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Original Article

Towards a Multi-theoretical Approach on the Board and Firm Performance Relationship

Nguyen Thu Thuy Tien*

Curtin University of Technology, Australia - Singapore Campus (Curtin Singapore), 90-92 Jln Rajah, Singapore 329162

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Abstract: Recent reviews of research on company boards and firm performance relationship tend to criticise three of the main traditional theories on boards, namely Agency Theory (AT), Resource Dependence Theory (RDT), and Managerial Power Theory (MPT) for their narrow assumptions and focuses on a limited range of board tasks. This study provides a critical review on these above theories and promotes a direction towards an integrated approach with three important governance factors, namely board capability, board incentives, and CEO power for a better understanding of board-firm performance relationship.

Keywords: Theoretical literature review, board, firm performance, multi-theoretical approach.

1. Introduction

Do boards contribute to corporate performance and, if so, how, and how much? This question has been one of the key issues of interest in research on corporate governance. Theoretically and practically, the board contributes to firm performance by how well it can perform certain tasks [1]. Those tasks include: (i) assisting the top management team in the form of advice, counselling, and providing external resources and (ii) monitoring the CEO and other executives to ensure that they act in the best interests of shareholders [2].

In Vietnam, since the Institutional Framework for Corporate Governance following OECD guidelines was introduced in 2012 [3], there has been an increasing number of international publications on the contribution of boards on firm performance in Vietnam. Research in this domain has mainly focused on the economic impact of the structural attributes of the board, include CEO-Chair duality [4], board independence [5], board size [6], board ownership [7], and more recently, board gender diversity [8], and board human capital [9]. Most of these attributes of the board are informed by Agency Theory as important factors to ensure board monitoring effectiveness [10]. *However,*

* Corresponding author.
E-mail address: tien.nguyen@curtin.edu.au

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this literature in Vietnam is still scarce in quantity, and inconsistent in quality. Research on board-firm performance in Vietnam has not been able to provide a consensus answer as to whether, and which characteristics of the board can improve firm performance. For instance, some studies found board independence placing a positive impact on firm performance [11, 12], yet other studies found this relationship to be negative [13, 14], or not statistically significant [15]. Similarly, board size, duality, gender diversity are found to increase firm performance in some studies [7, 16]; yet, they are found to reduce firm performance or place no significant effect in other studies [7, 15, 17]. These inconsistent findings might be attributed to several reasons, ranging from the lack of theoretical foundation in most of the prior empirical research, the heavy reliance on Agency Theory proposition, to the less rigorous in research design and data analysis. Of which, *the absence of theories in most of research on board-firm performance in Vietnam might be largely attributed to this problem*. Theoretical background and assumptions seem to be absent in the vast majority of prior empirical research in this literature. Very few studies developed their hypotheses on a solid theory [4, 6, 7, 9] and even fewer studies look into the impact of the board on firm performance from a multiple theoretical perspective [18, 19]. This problem of research on board - firm performance in Vietnam is similar to what Korac-Kakabadse, Kakabadse [20] pointed out 20 years ago in their review of board-firm performance research across the globe. Consequently, the lack of theory-driven empirical research in Vietnam leads to the lack of a systematic and comprehensive view of whether, how and why the board can make a difference to organisational performance, which then translates to weakly developed hypotheses, less rigorous research design, and inconclusive findings, and results in a literature that is lagged way behind the current world knowledge in the field.

In a global context, widely invoked corporate governance theories, such as Resource Dependence Theory, Agency Theory, or Managerial Power Theory, have contributed considerably to understanding the relationship between shareholders, the board, and the CEO, and to how this relationship plays out to influence firm performance. Each theory makes different assumptions on board functions, board actions, and the governance factors underpinning board effectiveness/ineffectiveness [21]. However, by itself each of these theories provides a less than compelling explanation of the causal association between board composition and processes on the one hand, and firm performance, on the other [22]. Such conceptual limitations have been attributed variously to a narrow focus on a particular board task, which neglects the reality that the board performs multiple tasks at the same time [23], and to an overly-narrow view of the shareholders-board-CEO relationship, which is arguably more complex and dynamic than each theory assumes [24]. These shortcomings suggest the need to go beyond a single theoretic approach to incorporate multi-theoretic perspectives as a means of providing a more complete understanding of the board-firm performance relationship. Such an approach promises to strengthen understanding of how and what board characteristics can make a difference to firm financial performance [25].

As such, this paper sets out to i) link board research in Vietnam and the broader literature on board in the world, ii) encourage future research in Vietnam to recognise the importance of theories in board-firm performance research, and iii) identify the important factors explaining the relationship between board and firm performance and iv) suggest the way forward for a more comprehensive view of board contribution to firm performance in Vietnam by moving towards a multi-theoretical framework in order to explain why and how the board contributes to firm performance. Such framework should recognise the multiple roles that the board undertakes and the multiple attributes that affect board task performance. With these goals, this paper stands to make significant contribution to research on board and firm performance in Vietnam.

In doing so, this paper seeks to better reflect the complex nature of the shareholders - board - CEO relationship and provides a more dynamic way to look at how the board influences firm performance by addressing three questions:

i) What are the most prominent theories that address the relationship between board and firm performance?

ii) Are these theories well supported by empirical evidence?

iii) What are the strengths and weaknesses of these theories? And

iv) How can these theories be integrated to better explain the contribution of board to firm performance?

As a literature review study in nature, the methodological steps of this paper are as follow. Firstly, the author conducted a wide search for both empirical and theoretical studies on board - firm performance relationship on multiple databases including ProQuest, Science Direct, Wiley, Google Scholar, Web of Science and Business Source Complete with predetermined key words, for example, boards/board of directors/corporate boards, firm performance, Agency Theory, Resource Dependence Theory, Managerial Power Theory,… Secondly, using critical analytical approach, the author thoroughly reviewed each of the theory and thirdly, on the basis of the critical review, the author combined the three theories together and suggested three important input and contextual variables to explain board-firm performance relationship.

2. Resource Dependence Theory

2.1. Theoretical Background

Resource Dependence Theory adopts the contingency approach to emphasise the importance of context in studying organisational behaviour and processes. According to Resource Dependence Theory, an organisation is bounded by networks of interdependencies and social relations. The need for resources and information makes the company dependent on the surrounding *"ecology of organisations"* [26]. This web of interdependencies reduces an organisation's autonomy and constrains its capacity to independently secure its future. As such, an organisation's survival is critically dependent on how well it can cope with and leverage environmental opportunities, challenges and uncertainties [26].

Resource Dependence Theory posits that the board is a strategic vehicle to create linkages to the organisation's external environment. According to Pfeffer and Salancik (1978) [26], the board can assist the company to minimise environmental uncertainties by serving as boundary spanners and providing the top management with valuable information and access to external resources [27].

Classic Resource Dependence Theory depicts board composition, mainly board size, types of directors (insiders/outsiders), and interlocking directorships as the rational responses of an organisation to its need for external resources [28]. Recent Resource Dependence theorists extend this line of argument by considering boards that are *"resource–rich"* in terms of human capital and social capital as an indicator of their capability of the board to perform their resource provision role [29]. Informed by Human Capital Theory, board human capital refers to the collective knowledge, skills, and expertise of all individuals on board [30]; while board social capital refers to the knowledge embedded in social networks that directors build up by having multiple board seats [31]. It is proposed that the collective human and social capital of the board, which together constitute *"board capital"*, is a critical predictor of how well the board can perform both resource provision and controlling tasks, which in turn, can contribute to firm financial performance [32].

On this basis, Resource Dependence theorists see the board as an important resource in its own right; a resource which can provide the management team with valuable advice and information. Knowledgeable boards can use their unique human capital to substitute the organisation's need for external counselling and advice, which can reduce transactional costs and environmental dependencies [27]. Board social capital is seen as a strategic means to reduce environmental uncertainties. By sitting on multiple boards, directors can create a web of networks among companies. This web of networks allows directors to transfer information, knowledge, and resources from organisation to organisation. As a result of these interrelationships, firms can create linkages to the external environment, reduce environmental dependencies, and better cope with environmental uncertainties [33].

2.2. Empirical Evidence

Although still less prominent than Agency Theory in the corporate governance research literature, Resource Dependence Theory does offer a distinctive explanation for how boards contribute to organisational effectiveness - through their role in reducing environmental uncertainties, providing resources, and reflecting the environmental needs of an organisation [27]. For instance, in studies by Pfeffer [34], Dalton, Daily [35], and Certo, Daily [36], board size and composition were found to connect with the firm's environmental needs. Board human capital was found to reflect the organisation's changing need for information and knowledge when its external environment changes [37]. Board interlocks were proven to not only serve as an inter-organisational channel of resource exchange, but also to act as a way to bring legitimacy to the firm [33]. Board human capital and/or social capital were found to be significant antecedents of organisational outcomes, such as R&D expense, strategic change and financial performance [29, 38].

Nevertheless, this literature remains relatively thin. There is a need for more empirical work to validate its propositions regarding the role of the board in contributing to firm financial outcomes in particular [21]. Recent studies have called for a deeper and richer understanding of the contribution of board capital to firm performance. *One of the ways to move forward is to build and test a multi-theoretic framework that captures the multiple tasks that the board perform and multiple attributes underpinning board effectiveness, while at the same time, keeping the central focus on board capital [32]*.

3. Agency Theory

3.1. Theoretical Background

Agency Theory sees an organisation as a *'nexus of contracts'* and focuses chiefly on the *'agency relationship'* between two main actors: the principal (shareholders) and the agent (managers) [10]. Agency Theory posits that the separation of ownership and control in modern corporations creates a problem for owners as managers are self-seeking and utility-maximising individuals whose goals and attitudes towards risk are structurally distinct from those of shareholders [10]. As such, according to Agency Theory, the primary purpose of corporate governance is to restrain agents' self-serving actions so as to minimise residual loss and protect shareholders' wealth from agent self-serving behaviour [39].

Agency theorists put much of their faith in the board as the locus of systematic decision control designed to reduce agency problems and associated costs. According to Fama and Jensen [40], the key antecedent of an effective board as an internal control mechanism is its incentives to monitor the top managers through the activities to monitor managers' actions, evaluate business proposals, appraise managers' performance, and determine managers' remuneration packages [40]. Agency theorists emphasise *board independence* as one of the key components in effective monitoring, with more independent boards assumed to undertake monitoring more diligently [39]. Operationally, board independence is mainly proxied by three characteristics: i) the number of independent directors; ii) the presence of independent leadership; and iii) the size of the board [39]. In particular, Agency Theory proposes that the board should consist of a majority of directors coming from outside the organisation with no prior or current managerial status with the firm, the CEO should not simultaneously hold the position of board chair and the board should be sizable since it is more difficult for the CEO to influence and manipulate a larger group [41, Recommendation 2.3].

Agency theorists also recognise the importance of financial incentives, including both equity holding and direct compensation, as important motivators for board members to assiduously monitor managerial performance [23]. Exposing directors to a degree of financial risk is assumed to align directors' outlook and actions more closely with that of the firm's owners, as *'nothing makes directors think like shareholders more than being shareholders'* [42, p. 497].

3.2. Empirical Evidence

Although Agency Theory features centrally in corporate governance theory and regulatory policy, it has been challenged both conceptually and empirically. Despite a strong influence to date in both research and corporate governance practices, there is as yet no conclusive proof that the board characteristics prescribed by Agency Theory do contribute, firstly, to board effectiveness and, secondly, to organisational outcomes [22]. Some studies have found a positive relationship between board independence and firm performance [43] but also imply that increasing the level of board independence leads to a diminishing marginal return point [44]. Other studies have found no significant relationship between board structure and performance, indicating that board independence neither improves nor inhibits firm performance [45]; nor helps to distinguish high–performing firms from poor-performing firms [46]. Nor is there conclusive evidence that board independence moderates CEO pay-for-performance [47]. The literature on CEO-Chair duality [see 48] also reports mixed findings, making it difficult to ascertain whether the two roles should be separated or combined, an ambiguity due in part to conflicting assumptions regarding independence and empowerment [49]. Imposing 'independence' practices on boards does not solve agency problems, but, rather, encourages the CEO to find other ways to collude with directors through interpersonal relationships and social interactions [50]. As to financial incentives, a review of the literature by Adams, Hermalin [23] suggests that instead of being a solution to agency problems, financial compensation might itself become one of Agency Theory's "unsolved-problems" by strengthening the managerial mindset of directors and consequently leading to collusion by managers and directors to the detriment of shareholders' interests [23].

In short, although Agency Theory has been the most influential theory in corporate governance research, both conceptually and empirically it remains contested terrain, with inconsistent findings regarding whether board independence and monitoring are beneficial to organisational outcomes. If anything, *the existing research findings indicate that the impact of board incentives to monitor organisational outcomes is more complex than orthodox Agency Theory would suggest and might be better understood by being examined in conjunction with other board characteristics, such as board capability* [38].

4. Managerial Power Theory

4.1. Theoretical Background

While sharing Agency Theory's assumption about managers being opportunistic utility–maximising agents, Managerial Power Theory sees the board as irredeemably subservient to executives [21]. It is argued that modern corporations, by their nature, are characterised by an internal power imbalance between managers and directors. The diffusion of equity ownership and the growth in firm capitalisation (both the number of companies and the shares issued by companies) has contributed to the power of managers within the modern corporation. The same process has limited the board's ability to resist managers' influence and act as guardians of shareholders' interests [51]. In such circumstances, the power to dominate both daily operations and strategic decision making has come to reside increasingly with the CEO and the top management team [52]. Consequently, from this perspective, the board is said to be just a de jure rather than a de facto monitoring mechanism in the organisation with directors unable and unwilling to challenge or question the *powerful CEO* and his management team [53].

Managerial Power Theory offers several reasons for this power imbalance, including (1) the lack of ability of the board to perform their tasks; (2) the de facto power of the CEO to control information of the firm; (3) the power of the CEO to reward and benefit directors; (4) the lack of genuine independence of the board, and (5) the lack of incentives and time to monitor managers closely [51, 53].

4.2. Empirical evidence

Managerial Power Theory propositions and predictions do have some support empirically. Different sources of CEO power have been investigated using certain proxies and indicators, including: CEO–chair duality, the number of directors appointed after a CEO's appointment, proportion of inside directors, CEO tenure, CEO human and social capital, CEO directorships, and CEO ownership [see 54]. It has been shown that a powerful CEO is likely to have significant influence over their own compensation as well as board performance [55]. Directors who have conflicts with CEOs expect not to be re–nominated to the board and are likely to reject offers to exit [56]. CEO compensation and director compensation have been found to be positively related, and this linkage reflects a level of 'cooperation' rather than firm performance [57]. Compensation committees were inclined to oversee a higher level of CEO compensation in those firms where the chair of the compensation committee was appointed following the appointment of the CEO [58].

The above evidence lends support to the claim the CEOs do still command power to intervene in or direct board decision making and board task performance in order to get what they want, including regarding their own compensation package. However, it is unclear whether a powerful CEO would reduce or enhance firm financial performance directly. Empirical findings on the direct relationship between CEO power and firm financial performance are mixed at best [48, 59]. These inconsistent findings are said to be attributable to either methodological issues, or the multi–faceted nature of CEO power, which can have both a positive and a dark side [59, 60]. Either way, *the difficulties in capturing a uniform and direct relationship between CEO power and firm performance, combined with most recent empirical works supporting the indirect moderating effect of CEO power on the relationship between board capital and organisational outcomes [61, 62] suggest that rather than having a direct impact, the influence of CEO power on firm performance should be understood as operating indirectly through other governance factors. One such factor is the productive capital possessed by the directors with whom the CEO is required to work.*

5. Limitations of Current Theories

While each of the above three theoretical perspectives offer potentially useful insights into the association between the board and firm performance, each approach also has conceptual and empirical limitations. An illustration of how these three theories are criticised is presented in Table 1, which is adapted from the work of Stiles and Taylor [21]. A more thorough analysis on the limitations of Resource Dependence Theory, Agency Theory and Managerial Power Theory is presented in the sections below.

5.1. Resource Dependency Theory

Resource Dependence Theory has been challenged on a number of fronts. Firstly, as a theory that still awaits empirical proof of concept, its overall validity and predictive reliability remain in question [63, pg. xvi]. Secondly, classic Resource Dependence Theory has been challenged for its heavy emphasis on the benefits of board interlocks without a full consideration of possible negative consequences of these interlocks; as well as its oversight of other governance factors that can influence the board's resource provision role [21]. While the focus on 'board capital' appears to have face validity in explaining the problem of resource interdependence among organisations, this line of argument requires further empirical testing.

Further, Resource Dependence Theory's focus on board ability overlooks questions of motivation or incentives for the board to perform its duties. As Casciaro and Piskorski [64, pg. 169] pointed out, '*the organisation's motivation to manage external dependencies does not necessarily coincide with its ability to do so*'. Accordingly, it has been suggested by Hillman, Withers [27] that, in order to gain a richer understanding of board performance and its contribution to organisational outcomes, future research should examine both *specific resources* that directors bring to the board and their *motivations* to contribute to board tasks.

Table 1. A summary of three theoretical perspectives on board research

Dimension	**Theoretical perspectives**		
	Agency	Managerial power	Resource dependence
Board roles	Board is a monitoring mechanism to align interests of shareholders and managers	Board is a "legal fiction"	Board is a strategic vehicle to reduce environmental uncertainties, boundary-spanning
Antecedents of board roles	Board incentives to monitor	Board inability and unwillingness to perform their tasks	Board capability to provide resources
Operational indicators	Board size Board independence Financial incentives	CEO power CEO compensation Board composition	Board size Board composition Board capital
Theoretical origin	Economics and Finance	Organisational Theory	Sociology
Details on board activity	Low	Moderate	Low
Empirical support	Equivocal	Moderate	Moderate
Limitations	Assumptions too narrow, dehumanised assumptions on human behaviour and motivation Problems over the optimistic definition of board independence Narrow focus on a singular board task Lack of attention to board ability or board process	Problems over the definition of control Problems over the pessimistic view of board inability to resist management control Overestimation of ownership power, shareholder control, and board interlocks	Lack of empirical testing Concepts and propositions are ambiguous Heavy accent on board interlocks Lack of attention to board process and board incentives

Source: Adapted from Stiles and Taylor (2001) [20].

5.2. Agency Theory

Agency Theory has been challenged for its limited focus on one board task; that is, monitoring. Observations on board activities show that modern boards perform multiple roles including not only monitoring managers but also supporting them by participating in decision making and providing them with information and resources [65]. Indeed, management-friendly boards have been shown to be more effective and optimal for shareholders' wealth maximisation than boards that monitor and control boards intensively [66].

Agency Theory is also criticised for its simplistic assumptions about human behaviour and motivation. The concept of board independence based on the freedom of material interests is arguably too optimistic [65]. The assumption that independent directors are effective directors is particularly problematic as this over-emphasises the role of outside directors and under-estimates the importance of inside directors in performing board tasks[37].

Lastly, critics question Agency Theorists' tendency to apply a "*box-ticking approach*" to evaluating board effectiveness using only quantifiable measures of board structure such as CEO–chair duality, director compensation package size and configuration, board size, and board independence [67]. It has been argued that the view that board incentives to monitor *per se* can guarantee governance effectiveness and add value to organisational outcomes is questionable as it overlooks other potentially important predictors of board effectiveness and firm performance, such as *board capability* and competence in the form of human and social capital [32], or board *interpersonal behaviours* and processes [68].

5.3. Managerial Power Theory

Managerial Power Theory also has a number of shortcomings, both conceptual and practical. The first problem lies in its definition of control. Even though the board may be at a disadvantage relative to top managers in having information and knowledge of the firm's business, it still has its primary power in governance terms. Regardless of how many decisions the CEO and managers make, the board still has its control power as long as it can exercise hiring and firing the CEO and the management team [69].

A second limitation of Managerial Power Theory is its pessimistic assumption regarding the board's inability to resist management power such that the board is in no position to challenge management decisions. The assumption of director impotence is challenged by Zeitlin [70] and Scott [71] who argued that equity concentration and board interlocks can help the board to reduce managerial power and resist management control. The other prominent theoretical approaches have also emphasised that *the board is indeed capable of performing its tasks effectively*, is a potentially powerful leadership group within the organisation, and is a key mechanism for concerted action to reduce environmental uncertainties [27, 63].

6. Moving Forward: Towards a Multi-Theoretic Approach

The previous section reasons that none of the three theoretical perspectives analysed are, in and of themselves, capable of providing a thorough explanation of the board–firm performance relationship. Each approach emphasises a singular board role (variously monitoring, supporting or being subservient to management) without taking into account the multiple roles that boards perform simultaneously [24, 35, 72]. Contemporary research on boards and organisational performance suggests the adoption of a more holistic approach informed by multiple theories to better reflect the reality of board capabilities and activities, and to highlight the importance of multiple board characteristics in the process of maximising shareholder value [32]. Such an approach would go some way towards overcoming the limitations of existing theoretical models and propositions.

Despite their differences, there are also certain areas of synergy and complementarities between the three perspectives [21]. For instance, while Research Dependency Theory operates by viewing the board primarily as an information and resource channel to link the firm with its environments, its failure to recognise the role of the board as an internal control mechanism to reduce agency problems allows scope to combine Resource Dependence Theory and Agency Theory to achieve a more balanced understanding of the board's multiple roles [39]. Further, Resource Dependence Theory identifies the capability of the board to perform its resource provision role, yet it does not consider the motivation of the board to do so, whereas Agency Theory suggests that board incentives are the key to understanding both director and CEO motivation. The integration of Resource Dependence Theory and Agency Theory can thus provide a more nuanced view of what makes the board effective (both capability and incentives), as well as how the board contributes to firm performance (through the roles of monitoring and providing resources) [32].

As we have seen, Agency Theory and Managerial Power Theory share similar assumptions regarding managerial opportunism and risk–aversion although holding different views on whether this opportunism can be avoided. Managerial Power Theory also extends Agency Theory by introducing another type of principal–agent relationship, namely that between shareholders and board members, whereby the board is seen as being predisposed to collude with management rather than serving shareholder interests. Both frameworks see the board as an internal control mechanism (although one that Managerial Power Theory sees as being generally ineffective). While the Managerial Power proposition that the board is merely 'a creature of the CEO' is arguably too pessimistic, it highlights that, at least to some extent, the CEO does have the power to influence board decision making and behaviour. At the same time, the Agency Theory proposition that board incentives to monitor can secure board effectiveness, although perhaps too optimistic, also offers a valid point that sufficient incentives, to some level, can help to balance out this power gap between the CEO and the board, and reduce the vulnerability of the board to CEO power. Thus, the integration of Agency Theory and Managerial Power Theory can may offset these two extreme views of the board - CEO relationship and provide new insights to the same phenomenon in an organisation. Such a combination would reflect more accurately and dynamically how power is played in and around the boardroom [73].

As such, the integration of aspects of the above three theories allows the re-conceptualisation of the board's role in corporate governance and its influence on firm performance. The central proposition here is that the board does indeed occupy a critical place in the organisation. It is one of the most important channels – if not the most important channel – that links the company to its external environment. It is also a mechanism of internal control to protect shareholders' wealth. Agency Theory posits that the board contributes to firm performance by exercising their power to control the CEO's actions. This power derives from the board's legitimate position in the organisation and its *incentives* to perform the supervision task [10]. Resource Dependence Theory recognises the contribution of the board to firm performance through their strategic role to reduce uncertainties between the firm and its external environment. It implies that the board can do so with their *capacity* of providing resources to the CEO [26]. Managerial Power Theory, on the other hand, recognises the *power of the CEO* to manipulate directors and prevent them from being effective monitors [74]. By integrating these insights from Resource Dependence Theory, Agency Theory, and Managerial Power Theory, the complexities of this bidirectional interplay of power, influence, support and cooperation between the board and the CEO and its impact on firm performance can be better understood.

An integrated conceptual approach along these lines arguably affords a more sophisticated understanding of the complexity of the board - CEO relationship and how such relationship affects the ability and motivation of the board to make a meaningful impact on firm performance than does each of the constituent theories in isolation. In essence, this approach highlights that the board, via both its capacity to contribute and its incentives to do so, can influence the CEO and be a diligent steward and agent for shareholders through fulfilling its dual tasks of monitoring and resource provision. At the same time, the CEO, given their power, can manipulate the board, influence board decision making, and dampen board task performance. *Board capability, board incentives, and CEO power, as such, are likely to be salient factors in explaining the effectiveness/ineffectiveness of the board, which in turn, affects organisational performance.*

The integration of these three theories provides the foundation for formulating specific propositions concerning how board capital and other characteristics may influence firm performance and how other factors may also come into play. Previous review on the three theories in Section 2, 3 and 4 has provided valuable insights on how future research can combine these three important factors to examine their contribution to firm performance. Specifically, within Resource Dependence Theory, board capability receives reasonable support as a *direct predictor* of firm performance. However, the mixed findings in research framed around Agency Theory and Managerial Power Theory implies that director incentives and CEO power might place significant effects on firm performance, yet their effects might be indirect through other factors, for instance, board capability [32, 62]. *As such, one way to move forward in this path is to examine the direct impact of board capability to firm performance, with two situational (moderating) factors of board incentives and CEO power. Cognitive ability or capability, indicated by a set of human and social capital has been proven to directly predict individual and group performance, whereas extrinsic incentives can complement capability to affect how well individuals or groups utilise their capability to make a difference to performance. Positive incentive effects will only manifest if only individuals or groups are capable of doing their jobs [75]. Similarly, power play among individuals affects the utilisation of capability. In the board context, board capital - as a proxy for their capability, can directly improve firm performance, whereas financial incentives would serve as a motivational factor to encourage directors utilise their knowledge and networks. On the other hand, power play between the CEO and the board might hinder this process of capital utilisation.*

7. Conclusion

Taking a constructively critical approach, this paper has reviewed three main theories that provide insights on the board–firm performance relationship. It is proposed that Agency Theory, Managerial Power Theory, and Resource Dependence Theory offer valuable if somewhat contradictory insights into the board and firm performance relationship. From an Agency Theory perspective, the board of directors plays an important role in serving as an internal control system to monitor and align top managers' actions in the best interests of the principals of the firm. The key factor in board effectiveness is its incentive to monitor. Under Managerial Power Theory, the board is seen as having a purely titular role due to the structural power exercised by the CEO. Resource Dependence Theory focuses on the ability of the board to provide the organisation with information and resources.

Both the strengths and limitations of each theory have been identified by examining their different assumptions, predictions and prescriptions regarding board outlook and actions. Neither board incentives to monitor, board ability to provide resources, or the influence of CEO power per se provide a satisfactory explanation of board effectiveness. Although each framework oversimplifies board roles and the prescribed characteristics of the board to fulfil those roles, because of the extent to which the three theoretical frameworks complement rather than contradict each other, there is merit in adopting a multi-theoretical framework.

On this basis, the most significant contribution of this paper to the literature on board - firm performance relationship in Vietnam and in the world is a proposal of a multi-theoretic approach synthesising Agency Theory, Managerial Power Theory, and Resource Dependence Theory to capture more fully the complexity of the board-firm performance relationship; an approach centring on the triangulation of governance relationships between shareholders, the board, and the CEO. Specifically, this approach helps to identify three important firm-level factors that can explain board effectiveness/ineffectiveness, including board capability, board incentives, and CEO power. It also enables us to consider more precisely the importance of each factor, as well as how the three interact with each other to influence firm performance. Specifically, an effective board has three key attributes: i) strong human and social capital as a proxy for board's capability to perform critical tasks, ii) high motivation to be a steward of shareholders, and iii) strong capability to deal with a powerful CEO. By incorporating these three attributes to improve our understanding of how the board contributes to firm performance, it is expected to highlight both the relative influence of board inputs and decisional processes by which inputs are utilised.

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