Abstract

Board Interlocks could have a positive effect on the adoption of governance practices and especially on the Corporate Social Responsibility (CSR). We surpass the predictions of the agency theory by proposing a cognitive-behavioral approach of governance to define the role of director. Given the lack of previous researches, a literature-based approach comes as a necessity. We study the connection between the nature of the director’s profile and the knowledge transfer in CSR practices; and this could be beneficiary for the boards of directors. We underline the importance of individual director characteristics such as identification, recognition or motivation in the success of this transfer.

Keywords: Profile of the director, Knowledge Transfer, Board of Directors’ Network. Behavioral Governance, CSR.

Résumé

L’ouverture des réseaux de conseils d’administration pourrait avoir un effet positif sur l’adoption des pratiques de gouvernance et spécialement en matière de Responsabilité Sociale des Entreprises (RSE). Nous dépassons les postulats de la théorie d’agence pour proposer une approche cognitivo-comportementale de la gouvernance, dans la définition du rôle de l’administrateur. Nous proposons une approche basée sur la littérature, pour étudier la relation entre la nature du profil d’un administrateur et le transfert de connaissances en matière de RSE, qu’il est susceptible de faire bénéficier aux conseils d’administration dans lesquels il siège. Nous soulignons l’importance de caractéristiques individuelles de l’administrateur comme l’identification, la reconnaissance ou la motivation dans la réussite de ce transfert.

Mots clés : Profil de l’administrateur, Transfert de connaissances, Réseaux du conseil, Gouvernance comportementale, RSE.
Empirical researches recognize two primordial roles in the board of directors. The roles are controlling the management team and protecting shareholders’ interests as stipulated in the agency theory (Fama and Jensen, 1983; Ferris, Jagannathan and Pritchard, 2003; Monks and Minow, 1996, Perry and Peyer, 2005). On the other hand, the resource theory (Pfefferet and Salancik, 1978; Villiers, Naiter et Van Staden, 2011) presents the board of directors as a “co-leader” of the management team. This gives way to say that it has a role to assist and monitor the strategic choices of Management, and watch over the risk management as well (Johnson, Daily an Ellstrand, 1996; Charreaux and Wirtz, 2007; Guieu and Meschi, 2008). The commitment concerning Corporate Social Responsibility (CSR) is one of the axes that a board of directors has to include in the approval of the risk map. The research of Villiers, Naiter and Van Staden (2011) validates the predictions of both theories. Consistent with agency theory, the authors find a positive relationship between environmental performance, higher board independence and lower concentrations of directors appointed after the nomination of the CEO. Furthermore, consistent with resource dependence theory, a larger board with legal experts and larger representation of active CEOs is associated with higher environmental performance.

The evaluation of the role of directors in engaging in CSR supposes first that they are aware that as there is a potential financial or operational risk, there is a CSR risk too. Plus, the CSR risk has to be integrated into the definition of the global strategy of the company. We can distinguish two research groups. The first studied the relationship between board composition and the environmental performance (Villiers, born and Van Staden, 2011) and the second focused on the study of the relationship between directors and the spreading of good governance practices, in reference to networks theory (Davis et al, 2003; Robins and Alexandre, 2004; Shropshire, 2010). As we know, the relationship between the three parameters (director’s profile, knowledge transfer and adoption of CSR practices) has not been sufficiently developed. Choosing to study the profile of the director has led us to surpass the assumptions of the agency and resource dependence theories to propose a behavioral and organizational approach. The purpose is to investigate the impact of the director’s profile on the success of a knowledge transfer through a dissemination of good governance practices in CSR. Although the phrasing of the objective in this paper presents a knowledge transfer process where the director’s profile is the input and the adoption of CSR practices is the output, we opted for the proposal of a conceptual model that does not claim a predefined sense of relationships between the three parameters (see Figure 1, page 2). This choice is justified by the lack of researches that has already dealt with the subject and the possibility that one of the parameters could have a moderating effect in defining the relations of the two other parameters.

To clarify the role of director’s profile and board interlocks on the adoption of CSR practices, a theoretical work is as important as an empirical one. Most formalistic network approaches reveal powerful effects of configurations such as the degree of connectivity or centrality of a company member’s cluster. These results, based on algorithm methods, are very interesting but should not be considered as the end products of research process (Alder and Kwon, 2002, p 35). A better understanding of social network and board interlocks needs to develop, in the same time, a conceptual framework that integrates the different theoretical perspectives. In fact, the concept of social capital has been treated by a wide range of social science disciplines (sociology, economics, organization etc.) which proposes different answers to the problems exposed in their own fields. Moreover, the studies of organizational behavior
interact with the individual, the corporate as well as the interfirm levels. We believe that a literature-based approach is first required as it allows identifying some of the key issues under debate before embarking in empirical approach.

The structure of our paper is as follows. First, we will present the conceptual framework that processed the issues of knowledge transfer in the board of directors. Second, we will discuss the relationship between governance and CSR by highlighting the role and the responsibility of director. We will end with concluding and presenting the limitations of this study and the possibilities for future researches.

1. Knowledge Transfer and Board Interlocks

1.1. From the knowledge transfer to the spreading of practices

1.1.1. Which type of knowledge transfer?

Knowledge transfer has become a central concept in the field of research in strategic management and corporate governance. Indeed, several authors consider it as fundamental explanation element of the existence of the firm itself (Conner and Prahalad, 1996; Spender and Grant, 1996, Nonaka and al, 2000). In addition, many other researchers who work on inter-organizational relationships refer to the knowledge transfer as a central issue (Dyer, Singh, 1998; Tsang, 1999, Simonin, 2004).

According to Tsoukas (1996), knowledge in the organization is distributed among individuals or between units. The company will then seek to take advantage of the different expertise through the knowledge transfer (Argote and al, 2000). Note here that the network represents an ideal scene for learning new knowledge (Powell, 1998). Thus, the management of knowledge in network allows the company to adopt easily new knowledge but also to create a situation where it is no longer necessary for it to have an exclusive ownership of knowledge for profit (Powell, 1998). Furthermore, the management of a network for a learning objective allows the creation of common knowledge that is source of relational annuities (Dyer and Singh, 1998). These are related, among other things, to the existence of complementary knowledge and modes of governance based on relational principles (trust, shared values).

What is most interesting in this paper is the knowledge transfer between individuals in different organizations and this does not necessarily presume formal intentions for organizations to cooperate but rather individual initiatives moderated by various parameters (Ben Hadj Mbarek, 2005; Shropshire, 2010).
1.1.2. Networking and spreading practices

The board interlocks are a privileged channel for knowledge transfer and could play an important role in the adoption of certain governance practices (Del Vecchio, 2010). Thus according to Davis and Greve (1997), changes in governance practices in a board of directors could be explained by a process of adaptation to observed practices in other boards in which the directors sit. Therefore, board interlocks could have a positive effect on a board’s cognitive role and the adoption of governance practices (Mizruchi, 1996, Westphal and Zajac, 1997). Conyon and Muldoon (2006) implement the economic model of "small worlds" founded by Jackson and Rogers (2005) in the context of corporate governance. The two researchers differ from other previous studies on "social network" by the context chosen (Davis et al, 2003; Robins and Alexander, 2004). Indeed, they demonstrate, by comparing data boards of directors in three countries (the United States, England and Germany), the importance of graph theory\(^1\) in the understanding of the boards of directors 'functioning. They investigate not only the connectivity between the boards but also the one between the directors of the boards. Conyon and Muldoon (2006) find a positive relationship between the directors who combine a high number of terms. « Big-Hitters associate with big hitters and low hitters associate with other low hitters», which is defined by sociologists as “homophily” (McPherson et al. 2001).

Charreaux (2003) insists on the importance of socio-strategic theories\(^2\) (Mizruchi, 1996) in comparison with financial theories in the evaluation of the role of directors interlocks. He argues that they provide better understanding of the performance, the financial behavior and the distribution of certain corporate governance practices. These theories provide a supportive environment that takes into account the cognitive functions, the contingency to a strategy, and the ambiguity of defining the meaning of the relationship between the board and performance. Henceforth, the board is a place for learning and a provider of cognitive resources (Charreaux and Wirtz, 2006). Del Vecchio (2010) confirms that board interlocks are a way of acquiring knowledge and skills. She adds that the density of relations and their concentrations around an actor are the key parameters to promote the efficiency of a network.

The knowledge transfer or the adoption of best practices could be dilemma-arising terms. We refer to the Shropshire’s definition of knowledge transfer which presents it as an initial action in a stepwise multilevel process of diffusion (Shropshire, 2010, p 259). A process that begins with an individual action and then gets moderated by the context (see Table 1, page 4). The spread of best practices would be then the output of this process. Indeed, understanding the organizational behavior and especially that of the board in our “case-study” assumes a multidisciplinary approach that integrates several micro-and macro-economic factors and goes beyond the scope of a single theory (Fama and Jensen, 1983; Hitt, Beamish, Jackson and Mathieu, 2007 cited in Shropshire, 2010). However, the measurement of certain variables that allow the understanding of the operational process of a board remains perplexed. The director’s knowledge transfer across board interlocks, by the diffusion of best practices is affected by the directors’ individual characteristics like his competence and his profile; but it is also be affected by the structure of the board, its receptivity and by the environment in

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1 Graph theory (1735) is a computer and a mathematical theory. It’s used in several areas, including those related to the concept of social network. According to the vocabulary of this theory, a graph is a set of points; some pairs are directly connected by a link. These links can be oriented or not.

2 The theories offer explanations of social networks based relative to strategies. Networks can meet the interests of organizations or individual connected. The links are not established on a voluntary basis as is recommended in the inter-organizational theories.
which it operates (Shropshire, 2010, Del Vecchio, 2010). In this paper, we focus on the individual parameters of the director.

1.2. Individual parameters of the director for a knowledge transfer

The agency theory emphasizes motivation as a factor that determines the success of the board in its monitoring role. However, the resources dependence theory is more focusing on the structure and composition of the board. Combining these two approaches in the study of the role and functioning of the board would be inevitable. Indeed, the board structure has an impact on the success of its control role and on the integration of new resources on the board but the board’s motivations can also moderate these relationships (Hillman and Dalziel, 2003). Note that the role of the board cannot be reduced to the disciplinary dimension, but must rather be considered as a working group whose output is essentially cognitive (Forbes and Milliken, 1999). Indeed, board directors could be associated with the concept of social capital. The definitions of this concept, provided by many researchers, are highly influenced by their fields’ requirements (Burt, 1992; Coleman, 1990; Pennar, 1997; cited in Adler and Kwon; 2002). One of the definitions is Adler and Kwon’s (2002), which states that the social capital is the resource available to actors as a function of their location in the structure of their social relations. Adler and Kwon (2002) identify three sources of social capital: opportunity, motivation and ability. This identification responds to the development that follows.

The motivation of a director to transfer his knowledge and the degree of influence that he can exert on the board to adopt its recommendations, are very crucial. The theoretical framework developed in social networks (Ashforth and Mael, 1989; Foreman and Whetten, 2002) marks the identification as a first parameter of the director’s motivation. A director who identifies himself to the corporation in which he works is likely to be more motivated to get engaged and share experiences with the board (Harrison and al. 2002). In addition, a desire for recognition as a good director by the market and the opportunities to have other terms are other motivation’s sources (Hillman and Dalziel, 2003; Westphal and Khanna, 2003). Directors could also be driven by “instrumental motivation” (Adler and Kwon, 2002). They cultivate and exploit social capital to advance their careers. However, this motivation may be questioned by the risk of an attitude of complacency with interpersonal behaviors between different directors. Westphal and Stern (2007) cited the example of being in favor of certain decisions in order to validate other ones or to have directorships in other companies. However, directors could also be motivated by “normative commitment” or norms of generalized reciprocity which could transform an individual from egocentric agent into member of a community with shared interests (Adler and Kwon, 2002).

Added to the director’s motivation, his profile can be considered as second criterion to be adopted in the definition of knowledge transfer. We invoke three points that we consider important in defining this profile: the degrees of proximity to the CEO, the extent of professional experience and the power to veto any decisions of the CEO. In fact, belonging to a group of majority in the board enhances the contribution of the director and gives more value to his information. Researchers have identified several dimensions such as gender, race, degree, and industry expertise to distinguish this group of majority who are most influential on the board (Westphal and Stern, 2006). Directors who have easy access to the CEO usually have a hearing board which is more receptive to their experience and knowledge (Golden and Zajac, 2001). The CEO shares with them the same route as serving in other boards, being a member of some philanthropic associations or simply a member in the same club (Kramarz and Thesmar, 2007). The chairmen give more trust to
their suggestions and experiences. These social connections and affinities between the directors of a board help promote certain standards of behavior in defining the role of an outside director and in facilitating knowledge transfer (Shropshire, 2010). Concerning the board’s ability to balance the power of the CEO, empirical research specifically highlight the ability of the board, if necessary, to initiate or inhibit the corporate strategy (Westphal, 1999; Golden and Zajac, 2001).

“With a powerful CEO, decisions are more likely to reflect the CEO’s preferences and experience, rather than those of interlocking directors.” (Shropshire, 2010, p 255)

In addition to his motivation and the quality of his relationship with the CEO, the director’s experience facilitates his ability to provide a plus to the board; For example, living the single case of renewal of the CEO, acquisitions, planning etc. (Finkelstein and Mooney, 2003). His aptitude to do that can be defined not only through the cumulative number of directorships in other boards but also through the function performed (Executive director, special committee member or chairman of a committee). However, does the responsiveness of the board to the director’s experiences tend to decrease under their heavy presence in other boards, as the board's attention will be shared between all these directors? The composition of the board and especially the demographic diversity can make decisions-making more complex. This diversity presents both advantages and limitations in terms of speed of decision making, quality of debate and what these discussions lead to (Harrison, Price, Gavin, and Florey, 2002). Nevertheless, Guieu and Meschi (2008) found, in studying the boards of major European groups, that the cognitive function of the board is facilitated by its large size (which allows the diversity of directors) and the multiplicity of weak links between directors.

Table 1 - The role of interlocking director and Board receptivity in the diffusion of practices

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<th>Levels</th>
<th>Summary Factors That INCREASE the Likelihood of Diffusion</th>
<th>Summary Factors That DECREASE the Likelihood of Diffusion</th>
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<td>The role of the interlocking director in knowledge transfer</td>
<td>Organizational identification</td>
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<td>Breadth of board experience</td>
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<td>Interlocking director status</td>
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<td>Board receptivity</td>
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<td>Board diversity</td>
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2. Towards a socially responsible governance

2.1. Divergence or convergence of two concepts: governance and CSR?

Following the financial scandals of large corporations such as Enron and Parmalat, the governance and the diligence of the board are becoming the concern of regulators, rating agencies, financial analysts etc. Moreover, the importance of CSR and the Socially
Responsible Investment (SRI) has increased considerably in recent decades. Indeed, companies are forced to include this parameter in their overall approach. Before discussing the possible interrelationships between governance and CSR, it would be appropriate to point out the ambiguity of these two concepts.

CSR is a complex concept (Goebbels, 2001; Henderon, 2001; Allouche and al. 2004). This complexity is reflected first through the conceptualization deficit (Dupuis, 2008). Money and Schpers (2007) refer to the results of the study by KPMG in 2005 to discuss a change in the definition of CSR. Indeed, CSR is initially limited to the purely environmental issues. It reflects today's sustainability issues and the way a corporate culture is established in large listed companies. The same way, Saulquin and Schier (2005) provide the definition of CSR with the concept of "social construction of co-performance". Indeed, they present it as a process of redefining the mission and the company purpose, more in line with new environmental constraints and new expectations of stakeholders. The performance is then the result of a social co-construction between the company and its stakeholders.

According to Van Marrewijk (2003), CSR is the overlap between several concepts such as sustainable development, business ethics, responsible entrepreneurship or the "Triple Bottom Line" which is the evaluation of the social, environmental and economic performance.

Responsible management according to the European Commission (EC) referred in 2004 to a voluntary integration by companies of social and environmental concerns in their business operations and their relationships with stakeholders as well. In 2011, the EC presented CSR as an obligation and not as a spontaneous action of the companies. It then proposes to redefine CSR as "corporate responsibility towards the effects they have on society." It aligns with the definition of ISO 26000 and particularly emphasizes the importance of collaboration with stakeholders to perform a process that allows the integration of CSR concerns. In fact, the commitment to a CSR strategy can lead to beneficial consequences for the company in terms of cost reduction, employees’ loyalty, better regulations and new knowledge acquisitions (Luetkenhorst, 2004). However, each partner of the company (workers, government agencies, management etc.) has a different interpretation of this concept. In all cases, the sustainability of the company would be the ultimate goal towards which all objectives of CSR should converge (Linnanem and Panapanaan, 2002; Van Marrewijk, 2003).

A very important issue is the kind of relationship that may exist between governance and CSR. Governance has been most often defined as the system by which companies are directed and controlled. The first academic works (Berle and Means 1932, Friedman 1962, Jensen and Meckling, 1976) are more shareholder-oriented approach that addresses the problems arising from a separation of capital ownership and management. Since the 80s, a new corporate governance paradigm is appearing. It marks a transfer from shareholder vision to stakeholder vision. This stakeholder approach has influenced concepts in governance and has a certain convergence with CSR (Ayuso and Argandona, 2007). As we mentioned, CSR assumes a stakeholder approach (Freeman, 1984) that exceeds the company's vision of economic profit as the only objective of any organization. Stakeholder theory could be a “regeneration” of the theory of civil society. In fact, both of them legitimize the interests of all parties (Bonnfous-Boucher and Porcher, 2010). The authors add that the stakeholder theory occupies an intermediate position between strategic management and political philosophy (the

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3 The Cadbury code definition, 1992.
sovereignty of big business). Moreover, if the stakeholder theory is generally the theory of reference in dealing with CSR issues, Dupuis (2008, p 68) explains that "CSR practices are not limited to convey a stakeholder governance model. They also participate, equally and even more, to the emergence of networks governance". He emphasizes the ability of flexible firms, operating in network, to adopt CSR practices beyond a regulatory imposing framework. In addition to the theoretical framework, the concepts of governance and CSR converge at the level of obligations of a fiduciary order and the moral responsibility of companies towards stakeholders (Jamali and et al., 2007). Indeed, both concepts convey transparency, ethics, and sustainability of the organization. What would be the responsibility of directors towards these new challenges?

2.2. Directors and CSR

National and international regulations impose more and more, especially for large listed companies, rigor in extra-financial information disclosure. In France, listed companies have to disclose about the company’s commitment to sustainable development and social information (NRE, 2001). They have to improve the quality of the information provided in the annual and the sustainability reports (the law called Grenelle II, 2010). These include verifying the information, giving retrospective and prospective visions that would best assess and measure. Societal data provided in these documents has become enforceable and directors' liability may be incurred. Indeed, the Chairman should be responsible for the nomination of an organism accredited of data Grenelle II by the French Accreditation Committee (COFRAC). At the end of the audit, a report certifying the accuracy of the information and describing the procedures implemented as part of the mission, should be delivered. The information which deals with the commitment and CSR is no longer embedded in the report of the external auditor. Henceforth, it is the subject of a specific report.

Beyond the regulations compelling, CSR has become a priority and the board must integrate this dimension in its agenda. However, the priorities may vary depending on the status of the director. Furthermore, a survey conducted by PriceWaterhousCoopers PwC (2007) with the directors of the CAC 40, shows that the employed directors are the most sensitive to different CSR issues that refer to internal environment (working conditions, relations with NGOs, solidarity actions etc.). The chairmen pay more attention to the economic development component of long-term business. As for independent directors, the highest priorities are the policy of the company ethics and the respect for the environment. Note that the evolution of the conceptual framework of governance has led to more expectations and to greater commitment of the board in CSR (Ayuso and Argandona, 2007). In fact, the approach to shareholder governance stops at the monitoring role of the board of directors. It presents them as defendant shareholders. The stakeholder theory deals with the composition of the board into two levels (Ayuso and Argandona, 2007). The first is the normative approach which deals with ethical and moral questions. This approach proposes a board composition which represents the various stakeholders and their different interests. The

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5 In France, section 225 of the Act which became article 2 Grenelle 225-102-1 of the commercial code, called for the serious of the disclosure of extra financial information. Companies with securities traded on regulated market and the companies which have more than 5000 employees with total assets or sales tax-free over a billion euros, have to verified non-financial information provided in regulated reports from 31/12/2011. A phased implementation schedule is set for other types of companies.
second is the instrumental approach which focuses on the increased performance and business value where the board is presented as a human and social capital (Hillman and Dalziel, 2003). This brings us to the role of the boards’ networks in a successful transfer of knowledge on CSR together with the impact of the individual criteria such as experience, expertise and profile of the director. Most researches are more focused on ethical issues such as executive compensation, board structure or board composition that would allow more responsible governance to take place (Villiers, Naiter and Van Staden, 2011). In the recent years, the cognitive approach has been adopted in the treatment of the boards’ role. It considers the inclusion of CSR by the board as an enrichment of the role of the director rather than an additional responsibility. Moreover, it is a contribution to value creation. That is to say, ensuring the ethics of the team management helps the board to increase the team flexibility and managerial opportunities for value creation. To best meet these new responsibilities, directors are encouraged to learn and train on specific issues and evolving businesses. The transfer of knowledge in this area, that board interlocks can guarantee, is one of the parameters of a continuous training and a conscious commitment of directors.

**Conclusion**

Evaluating the success of directors in fulfilling their duties within the board, should not be restricted to the study of a simple relationship with the financial or social performance. Also, if they may be held liable for the information disclosed in the reference documents, a simple regulatory compliance to CSR is not enough to assess their contribution to the dissemination of these practices. The inter-organizational approach overcomes the institutional approach in assessing the contribution of a director on the board (Charreaux, 2003). Indeed, the inter-organizational strategies, based solely on individuals, not on the organizations that are in these social networks of boards, have an impact on the behavior of different individuals belonging to these networks and on the practices of the organizations in which they operate (McPherson and al, 2001). Individual parameters such as attitudes, personality, demographic differences of the directors (gender, training, social status, proximity to the CEO) allow to measure the integration level of the director on the board and the possibility of a collaboration (Harrison and al. 1994, Harrison and al. 2002). Even if we focused in this paper on the director’s profile that is about the knowledge transfer and dissemination practices, other contingency or contextual parameters can act as the turbulence of the environment or the degree of compliance of the organization (Shropshire. 2010). Additionally, an exploratory empirical research would allow the investigation of the most significant criteria of the profile of the director in the definition of knowledge transfer in CSR, through a case study or a quantitative research.

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