

<sup>1</sup> For the sake of brevity, we do not show the corresponding results; however, these are available from the authors upon the request.

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## APPENDIX A

TABLE A1 T-test

	Full sample (n = 750)	Final sample (n = 587)	Difference
Average board compensation	300,574.60 SEK	304,088.16 SEK	3513.56 (n.s.) SEK

TABLE A2 Descriptive statistics and correlation

	Mean	S.d.	Board compensation	Board independence from management	Board independence from majority shareholders	Absence of CEO on board	Audit fees	International directors	Female directors	Director interlocks	Board size
Board compensation in SEK	304,088.16	290,837.54	1								
Board independence from management	0.67	0.19	0.01	1							
Board independence from the majority shareholders	13.71	20.53	-0.17	-0.19	1						
Absence of CEO on board	0.56	0.50	-0.10	0.26	-0.08	1					
Audit fees	0.03	0.41	-0.03	-0.02	0.00	0.03	1				
International directors	0.69	1.57	0.51	-0.05	-0.16	-0.09	-0.02	1			
Female directors	1.51	0.89	0.19	0.09	-0.08	-0.15	-0.08	0.09	1		
Director interlocks	3.74	1.48	0.01	-0.03	0.08	0.01	0.04	-0.12	0.15	1	
Board size	6.59	1.50	0.38	-0.17	-0.15	-0.36	-0.05	0.40	0.46	0.11	1

TABLE A3 Truth table—conformity

Conditions								Outcome		Consistency	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Conformity	N	Raw	PRI
1	0	0	0	1	1	0	0	1	8	1.00	1.00
1	0	0	0	1	1	0	1	1	19	0.99	0.99
1	0	1	0	1	1	1	0	1	14	0.93	0.92
1	0	0	0	1	1	1	0	1	8	0.85	0.84
1	0	0	0	0	1	0	1	1	7	0.83	0.80
1	0	1	0	1	1	1	1	1	10	0.82	0.77
1	0	0	0	0	1	1	1	1	25	0.81	0.75
1	1	0	0	1	1	1	0	0	7	0.78	0.73
1	0	0	1	0	1	1	1	0	8	0.77	0.61
1	0	1	1	1	1	1	0	0	7	0.77	0.70
1	0	0	0	0	1	0	0	0	6	0.76	0.68
1	1	0	0	0	1	0	1	0	4	0.75	0.64
1	0	1	0	0	1	1	1	0	25	0.70	0.55
1	1	0	1	0	1	1	1	0	9	0.68	0.47
1	1	1	1	1	1	1	1	0	4	0.66	0.49
1	0	0	1	1	1	0	1	0	4	0.62	0.57
1	0	0	0	0	1	1	0	0	22	0.62	0.46
1	0	1	0	0	1	1	0	0	23	0.61	0.42
1	1	1	0	0	1	1	1	0	21	0.60	0.35
1	0	1	0	0	1	0	1	0	8	0.60	0.46
1	0	1	0	0	1	0	0	0	9	0.59	0.48
1	0	1	1	1	1	1	1	0	7	0.58	0.41
1	1	0	0	0	1	1	1	0	19	0.58	0.41
1	1	1	0	0	1	0	1	0	11	0.58	0.37
1	1	1	1	0	1	1	0	0	9	0.57	0.30
1	1	1	0	0	1	1	0	0	14	0.55	0.25
1	0	0	1	0	1	1	0	0	11	0.53	0.30
1	0	1	1	0	1	1	1	0	16	0.51	0.26
1	1	1	0	0	1	0	0	0	9	0.51	0.30
1	0	1	1	0	1	0	1	0	9	0.51	0.35
1	0	0	1	0	1	0	0	0	5	0.47	0.34
1	0	0	1	1	1	1	0	0	7	0.45	0.33
1	1	0	0	0	1	1	0	0	17	0.43	0.25
1	0	1	1	0	1	1	0	0	24	0.42	0.23
1	1	1	1	0	1	0	1	0	7	0.42	0.16
1	1	0	0	0	1	0	0	0	10	0.41	0.22
1	1	1	1	0	1	1	1	0	12	0.38	0.08
1	0	1	1	0	0	0	0	0	5	0.36	0.22
1	1	1	1	0	1	0	0	0	8	0.34	0.13
1	0	1	1	0	1	0	0	0	14	0.30	0.12
1	1	1	1	0	0	0	1	0	5	0.10	0.01
1	1	1	1	0	0	0	0	0	6	0.09	0.01

Note: (1) High board independence from management. (2) High board independence from majority shareholders. (3) Absence of CEO on board. (4) Low audit fees. (5) Presence of international directors. (6) Presence of female directors. (7) High director interlocks. (8) Ideal board size.

**TABLE A4** Truth table—nonconformity

Conditions								Outcome		Consistency	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Nonconformity	N	Raw	PRI
1	1	1	1	0	0	0	0	1	6	0.99	0.99
1	1	1	1	0	0	0	1	1	5	0.98	0.98
1	1	1	1	0	1	1	1	1	12	0.94	0.91
1	1	1	1	0	1	0	0	1	8	0.90	0.87
1	0	1	1	0	1	0	0	1	14	0.87	0.84
1	1	1	1	0	1	0	1	1	7	0.84	0.77
1	1	0	0	0	1	1	0	1	17	0.81	0.75
1	1	1	1	0	1	1	0	1	9	0.81	0.69
1	0	1	1	0	1	1	0	1	24	0.80	0.74
1	1	1	0	0	1	0	0	0	9	0.78	0.68
1	1	1	0	0	1	1	0	0	14	0.78	0.63
1	1	0	0	0	1	0	0	0	10	0.77	0.70
1	0	0	1	0	1	1	0	0	11	0.77	0.66
1	0	1	1	0	1	1	1	0	16	0.77	0.64
1	0	1	1	0	0	0	0	0	5	0.77	0.72
1	1	1	0	0	1	1	1	0	21	0.76	0.60
1	0	0	1	0	1	0	0	0	5	0.73	0.66
1	0	0	1	1	1	1	0	0	7	0.71	0.65
1	1	0	1	0	1	1	1	0	9	0.70	0.51
1	1	0	0	0	1	1	1	0	19	0.69	0.57
1	0	1	1	0	1	0	1	0	9	0.68	0.58
1	0	1	0	0	1	1	0	0	23	0.68	0.53
1	1	1	0	0	1	0	1	0	11	0.67	0.51
1	1	1	1	1	1	1	1	0	4	0.65	0.48
1	0	1	1	1	1	1	1	0	7	0.64	0.49
1	0	0	1	0	1	1	1	0	8	0.64	0.39
1	0	1	0	0	1	0	1	0	8	0.62	0.49
1	0	0	0	0	1	1	0	0	22	0.62	0.46
1	0	1	0	0	1	0	0	0	9	0.58	0.47
1	0	1	0	0	1	1	1	0	25	0.56	0.35
1	1	0	0	0	1	0	1	0	4	0.54	0.36
1	0	0	1	1	1	0	1	0	4	0.49	0.42
1	0	0	0	0	1	0	0	0	6	0.48	0.32
1	0	1	1	1	1	1	0	0	7	0.41	0.25
1	0	0	0	0	1	1	1	0	25	0.41	0.19
1	0	1	0	1	1	1	1	0	10	0.35	0.19
1	0	0	0	0	1	0	1	0	7	0.35	0.20
1	1	0	0	1	1	1	0	0	7	0.32	0.18
1	0	0	0	1	1	1	0	0	8	0.21	0.13
1	0	1	0	1	1	1	0	0	14	0.16	0.08
1	0	0	0	1	1	0	0	0	8	0.12	0.00
1	0	0	0	1	1	0	1	0	19	0.08	0.01

Note: (1) High board independence from management. (2) High board independence from majority shareholders. (3) Absence of CEO on board. (4) Low audit fees. (5) Presence of international directors. (6) Presence of female directors. (7) High director interlocks. (8) Ideal board size.

TABLE A5 Necessity analysis

	Consistency	Coverage
<b>High board compensation</b>		
High board independence from management	0.88	0.49
~High board independence from management	0.23	0.68
High board independence from majority shareholders	0.36	0.41
~High board independence from majority shareholders	0.73	0.59
Absence of CEO on board	0.50	0.42
~Absence of CEO on board	0.50	0.54
Low audit fees	0.37	0.39
~Low audit fees	0.73	0.62
Presence of international directors	0.37	0.69
~Presence of international directors	0.63	0.40
Presence of female directors	0.93 <sup>a</sup>	0.50
~Presence of female directors	0.07	0.28
High director interlocks	0.59	0.56
~High director interlocks	0.50	0.47
Ideal board size	0.67	0.48
~Ideal board size	0.33	0.46
<b>Low board compensation</b>		
High board independence from management	0.90 <sup>a</sup>	0.57
~High board independence from management	0.19	0.64
High board independence from majority shareholders	0.54	0.69
~High board independence from majority shareholders	0.53	0.48
Absence of CEO on board	0.61	0.58
~Absence of CEO on board	0.39	0.46
Low audit fees	0.60	0.71
~Low audit fees	0.48	0.46
Presence of international directors	0.15	0.31
~Presence of international directors	0.85	0.60
Presence of female directors	0.85	0.50
~Presence of female directors	0.15	0.72
High director interlocks	0.50	0.53
~High director interlocks	0.58	0.61
Ideal board size	0.65	0.52
~Ideal board size	0.35	0.54

<sup>a</sup>Necessary condition.