

Qualifications of Corporate Board Committee Members

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Board committees, the most critical subgroups of corporate governance, are examined in terms of the director qualifications of type, tenure, age, internal activity, and external activity. Comparisons of subgroup members' qualifications with those of nonsubgroup members suggest that committees are generally composed of the most qualified directors. Comparisons of new members of committees with continuing and nonmembers suggest that cohesiveness and diversity pressures are balanced in the appointment of new members. The results yield insights about subgroup membership dynamics at the board level, particularly that the mandate and functions of a committee call for specific member qualifications.

Although an extensive literature on corporate boards has pointed to the importance of board members in corporate governance and control, the dynamics of the subgroups of individuals who constitute the board's standing committees have not been examined in sufficient detail (Zahra & Pearce, 1989). In particular, the influential role of committees in corporate governance and control suggests the need for specific attention to the qualifications of the individuals who constitute these subgroups. In this study, we address the issue of committee member selection by examining the degree to which characteristics important for the corporate governance function qualify directors for committee membership.

We build on previous empirical work on the qualifications of board committee members (e.g., Bilimoria & Piderit, in press; Kesner, 1988) by investigating whether these critical subgroups are composed of the most qualified members of the board of directors. Specifically, we examine whether members and nonmembers of corporate committees can be distinguished according to important characteristics. We also examine the mix of

director qualifications reflected in committee composition by investigating the characteristics of new members as compared with those of continuing members and nonmembers.

THE ROLE OF COMMITTEES AND THE QUALIFICATIONS OF MEMBERS

The board of directors is the ongoing permanent group bearing responsibility for corporate actions, outcomes, and outlook (Louden, 1982). An overview of the numerous books, articles, reports, and surveys on the subject of the role and functioning of the board of directors¹ reveals that the board performs three interrelated governance functions: legitimizing (ensuring the fulfillment of legal requirements), directing (determining the overall mission, direction, and broad strategies and policies of the corporation), and overseeing management (maintaining the integrity of the corporate asset by ensuring the continued competence of management). Recent studies of corporate directors suggest that much of this governance work is done in committees specifically charged with these responsibilities (Korn/Ferry International, 1987; Lorsch, 1989; Worthy & Neuschel, 1984). These committees provide the means and structure for directors to govern effectively by allowing specialized responsibility for, and probing into, important corporate concerns (Braiotta & Sommer, 1987).

For example, the audit committee monitors the management of corporate assets and ensures the adequacy of appropriate controls. The compensation committee reviews and makes recommendations on the compensation of top management. The nominating committee identifies and recommends candidates for directorship. The executive committee serves as a stand-in for the full board in crisis situations and is sometimes responsible for setting the agenda for board meetings. The finance committee reviews and oversees the company's financial needs, policies, and standing in the financial community. The public affairs committee is charged to direct and evaluate the corporation's social performance. The pension and investments committee supervises the management of retirement funds and other corporate investments. The organizing committee reviews board structure and board committee memberships. The stock options committee determines and administers the award of stock options to top executives and employees. The policy committee attends to issues regarding the long-term direction of the corporation. The benefits committee examines managerial and employee benefits. The contributions committee recommends potential recipients of charitable contributions and reviews donation policies. The environment committee reviews

corporate policies on employee safety and health and considers issues relevant to the company's work environment. Hence each of these committees contributes in a specific way to the overall governance work of the board of directors.

Certain characteristics are likely to contribute to the accomplishment of these diverse responsibilities: director type, age, tenure on the board, internal activity, and external activity. These characteristics address the multiple corporate governance tasks of the board, including both the internal policy framing and control arenas, and the handling of external relations. They are based on the requirements for effective corporate governance and control frequently mentioned in the literature: expertise (knowledge, experience, maturity), legitimacy (internal and external prestige), and influence (internal and external leverage), as follows.

Director Type

The qualification of director type represents a board member's affiliation with the management of the company. Inside directors are members of the top management team. They have day-to-day familiarity with corporate actions. They provide strategic support and counsel to the chief executive based on their in-depth working knowledge of the firm's operations. In addition, inside directors service the information needs of outside directors in that they provide additional checks on the performance claims of the chief executive (Kesner, 1988; Worthy & Neuschel, 1984).

Outside directors are members of the board who are not corporate executives or their family members. These directors bring an external perspective to the governance and control of corporations as they are not closely affiliated with the current management of the firm. Their independence provides legitimacy to board decisions, and their relative distance from the everyday activities of management makes outside directors more objective in their oversight of management. Outside directors ensure appropriate attention to stakeholder concerns, provide independent counsel to the chief executive, and enhance board expertise and resources through experience and contacts with other companies and industries (Lorsch, 1989; Loudon, 1982; Mace, 1971; Pfeffer & Salancik, 1978; Waldo, 1985; Worthy & Neuschel, 1984). In light of these important functions, several regulatory agencies and stock exchanges (e.g., the Securities and Exchange Commission, the New York Stock Exchange) have specific guidelines requiring a significant representation of outside directors on certain committees of the board.

Board Tenure

The qualification of board tenure reflects the company-specific knowledge and experience of directors. As the length of time on a board grows, directors are exposed to a variety of situations that provide opportunities for enhanced familiarity with the specific governance issues and problems of the corporation (Kesner, 1988). Directors with considerable board experience also have experience working with the ongoing management team of the corporation and are thus better prepared for oversight responsibilities, as well as for directing company strategy.

Age

The characteristic of age reflects directors' general business experience, maturity, and background. With increasing years, directors gain additional occasions to exercise and enhance their governance skills. Older directors are more attractive for entrustment with the cooperative resolution of core governance dilemmas because their age is evidence of general experience and maturity in directing business.

Internal Activity

Directors who serve on several board committees have more opportunities to learn about the issues and tactics specific to the corporation, to exchange information within board networks, and to be influential in multiple arenas. Multiple committee memberships also indicate that the director has the capacity to work effectively with diverse groups of influential others, because only those individuals who contribute to effective interpersonal functioning are likely to be nominated to several committees. Multiple committee memberships thus indicate the capacity to effectively handle diverse roles and responsibilities and to build solid working relationships in multiple arenas.

External Activity

Directors who are members of other boards offer alternate perspectives on company and industry operations gained through interaction with diverse management teams (Ornstein, 1984; Richardson, 1987; Worthy & Neuschel, 1984). Centrality in the board's external domain is reflected by the number of other corporation or institution boards of which a director is a member. Directors who serve on several boards are prominent in the larger business

and social community (Useem, 1980, 1984; Zeitlin, 1974). In addition, as interlocking directorates bring resources and prestige to the board (Pennings, 1980; Pfeffer & Salancik, 1978) and contribute to organizational performance (Richardson, 1987), directors having external ties add significantly to the effective governance of corporation-environment relations.

MEMBERS AND NONMEMBERS OF COMMITTEES

Previous research on corporate directors suggests that effective board functioning is facilitated by the delegation of governance responsibilities to committees (Anderson & Anthony, 1986; Bacon & Brown, 1975; Braiotta & Sommer, 1987; Kesner, 1988; Korn/Ferry International, 1987; Lorsch, 1989; Mueller, 1974, 1978; Securities and Exchange Commission, 1980; Vance, 1968, 1983; Waldo, 1985; Worthy & Neuschel, 1984). Committees provide the means and structure for effective governance by breaking down the total corporate governance task into specialized functions and responsibilities: Each subgroup of directors is chartered with specific authorization, strategic, and oversight duties contributive to the board's total governance task (see Braiotta & Sommer, 1987; Kesner, 1988; Securities & Exchange Commission, 1980; Vance, 1983; Waldo, 1985; Worthy & Neuschel, 1984). Because these committees are charged with material governance functioning, membership is likely to be confined to the most qualified directors who can best contribute to the effective accomplishment of the board's work. For this reason,

Hypothesis 1: Members of board committees will be outside directors, have longer board tenure, be older, and show greater evidence of internal and external activity than will nonmembers of committees.

NEW MEMBERS OF COMMITTEES

As board committees bear fundamental responsibilities for corporate affairs, the mix of director qualifications represented on each committee is likely to be calibrated so as to best ensure appropriate governance functioning of the committee. New members on committees are directors who are selected to join a cadre of important and influential board members with significant governance responsibilities. For this reason, their selection must be done with the utmost care to ensure cohesiveness of action on the one hand and diversity of perspective on the other.

To ensure a committee's cohesiveness, similarities with continuing members in orientation and experience are likely to be critical factors in the

selection of new members. Previous empirical research has provided evidence that top management team homogeneity is productive for small group functioning. Compositional similarity in members' values, attitudes, and status has positive effects on group consensus, conformity, and cohesiveness (Lott & Lott, 1965; McGrath, 1984; O'Reilly, Caldwell, & Barnett, 1989; Zenger & Lawrence, 1989). For example, similarity in tenure was found to result in low interpersonal conflict, improved communication, and low turnover (McCain, O'Reilly, & Pfeffer, 1983; Wagner, Pfeffer, & O'Reilly, 1984). Likewise, age similarity suggests shared growing-up experiences that encourage similar values and attitudes, resulting in improved communication and cohesion (Boyatzis & Skelly, 1991; Wagner et al., 1984). Further, persons who are in proximate social positions are more likely than status unequals to engage in frequent social associations, to bring their disagreements and opposing perspectives into the open for candid discussion, and to engage in consensus policy-making (Blau, 1977; Dess, 1987; Wagner et al., 1984).

However, heterogeneity in committee composition has certain advantages. For example, previous theoretical and empirical work has suggested that diversity in attitudes, values, and orientations is effective in nonroutine problem-solving situations (Filley, House, & Kerr, 1976; Nemeth, 1986; Shaw, 1976) characteristic of the highest levels of corporate decision making. Moreover, excessive homogeneity in members' values, goals, and experiences may lead to unfavorable small-group behaviors such as groupthink (Janis, 1982).

To balance the needs for cohesiveness and diversity in committee composition, it is likely that new members are brought in whose qualifications lie somewhere between those of nonmembers and continuing members: sufficiently like continuing members so that small-group cohesiveness ends are furthered, but sufficiently different so that fresh perspectives and orientations are given opportunities to surface. Accordingly,

Hypothesis 2: New members of committees, more than nonmembers but less than continuing members, will be outside directors, have longer board tenure, be older, and show greater evidence of internal and external activity.

METHOD

SAMPLE, DATA COLLECTION, AND SOURCES

Data collected for a previous study on the boards of directors of the first 300 companies of the 1984 *Fortune* list (Bilimoria, 1990), supplemented by

additional collection, were used in this study. Because of time and resource constraints, data were limited to the first 300 companies. Data were collected on these companies for the year 1983 by obtaining the names and titles of all directors of the corporations in the sample from the appropriate annual edition of the *Standard & Poor's Register of Corporations*. Subsequently, information for each director was collected from corporate proxy statements.²

The sample included 13 committees: audit, compensation, nominating, executive, finance, pensions and investments, public affairs, organizing, stock options, policy, benefits, contributions, and environment committees. However, before conducting the analyses, the frequency of committee occurrences in the sample was examined because of concerns about statistical power. The frequency of occurrences of committees in the sample was as follows: audit (271), compensation (262), executive (214), nominating (168), finance (101), pensions and investments (61), public affairs (59), organizing (36), stock options (26), policy (22), benefits (14), environment (7) and contributions (6).³ Certain other committees such as research and development, and science and technology, were observed so infrequently that they were not considered for this study. Because the number of times a committee was observed in the sample varied substantially (from 6 to 271), power was estimated for each committee. Four committees (policy, benefits, environment, and contributions) were not included in subsequent analyses because estimated power levels were unacceptably low.⁴

MEASURES

The director characteristics variables of type, age, tenure, internal activity, and external activity were measured as follows. Type was defined as a dichotomous variable with 0 representing inside directorship and 1 representing outside directorship. Tenure was defined as the number of years a director was on the board. Director age was measured in years. Internal activity on the board was measured as the number of committees, other than the one being examined, of which a director was a member. External activity was measured as the total number of directorships of other institutions held by a board member. Multiple external directorships were defined to occur when a director was concurrently a director or trustee of another corporation, or financial, political, or cultural institution. Because the measure was intended to capture the external networking linkages of directors in both work and social contexts, seemingly noncorporate links (e.g., membership on the board of trustees of an educational institution or cultural association) were included in its computation (see Useem, 1980, pp. 54-58 for a review of the

business, associational, educational, and kinship networks that perpetuate cohesiveness among corporate directors).

Within each company, for each committee's members and nonmembers, the percentage of outsiders, average tenure, average age, average internal activity, and average external activity were computed. New members in 1983 were identified by comparing each director's 1983 committee memberships with his or her 1982 memberships. Average levels of qualifications within each company were then computed for each committee for new members, continuing members, and nonmembers.

The appropriateness of the aggregations of members and nonmembers, and of new and continuing members, was indicated by examination of univariate analyses of variance (ANOVAs), which indicated that in almost all cases within-company variation in the characteristics was significantly less than between-company variation. The ANOVAs also indicated that within-group (member/nonmember and new member/continuing member/nonmember) variation in the characteristics was significantly less than between-group variation. Thus the average characteristics of members and nonmembers of committees, new members, continuing members, and nonmembers could be compared within each company.

ANALYSES

To investigate the hypotheses, comparisons were undertaken between committee members and nonmembers, and between new members, continuing members, and nonmembers. To determine whether the groups differed in terms of the director characteristics, multivariate Hotelling's T^2 tests, Wilks's lambda, and univariate F statistics were employed. Multivariate T^2 tests of differences were considered appropriate because the director characteristics under investigation are theoretically related to each other, and examination of the correlations among the director characteristics indicated a number of significant coefficients. Hotelling's multivariate T^2 statistic, used in the simplest form of multivariate analysis of variance (MANOVA), is a natural generalization of the univariate t test and is used to test the differences between groups on several dependent variables simultaneously (Stevens, 1986). The significance level of the F value associated with the T^2 statistic indicates whether the groups differ on all variables simultaneously. For the two-group comparison of members and nonmembers, Wilks's lambda can be interpreted as a measure of the proportion of total variability not explained by group differences. In the two-group case, the F value associated with Wilks's lambda is identical to that of Hotelling's T^2 .

Although departures from normality were observed in the data for certain variables, these were considered nonthreatening because the Hotelling's T^2 statistic is highly robust against such departures (Harris, 1985; Olson, 1974; Stevens, 1986). Further, because the data did not meet the requirement of homogeneity of covariance matrices, the relative group sizes and desired significance levels were examined to determine the need for further variance-stabilizing adjustments. Because the group N s were identical and large in the two-group comparison of committee members and nonmembers⁵ and the most conservative significance levels for the univariate statistics were used ($p < .01$), no further adjustments were necessary (Stevens, 1986). However, in the three-group comparisons, because not every committee in every board had new members, the group N s for new members, continuing members, and nonmembers differed sharply (largest/smallest > 1.5), requiring appropriate examination of alpha levels for possible inflation.⁶

The univariate F statistic was used to evaluate differences between groups on account of individual variables. To minimize the probability of a Type I error occurring as a result of the number of statistical tests being performed, the conventional significance level of .05 was divided between the comparisons made (Kirk, 1982). That is, because five comparisons were performed per committee, a conservative significance level cutoff point was established at the $p < .01$ level.

However, there are a number of disadvantages of relying on the univariate results to evaluate the relative importance of particular qualifications variables. First, post hoc examinations of estimated univariate statistical power revealed that, in many cases where statistical significance was not obtained, statistical power was low. This indicates that significance may not have been obtained because the design did not have a high probability of detecting existing differences. Thus we cannot conclude that one committee is more selective than another because a greater number of statistically significant univariate differences were observed for the first committee. Second, the univariate results do not reflect the intercorrelations between the qualifications variables. To further understand the relative importance of the qualifications variables, discriminant function coefficients and loadings were also examined.

RESULTS

The objective of this study was to investigate whether qualifications matter for board committee membership. Table 1 reports the qualifications

means and correlations by committee for members and nonmembers of boards having each committee.

MEMBERS AND NONMEMBERS OF COMMITTEES

The purpose of this analysis was to investigate whether the qualifications examined distinguished between members and nonmembers of board committees as predicted by Hypothesis 1. The results of the univariate and multivariate tests of the differences in the qualifications of members and nonmembers of committees are reported in Table 2. The multivariate T^2 statistic is significant for all committees, indicating that the qualifications variables jointly distinguish between members and nonmembers of all committees and that the set of qualifications examined is relevant for committee membership. Wilks's lambda ranged between .91 and .32, indicating the proportion of total variability in qualifications variables, which does not correspond to differences in group membership.

The univariate F results reported in Table 2 reflect whether the variable significantly differentiates between members and nonmembers of each committee. The results indicate that the percentage of outsider directors distinguished between members and nonmembers in seven of the nine committees examined (all but finance and pensions). For all these committees, except the executive committee, outside director status was favored for membership. This finding is as expected for the audit committee for which outside director membership is mandated by certain external agencies (e.g., the New York Stock Exchange). Inside director status was observed to be important for membership on the executive committee. Board tenure was important for membership on five committees: audit, compensation, executive, nominating, and finance. For these five committees, except for the audit committee, longer tenure was a qualification for membership. For the audit committee, having served on the board a fewer number of years was favorable for membership. Director age was significant for committee membership in the audit, compensation, nominating, and organizing committees; for all these committees, members were older than nonmembers. Evidence of internal activity on the board was important for membership on the audit, executive, and public affairs committees; for these committees, however, members tended to serve on fewer committees than nonmembers. The qualification of external activity was important for membership in the audit, compensation, and nominating committees, with members on these committees serving on external boards more than nonmembers.

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TABLE 1
Summary Statistics and Correlations of Boards Having Each Committee

	Mean	SD	<i>r</i>	2	3	4
Audit committee (<i>N</i> = 265)						
Percentage outsiders	71.54	12.53				
Tenure (years)	8.90	2.97	-.0755			
Age (years)	60.18	2.82	.2718**	.2996**		
Number of other committees	1.26	0.62	.1431*	-.1756**	.0461	
Number of other boards	3.79	2.00	.2159**	-.2227**	.0190	.2393**
Compensation committee (<i>N</i> = 254)						
Percentage outsiders	72.06	12.05				
Tenure (years)	8.82	2.87	-.1167			
Age (years)	60.17	2.62	.2501**	.2688**		
Number of other committees	1.29	0.61	.1230	-.1403*	.0623	
Number of other boards	3.83	1.98	.1999**	-.2182**	.0155	.2327**
Executive committee (<i>N</i> = 195)						
Percentage outsiders	71.68	12.37				
Tenure (years)	8.78	2.71	-.1065			
Age (years)	60.20	2.79	.2657**	.2993**		
Number of other committees	1.41	0.56	.1240	-.1633*	-.0227	
Number of other boards	3.78	1.95	.2041**	-.2360**	-.0366	.2045**
Nominating committee (<i>N</i> = 148)						
Percentage outsiders	72.37	12.35				
Tenure (years)	8.55	2.52	-.0077			
Age (years)	60.27	2.67	.3509**	.2851**		
Number of other committees	1.49	0.56	.1034	-.0098	-.0206	
Number of other boards	4.11	1.97	.1000	-.1933*	-.0722	.0839

TABLE 2
Qualifications of Members and Nonmembers of Committees

	Nonmembers	Members	F Value ^a	Standardized Discriminant Coefficients	Discriminant Loadings
Audit committee					
Percentage outsiders	56.74	98.77	1038.60***	1.006	.963
Tenure (years)	9.48	7.66	32.48***	-.059	-.170
Age (years)	59.65	60.89	13.65***	-.051	.110
Number of other committees	1.34	1.09	16.15***	-.256	-.120
Number of other boards	3.50	4.36	19.45***	-.026	.135
N	265	265			
Hotelling's T^2 (5, 524) = 2.12***, Wilks's lambda = 0.32***					
Compensation committee					
Percentage outsiders	59.24	92.03	350.01***	.935	.910
Tenure (years)	8.36	9.38	9.08**	.330	.147
Age (years)	58.96	61.81	84.30***	.151	.446
Number of other committees	1.22	1.28	0.89	-.098	.046
Number of other boards	3.45	4.49	29.70***	.145	.265
N	254	254			
Hotelling's T^2 (5, 502) = 0.84***, Wilks's lambda = 0.54***					
Executive committee					
Percentage outsiders	83.78	52.05	160.26***	.861	.743
Tenure (years)	6.85	11.29	113.12***	-.601	-.624
Age (years)	59.71	60.32	2.36	-.127	-.090
Number of other committees	1.42	1.14	16.11***	-.079	.235

Number of other boards	3.80	3.70	0.22	-277	.027
<i>N</i>	195	195			
Hotelling's T^2 (5, 384) = 0.75***, Wilks's lambda = 0.57***					
Nominating committee					
Percentage outsiders	62.30	83.97	74.51***	-712	-766
Tenure (years)	7.58	10.00	28.27***	-530	-480
Age (years)	59.06	61.61	36.09***	-119	-533
Number of other committees	1.36	1.55	6.13	-0.43	-220
Number of other boards	3.62	4.80	20.91***	-316	-406
<i>N</i>	148	148			
Hotelling's T^2 (5, 290) = 0.43***, Wilks's lambda = 0.70***					
Finance committee					
Percentage outsiders	76.45	74.03	0.51	-0.92	-172
Tenure (years)	7.62	9.28	7.61**	.764	.661
Age (years)	60.31	60.63	0.49	-0.85	.167
Number of other committees	1.74	1.51	5.26	-5.96	-5.49
Number of other boards	4.21	4.71	2.00	.511	.339
<i>N</i>	85	85			
Hotelling's T^2 (5, 164) = 0.10**, Wilks's lambda = 0.91**					
Pensions committee					
Percentage outsiders	70.87	79.73	3.88	.823	.539
Tenure (years)	8.61	8.70	0.02	.304	.036
Age (years)	60.71	60.63	0.01	-0.491	-0.032
Number of other committees	1.78	1.48	6.15	-7.57	-6.78
Number of other boards	3.93	3.85	0.05	-2.76	-0.058
<i>N</i>	56	55			
Hotelling's T^2 (5, 104) = 0.12*, Wilks's lambda = 0.89*					
Public affairs committee					
Percentage outsiders	65.96	87.97	42.32***	.945	.801
Tenure (years)	8.40	7.84	0.85	-0.060	-0.113

continued

TABLE 2 continued

	Nonmembers	Members	F Value ^a	Standardized Discriminant Coefficients	Discriminant Loadings
Age (years)	60.32	60.40	0.02	-.262	.019
Number of other committees	2.01	1.54	12.99***	-.562	-.444
Number of other boards	4.94	4.85	0.05	-.173	-.029
N	47	47			
Hotelling's T^2 (5, 88) = 0.71***, Wilks's lambda = 0.58***					
Organizing committee					
Percentage outsiders	68.77	95.24	53.89***	-.952	-.817
Tenure (years)	9.11	11.74	5.81	-.372	-.268
Age (years)	59.93	63.42	9.35**	-.162	-.340
Number of other committees	1.78	1.98	1.25	-.476	-.124
Number of other boards	4.71	5.13	0.52	-.110	-.080
N	28	28			
Hotelling's T^2 (5, 50) = 1.50***, Wilks's lambda = 0.40***					
Stock options committee					
Percentage outsiders	51.18	88.25	34.98***	-.977	-.800
Tenure (years)	8.50	8.03	0.13	-.035	.049
Age (years)	58.97	62.41	6.25	-.495	-.338
Number of other committees	1.29	1.68	2.55	-.414	-.216
Number of other boards	2.74	3.33	1.01	.268	-.136
N	20	20			
Hotelling's T^2 (5, 34) = 1.44***, Wilks's lambda = 0.41***					

a. Only F values with $p < .01$ are reported as significant.

* $p < .05$; ** $p < .01$; *** $p < .001$.

The standardized discriminant coefficients and discriminant loadings indicate the relative importance of each qualification in distinguishing between members and nonmembers of a committee.⁷ Overall, the pattern of standardized discriminant coefficients reported in Table 2 indicate that the qualifications important for membership differ between the committees examined. The results suggest that the particular mandate and functions of a committee may call for specific member qualifications.

The monitoring and oversight role of the audit committee is likely to be best facilitated by members who are relatively independent of the management (outside directors), as mandated by several regulatory agencies such as the New York Stock Exchange and others. The standardized discriminant coefficients for the audit committee indicate that outsider type was indeed a far more significant determinant of audit committee membership than any of the other qualifications examined, even though each one attained univariate significance in indicating differences between members and nonmembers.

Because the compensation committee is charged with determining chief executive pay, its members are likely to possess the requisite qualifications so as to make the committee's compensation recommendations credible in the face of extensive public scrutiny. This credibility is likely to be best provided by persons who are independent and who have high status. The highest discriminant coefficients indicate the joint importance of relative independence from CEO control (outsider type) and familiarity with the internal workings of the board (high board tenure) in selecting compensation committee members. The low coefficient for age indicates that the qualification of general business experience is not in itself an important qualification, but the high loading for the same variable indicates that, because of correlations between age and the other more important qualifications variables, directors selected for committee membership are often older than nonmembers are.

The executive committee is concerned with internal agenda setting and strategic governance in times of crisis. For the effective performance of these functions, members are called on to be extremely familiar with the internal functioning of the company. The discriminant results, in fact, indicate that directors who combine the qualifications of inside director type and high board tenure were favored for membership on the executive committee.

For the nominating committee, which is charged with identifying and recommending candidates for directorships, the standardized discriminant coefficients indicate that outside type, high board tenure, and high external activity were important qualifications for membership. This reflects the need for nominating committee members to be familiar with both the requirements of the board for qualified new members and with the pool of candidates

external to the corporation who might serve as possible nominees. Here again, the discrepancy between coefficients and loadings seems to indicate that age differences between members and nonmembers result from the fact that outsider directors with high tenure and external activity are often older, rather than from an explicit preference for older directors.

The discriminant analyses reveal that the combination of high board tenure, low internal activity, and high external activity were desirable qualifications for finance committee members. The desirability of these qualifications is a function of the tasks of the committee, which require a deep understanding of the company's goals and direction coupled with focused attention on the company's financial concerns and an awareness of initiatives occurring elsewhere in the economy and the industry.

The standardized discriminant coefficients in Table 2 also indicate that the combination of outsider status and few other committee memberships were important for both the pensions and public affairs committees. The combination of higher tenure and lower age was also important for the pensions committee, indicating that familiarity with the corporation is more important than general business experience for its members.

Outsiders with high tenure and more other committee memberships were the most desirable members for the organizing committee. These qualifications enable committee members to draw on considerable familiarity with the inner workings of the board and the needs of many board committees, in assessing the boards' effectiveness and suggesting improvements in committee structure and membership. Table 2 results also indicate that older outside directors with more other committee memberships were favored for stock options committee membership.

In summary, the results of the analyses testing the differences between members and nonmembers of committees indicated that qualifications varied according to the committee investigated. Although there was some support for the predictions of Hypothesis 1 regarding the generally predominant outsider status, the longer tenure, the older age, and the greater external board activity of members than nonmembers of certain committees, the data also indicated that, where important, members of a committee tended to work on other board committees to a lesser extent than nonmembers.

NEW MEMBERS OF COMMITTEES

The objective of this analysis was to examine the qualifications of new members of committees in comparison with those of nonmembers and continuing members, to examine support for Hypothesis 2. The results of the

univariate and multivariate tests of the differences are reported in Table 3. The Hotelling's T^2 statistic was significant for each of the committees, indicating that the set of qualifications distinguished between the three groups for all committees.

Examination of the means of the qualifications variables for new members, continuing members, and nonmembers revealed some interesting patterns. Except for the executive committee, new members of all other committees were outside directors more than nonmembers but less than continuing members, indicating that committees of the board are generally staffed by outside directors. For the executive committee, new and continuing members were increasingly insiders, a finding supporting previous research on committee membership (Kesner, 1988).

Although the qualification of board tenure significantly distinguished between the three groups in five committees (audit, compensation, executive, nominating, and public affairs), in not one of these committees did new members have higher board tenure than nonmembers. This pattern was observed even in the two committees for which board tenure did not significantly distinguish between the groups, suggesting that in the selection of new members of committees attention is paid to bringing in relatively new blood. Directors who have not been on the board as long as others appear to be prime candidates for committee membership. Although this result does not support our hypothesis, it suggests evidence for the notion that fresh ideas and attitudes are important for selection to committees. The results for this variable also indicate that continuing members had higher board tenure than nonmembers in all committees except the audit committee, suggesting that, whereas directors with high board tenure are preferred for most committees, those with low board tenure are preferred for audit committee membership. Because the primary function of the audit committee is to monitor the adequacy of management control mechanisms, it may be that directors who have been around for a shorter period and who hence possess less established relationships with the corporation's top managers and inside directors are favored for membership on this committee.

Table 3 also indicates that the three groups differed significantly on the qualification of director age in five committees: audit, compensation, executive, nominating, and organizing. However, the hypothesized pattern of means was observed only for the compensation and organizing committees; that is, new members were older than nonmembers and younger than continuing members on only these two committees. However, although continuing members were older than nonmembers in the audit, executive, and nominating committees, new members were younger, suggesting once

TABLE 3
Qualifications of Nonmembers, New Members, and Continuing Members

	<i>Nonmembers</i>	<i>New Members</i>	<i>Continuing Members</i>	<i>F Value^a</i>
Audit committee				
Percentage outsiders	56.82	95.41	99.58	567.29***
Tenure (years)	9.48	4.41	8.13	58.01***
Age (years)	59.65	58.73	61.04	11.71***
Number of other committees	1.35	0.96	1.11	12.11***
Number of other boards	3.51	4.04	4.41	9.70***
<i>N</i>	266	109	253	
Hotelling's T^2 (10, 1240) = 2.06***				
Compensation committee				
Percentage outsiders	59.30	88.84	92.67	163.85***
Tenure (years)	8.35	5.69	9.78	29.95***
Age (years)	58.96	59.10	62.23	29.25***
Number of other committees	1.22	1.21	1.30	0.82
Number of other boards	3.47	4.33	4.49	12.65***
<i>N</i>	255	112	243	
Hotelling's T^2 (10, 1204) = 0.71***				
Executive committee				
Percentage outsiders	83.75	67.19	48.77	66.24***
Tenure (years)	6.85	5.80	11.92	70.69***
Age (years)	59.72	57.69	60.59	11.28***
Number of other committees	1.42	1.18	1.13	7.64**
Number of other boards	3.81	3.38	3.72	1.00
<i>N</i>	196	80	188	
Hotelling's T^2 (10, 912) = 0.70***				
Nominating committee				
Percentage outsiders	62.30	78.11	85.19	28.51***
Tenure (years)	7.58	5.89	10.62	29.48***
Age (years)	59.06	57.78	62.21	26.83***
Number of other committees	1.36	1.41	1.58	3.51
Number of other boards	3.62	4.06	5.00	10.88***
<i>N</i>	148	67	135	
Hotelling's T^2 (10, 684) = 0.47***				
Finance committee				
Percentage outsiders	76.45	82.32	74.08	1.27
Tenure (years)	7.62	7.06	9.64	3.63
Age (years)	60.31	59.29	60.90	1.93
Number of other committees	1.74	1.48	1.50	2.86
Number of other boards	4.21	4.57	4.79	1.17
<i>N</i>	85	33	79	
Hotelling's T^2 (10, 378) = 0.12*				

continued

TABLE 3 continued

	Nonmembers	New Members	Continuing Members	F Value ^a
Pensions committee				
Percentage outsiders	71.17	78.47	78.72	1.18
Tenure (years)	8.57	4.91	9.51	10.47***
Age (years)	60.67	58.94	60.74	1.56
Number of other committees	1.77	1.39	1.51	3.55
Number of other boards	4.03	4.54	3.83	0.63
<i>N</i>	56	24	54	
Hotelling's T^2 (10, 252) = 0.25**				
Public affairs committee				
Percentage outsiders	65.96	85.58	88.27	14.03***
Tenure (years)	8.40	3.98	8.41	12.74***
Age (years)	60.32	58.31	60.13	3.69
Number of other committees	2.01	1.49	1.53	7.41**
Number of other boards	4.94	4.88	4.91	0.01
<i>N</i>	47	26	43	
Hotelling's T^2 (10, 216) = 0.66***				
Organizing committee				
Percentage outsiders	68.77	85.71	95.37	15.07***
Tenure (years)	9.11	7.29	12.01	3.82
Age (years)	59.93	60.57	64.27	5.04**
Number of other committees	1.78	1.93	2.07	1.24
Number of other boards	4.71	3.21	5.05	1.96
<i>N</i>	28	7	27	
Hotelling's T^2 (10, 108) = 1.35***				
Stock options committee				
Percentage outsiders	51.18	56.11	93.51	18.15***
Tenure (years)	8.50	4.99	9.09	1.65
Age (years)	58.97	62.40	63.72	3.97
Number of other committees	1.29	1.69	1.57	0.86
Number of other boards	2.74	1.93	3.14	0.94
<i>N</i>	20	6	19	
Hotelling's T^2 (10, 74) = 1.49***				

a. Only *F* values with $p < .01$ are reported as significant.

* $p < .05$; ** $p < .01$; *** $p < .001$.

again that freshness of perspective is important for selection to these board committees.

Internal board activity, as measured by the number of other committee memberships, significantly distinguished between the three groups for the audit, executive, and public affairs committees. However, for all these committees, both continuing and new members had fewer other committee

memberships than nonmembers, indicating that directors who have fewer other commitments in terms of serving on other committees are preferred for committee membership. It may also be that, because an important responsibility of the audit and public affairs committees is satisfying important external stakeholders (the audit committee is often externally mandated and is directed to ensure external parties such as stockholders and creditors that adequate corporate standards are being maintained, and the public affairs committee is charged with reviewing and monitoring the corporation's social performance), these committees may not need to be staffed by members having high levels of familiarity with, and exposure to, the internal workings of the board. In addition, the executive committee, which is staffed predominantly by insiders, may already possess in-depth knowledge of the board's workings and may therefore not deem necessary the inclusion of members having exposure to other committees.

Evidence of directors' external activity, as measured by their external board memberships, distinguished between new, continuing, and nonmembers for the audit, compensation, and nominating committees. The means of the three groups indicated support for the hypothesized pattern: New members showed greater evidence of external activity than nonmembers but less than continuing members. The functions of these three committees reflect predominantly external orientations, possibly explaining this finding. The audit committee works to satisfy external constituencies of the adequacy of corporate controls. The compensation committee examines pay packages of comparable other chief executives and top managers and defends its determinations under conditions of widespread external scrutiny. The nominating committee is charged with continuously scanning the environment for potential candidates for directorship. All of these functions require external activity, particularly in terms of knowledge of the corporation's environment, as well as credibility and centrality within an external network of corporate directors.

As was done in the two group comparisons reported in Table 2, discriminant analyses were also performed to explore which variables are most important in distinguishing between nonmembers, new members, and continuing members of committees. Unfortunately, these results are not as easy to interpret as in the two-group case and are therefore not reproduced here. However, the pattern of the discriminant coefficients for the first discriminant function is almost identical to the coefficients obtained in the two-group analysis. The second discriminant function, although also significant, accounted for a maximum of 34% of the variance. The results continue to suggest that membership qualifications vary in their importance for different committees.

In summary, the results of Table 3 suggest that the hypothesized pattern of the qualifications of new members occurring between those of nonmembers and continuing members was observed for only a few of the qualifications. This pattern was observed for outside type and external board memberships in the audit committee; for outside type, age, and external board memberships in the compensation committee; for outside type and external board memberships in the nominating company; for outside type in the public affairs committee; for outside type and age in the organizing committee; and for outsider type in the stock options committee. In other words, the hypothesized pattern was observed in 11 of the 45 possible cases (24.44%). Interestingly, the hypothesized pattern occurred for the qualification of director type in 6 committees, suggesting powerfully that, except for the executive committee, members of committees are mostly outside directors. Cumulatively, other than for director type, these results suggest limited support for the hypothesized pattern for the external directorships qualification (3 committees) and only occasional support for this pattern for the other qualifications.

However, the results revealed two other patterns in the data. First, some qualifications of new members were lower than those of nonmembers, and nonmembers' qualifications were lower than those of continuing members in certain committees. This pattern occurred for board tenure and age in the audit committee, for board tenure in the compensation committee, for board tenure and age in the executive committee, for board tenure and age in the nominating committee, and for board tenure in the public affairs committee. These findings indicate that new members of committees generally had served a considerably shorter duration on the board than nonmembers (5 committees) and were younger (3 committees). That new members possess, by virtue of their lesser tenure and age, relatively looser connections with the conventions and practices of the board suggests that committee composition is calibrated so as to encourage the inclusion of newer and possibly different perspectives in the governance functioning of committees.

A second pattern that emerged was that, for certain committees, some qualifications of both new members and continuing members were lower than those of nonmembers. This pattern was observed for other committee memberships in the audit committee, for director type and other committee memberships in the executive committee, and for other committee memberships in the public affairs committee. These findings indicate that new members and continuing members were increasingly inside directors on the executive committee and that serving on fewer other committees was an important consideration for membership to certain committees.

DISCUSSION

This study examined (a) whether committee members differ from nonmembers on the basis of certain characteristics that engender effectiveness in the corporate governance function and (b) whether meaningful patterns are observed regarding the characteristics of new members selected for committees. For several committees, members were outside directors, had longer board tenure, were older, sat on fewer other committees, and showed greater evidence of external activity than nonmembers. Further, the analyses of the new member results indicated generally that (a) new members were outside directors and held external directorships more than nonmembers but less than continuing members, (b) new members of committees had less tenure on the board and were younger than both nonmembers and continuing members, and (c) new members and continuing members served on fewer other committees than nonmembers.

The overall pattern of differences between members and nonmembers suggests that the qualifications for committees differ on the basis of the activities and responsibilities of the committee. For example, although director type is important for almost all committees, insider qualifications appear to be particularly important for executive committee members, whereas outsider qualifications appear to be almost a requirement for audit committee members. Evidence of greater external activity (several other corporate directorships) and greater exposure to the general business environment (older age) appear to be most beneficial for audit, compensation, and nominating committee members because of the greater external familiarity required for the tasks of these committees. Evidence of firm-specific familiarity (through high tenure on the board), on the other hand, appears to be important for committees more focused on the internal operations of the company, such as the executive and finance committees. More direct empirical testing of the relationships between committee functions or outcomes and member qualifications are required to further extant understandings of committee governance and selection dynamics.

Further, the results are suggestive of an interesting pattern in that the four subgroups most frequently observed in the sample and most often studied in the literature (the audit, compensation, executive, and nominating committees) were those for which differences in the highest number of qualifications variables were found. This pattern, suggesting that director qualifications are more important in these four committees and that selection of new members to these committees is more scrutinized than in other committees, provides indirect evidence for the notion that these four committees are indeed the most powerful committees of the board. Of course, a considerable descriptive

literature exists focusing on these committees as the most influential subgroups within the board (see, e.g., Braiotta & Sommer, 1987; Kesner, 1988; Securities & Exchange Commission, 1980; Vance, 1983; Waldo, 1985; Worthy & Neuschel, 1984). The results of this study thus suggest that the distribution of committee power may be reflected in committee composition.

Although our cross-sectional data do not permit us to completely untangle the development of directors' careers over time, our results have some interesting implications for how directors might gain membership on particular committees. First, high board tenure generally does not seem to be required to gain membership on a committee. A director can gain and demonstrate firm-specific knowledge in the first few years on the board, sufficient to merit committee membership. More time on the board is probably required to join the finance and organizing committees, however, where high tenure is valued. Second, age is related to membership status for several committees, although the age discrepancies between members and nonmembers tend to be small. Younger directors may need to more forcefully demonstrate their general business experience to advance to membership on the audit, compensation, nominating, and organizing committees. Third, directors must be selective in which committees they wish to join; overcommitment in terms of already serving on several other committees limits newer nominations. Finally, external networking is an important way to develop over time as a director: increasing memberships on other boards are related to the likelihood of joining the audit, compensation, and nominating committees.

Because members are being selected for a particular committee on the basis of qualifications relevant to that committee's functions, it is likely that members would be more homogeneous in terms of those qualifications than other board members. Our examination of the determinants of the variance-covariance matrices for each group did, in fact, suggest that the qualifications of continuing members were more homogeneous than for new or nonmembers (see Note 6). This might suggest evidence for the notion that the board's committees operate as relatively exclusive enclaves, in that those directors who share similar characteristics are more likely to be included for membership. For example, for certain qualifications (director type, external activity, and internal activity), new members' qualifications approached those of continuing members more than did nonmembers' qualifications, suggesting some support for Kanter's (1977) concept of homosocial reproduction that managers tend to bring into their organizations people who are similar to themselves. By such selection, powerful incumbents maintain a degree of homogeneity in member values, attitudes, and status, thereby facilitating group integration and cohesion. In this sense, our results provide additional

support for previous research suggesting that demographic similarity is a salient basis for group membership: Individuals construct or maintain group homogeneity to increase the salience of group membership, from which they may then derive positive social psychological benefits (Tsui, Egan, & O'Reilly, 1992).

Our results, however, suggest that the attention paid to homogeneity in committee membership is somewhat tempered by a concern for diversity in the selection of new members. Our findings that new members of committees tended to be younger and to have less board tenure than nonmembers suggest that the introduction of fresh perspectives and orientations in group functioning is simultaneously important in constructing a committee.

The results of this study confirm that the staffing of the standing committees of the board is an important practical governance issue. The results suggest, in particular, that chief executives and board members concerned with the nomination of directors to committees must pay special attention to the decision processes used for selecting committee members. First, board members should determine the specific purposes, tasks, roles, and responsibilities of each of the standing committees of the board. Second, board members should identify the specific director characteristics relevant for effective accomplishment of the governance work of each committee. Third, board members should carefully evaluate the weights they assign to homogeneity and diversity while determining optimal committee composition, as well as other criteria emerging from the desired compositional mix of the subgroup. Fourth, board members should evaluate the match between the requirements for the committee and the characteristics of candidates, paying particular attention to whether they similarly question the characteristics and fit of all candidates. Fifth, powerful incumbents should be aware of the tendency to select candidates on the basis of similarity to themselves. Finally, board members should continuously evaluate these and other subprocesses of committee member selection to ensure that the qualifications of candidates appropriately influence the choice of committee members.

At this juncture, it is important to suggest two caveats in interpreting our results. First, because the data for this study were drawn from boards in 1983, they may not accurately reflect current board and committee composition, especially because numerous changes have occurred in corporate boardrooms in recent years. Future research should continue to explore the question of qualifications of board and committee members to confirm the director characteristics necessary for effective corporate governance. Second, this study examined a set of director characteristics. Because qualification for committee membership is a complex and multifaceted construct that may vary by board and committee type, other relevant components not included

in this investigation may need to be studied. Future research may need to more directly address the issue of the characteristics necessary for effective corporate governance, specifically identifying the minimum qualifications necessary for effective performance on a committee.

This study has yielded deeper insights into the particular qualifications for membership on committees of the board. In general, the results of the analyses suggest further evidence for Kesner's (1988) conclusions, highlighting the importance of the study of corporate governance dynamics at the committee rather than at the full board level to appropriately register group composition effects. Indeed, although the concentration of corporate power at the board level continues to be a meaningful subject of study, the innermost corporate circle composed of the critical subgroups of the board offers fertile ground for further investigation.

NOTES

1. See, for example, Vance (1968, 1983); Mace (1971); Bacon and Brown (1975); the Business Roundtable (1978); Mueller (1974, 1978); Brown (1976); Greanias Windsor (1982); Heidrick and Struggles (1982); American Law Institute (1983); Worthy and Neuschel (1984); Geneen (1984); Loudon (1982); Waldo (1985); Anderson and Anthony (1986); Kesner and Dalton (1986); and Lorsch (1989).

2. This two-stage procedure was necessary because proxy statements list only those directors who are available for election to directorship for the following year. Directors who are not standing for election but who served on the board during the previous year; or, in the case of staggered boards, directors whose terms have not yet expired, may not be fully listed in such statements. Therefore, relying on proxy statements, which list future directors, to get information on directors who served in the previous year may yield biased information. By first obtaining relevant listings from Standard & Poor's registers and by matching with appropriate proxy statements, this problem is largely mitigated.

3. The audit committee is more frequently observed because important external agencies (e.g., the New York Stock Exchange) mandate its existence.

4. All other committees were retained for subsequent analyses, and post hoc estimates were 1.00 for multivariate tests in most committees. Although the estimates for the power of multivariate tests in the finance (power of .90 for two-group comparisons and .92 for three-group comparisons) and the pensions (power of .78 for two-group comparisons and .98 for three-group comparisons) committees were lower, they were considered sufficient to interpret the results obtained for these committees.

5. Previous research has shown that differences in the variance-covariance matrices of groups of equal and large size do not appreciably alter the true significance level of T^2 (Holloway & Dunn, 1967; Ito & Schull, 1964).

6. We examined the determinant of the variance-covariance matrices for each group in relationship to the group sizes. Because the smallest size group (new members) tended to have the largest variance, following Stevens (1986), we explored whether the reduction in the alpha level would change the significance assigned to variables. Even at $p < .03$ for multivariate statistics and $p < .006$ for univariate statistics, all the variables observed as significantly differentiating between the three groups continued to do so. Because the patterns of significance

were maintained, we choose to report results using the conventional significance cutoffs of .05 and .01. These differences in variance for the three groups are interesting in and of themselves, because they indicate that continuing members have the most homogeneous qualifications.

7. In all cases, the first discriminant function was significant at the $p < .05$ level.

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