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Psychological Characteristics of Outside Directors:

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Abstract

Why and how do the psychological characteristics of outside directors influence their functions, contributing to strategic decision-making? We empirically examine how the psychological characteristics of outside directors influence their engagement in providing expert advice and counsel and exercising oversight and control within the board. Outside directors' engagement in performing these roles will depend on their psychological characteristics because such factors influence their abilities and motivation to succeed in those roles. Using survey data on 185 outside directors in 155 listed firms in Japan, we found that organizational identification with the focal firm that an outside director is serving, trust toward other outside directors, emotional intelligence, and openness to experience significantly enhanced board monitoring and advice and counsel provision.

Keywords: outside directors; psychological characteristics; board monitoring; advice and counsel provision

JEL classification: G34

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INTRODUCTION

In the corporate governance literature, outside directors of a firm, or non-management directors whom the firm does not employ, are expected to perform two functions to contribute to strategic decision-making: *board monitoring* and *expert advice and counsel provision* (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978; Westphal, 1999). Board monitoring is to exercise oversight and control over the managerial decision-making of top management teams (TMTs). Likewise, expert advice and counsel provision is to help managers by providing ongoing advice and counsel on strategic issues. Owing to the functions of outside directors, the appointment of outside directors is theoretically expected to have a positive impact on firm performance (Jensen and Meckling, 1976; Shlifer and Vishny, 1997); however, it is not necessarily empirically supported in previous studies (Dalton, Ellstrand, & Johnson, 1998). Based on these unexpected findings, recent management studies have focused on outside directors' social and psychological factors to explain their functions' engagement and effectiveness (Cannella et al., 2008; Hambrick, 2007; Hambrick & Mason, 1984). These psychological factors will endorse the willingness and abilities of outside directors to perform their functions beyond their composition and background.

Nonetheless, it remains unclear how outside directors' psychological traits, such as personality and emotional intelligence, and states, like organizational identification and trust toward board members, affect their engagement in the roles of outside directors' functions. This is not a little lack of corporate governance literature because outside directors are agents of shareholders to monitor and advise TMTs. However, they need to cooperate as members in multiteams, where team members' psychological characteristics significantly affect their interaction and its consequences.

Although outside directors are expected to fulfill their functions on behalf of shareholders thoroughly, they may not achieve the expectations for three reasons. First, outside directors' roles cause psychological stress and require enormous effort. Accordingly, outside directors are incentivized to avoid such tasks if they are not sufficiently rewarded. Second, because of information asymmetry between outside directors and shareholders, the outside directors are motivated to reduce their engagement in performing the functions (Boivie et al., 2016). Third, returns to outside directors from fulfilling their functions rarely vary depending on their performance. Accordingly, outside directors may calculate benefits and costs by performing their functions and then put minimum effort into them. Based on these reasons, outside directors do not necessarily engage themselves in their expected functions. Along this line of research, we examine how outside directors' psychological states and traits will influence their engagement.

Outside directors' psychological states and traits, beyond demographic background, will explain their abilities and motivation. Although the demographic background of managers and directors may partly reflect values, beliefs, and personality (Cannella et al., 2008; Hambrick, 2007; Hambrick & Mason, 1984), its explanatory power is limited. We will theoretically examine how outside directors' specific psychological traits and states influence their functions' effectiveness and empirically test the relationships by using psychological measures, not demographic proxies. In particular, among psychological traits, we focus on the Big Five personality traits and emotional intelligence because these traits have been shown to affect interpersonal communication significantly. Likewise, as for psychological states, we focus on outside directors' organizational identification with the firms they serve and intrateam trust. Organizational identification with a firm will trigger outside directors' motivation to contribute to it, thereby increasing their engagement in board monitoring and advice and counsel provision.

In contrast, intrateam trust among outside directors will reduce the psychological stress of engaging in their functions.

Using the sample of 185 outside directors of 155 listed firms in Japan, we empirically found how their psychological states and traits affect their engagement in board monitoring and advice and counsel provision. More specifically, an outside director with higher openness to experience tends to engage more in board monitoring and advice and counsel provision. Besides, organizational identification with the focal firm an outside director serves increases his/her engagement in board monitoring. Further, an outside director with higher emotional intelligence will show higher engagement in providing expert advice and counsel.

This study makes two contributions to the corporate governance literature and practice. First, this is the first attempt to empirically clarify that outside directors' psychological states and traits explain the variance in board monitoring and advice and counsel provision. By examining the psychological mechanisms of outside directors in performing their functions, our study will complement the findings of previous studies on outside directors, which rely on their demographic backgrounds. Second, our study suggests characteristics of capable outside directors from a psychological perspective.

THEORETICAL BACKGROUND

Functions of Outside Directors: Board Monitoring and Advice and Counsel Provision

Both TMT and board functions are critically important for firm performance. TMTs and boards should fulfill their specific functions (Dalton et al., 2007; Luciano et al., 2020). The TMT and board of a firm independently and interdependently embrace tasks (Luciano et al., 2020). The TMT manages internal operations continuously: analyzing, formulating, and implementing

strategies, policies, and tactics. On the other hand, the board monitors and advises TMT decisions and fulfills a fiduciary responsibility in approving major decisions and certifying financial results (Boivie, Bednar, Aguilera, & Andrus, 2016) to ensure that the general strategic direction protects the investment of capital providers (Hillman & Dalziel, 2003). Boards are also responsible for managing reward systems that incentivize the TMT to fulfill its distinct tasks in alignment with shareholder desires to maximize return on their investment.

Strategic management and corporate governance literature argue that outside directors contribute to strategy primarily in two ways: the provision of expert advice and counsel and the exercise of oversight and control over managers (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978). As agency theory indicates, managers may make strategic decisions opportunistically on their behalf instead of shareholders (Fama, 1980; Jensen & Meckling, 1976). In order to attenuate the agency problem, outside directors are expected to monitor managers' strategic decision-making. Likewise, outside directors can help managers by providing advice and counseling based on their expertise and personal connections (Pfeffer and Salancik, 1978).

Although these functions are obligations for outside directors, their engagement will vary because effectively performing them will require additional effort. As for board monitoring, outside directors need knowledge and information on the firm they serve, its competitors, and the environment. In order to effectively monitor management, directors need to be able to obtain, process, and then share information (Boivie et al., 2015), but the knowledge and information necessary to monitor strategic decisions are costly to acquire. Likewise, providing valuable advice and counsel to TMT members will require outside directors to have firm- and industry-specific knowledge and information in addition to their expertise.

Beyond the demographic background, psychological factors will play an essential role

in outside directors' engagement in their functions because their abilities and motivation are closely tied to such psychological factors. Outside directors generally have another occupation that requires more significant commitment than outside directorship; accordingly, their personal sense of responsibility for outside directorship will influence their engagement. Besides, since outside directors work as a team, personal preferences for communication with others will be crucial in achieving their functions. Nonetheless, the current literature on outside directors has remained silent about the impact of outside directors' psychological traits and states on their engagement.

Organizational Identification as Outside Director

Social identity theory explains an individual's self-definition in intergroup relations and group processes (Tajfel, 1982; Tajfel and Turner, 1986). From the theory, organizational identification can be considered the process of self-categorization with an organization (Ashforth and Mael, 1989). Organizational identification is the degree to which an individual's self-identity is intertwined with his/her organization (Ashforth & Mael, 1989; Dukerich et al., 2002). Previous studies of organizational identification have demonstrated that individuals with higher identification tend to show higher-level commitment, cooperation, and reciprocity toward others because they tend to feel higher cohesion within the organization (Dukerich et al., 2002; Dutton et al., 1994; Hekman et al., 2009).

Organizational identification of outside directors will promote their engagement in board monitoring and advice and counsel provision because organizational identification increases cooperation, satisfaction, and motivation to perform his/her expected roles (Ashforth and Mael, 1989; Shamir, 1990). Accordingly, outside directors will psychologically benefit from

making more effort to perform their functions. Previous studies have provided support for this argument. For example, Golden-Biddle and Rao (1997) showed that a director's organizational identification with a firm increases the likelihood of the director acting in the firm's interests. Hillman, Nicholson, and Shropshire (2008) proposed that a director's identification with an organization will promote board monitoring and resource provision for the organization. Zhu and Yoshikawa (2016) found that government directors having more robust identification with the firm in China showed higher engagement in board monitoring and resource provision.

Intrateam Trust

Interpersonal trust is a psychological state of individuals involving confident, positive expectations about the actions of another (Dirks & Skarlicki, 2004). Trust refers to "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Mayer et al., 1995: 712). De Jong and Elfring (2010) expanded the concept of interpersonal trust to the team level. *Intrateam trust* is defined as "shared generalized perceptions of trust that team members have in their fellow teammates" (De Jong & Elfring, 2010), which is generalized positive expectations for all team members. Higher intrateam trust will promote individual willingness to support team members by considering their needs and goals (McAllister, 1995). Besides, when team members trust one another, they will consider the other team members honesty and integrity, engaging themselves to serve their teams (Dirks & Ferrin, 2002).

The concept of intrateam trust can apply to outside directors. For two reasons, their intrateam trust would promote their engagement in advice and counsel provision and board

monitoring. First, intrateam trust among outside directors improves their ability to board monitoring and advice and counsel provision. Outside directors tend to engage in their functions based on their individual specialties. By trusting other outside directors, each outside director will expect to work as a team by complementing one another, engaging in board monitoring and advice and counsel provision from a more comprehensive viewpoint. Second, intrateam trust among outside directors improves their motivation for board monitoring and advice and counsel provision. Outside directors with higher intrateam trust will be more confident that others will support them in performing their functions.

Personality Traits of Outside Director

The personality of outside directors will have an important role in performing their functions. Psychological studies have shown that personality traits partially affect human behavior and thinking (Tosi & Mero, 2003). Regarding personality, the five-factor model (Big Five) provides a parsimonious yet comprehensive taxonomy (Costa & McCrae, 1992; Digman, 1990; Zhao & Seibert, 2006). The dimensions of the five-factor model are *openness to experience*, *agreeableness*, *emotional stability*, *extraversion*, and *consciousness*.

Openness to experience is a personality trait representing intellectual curiosity. Individuals with higher openness to experience will likely seek new experiences and explore novel ideas. The words describing individuals with high openness to experience are creative, innovative, imaginative, reflective, and untraditional. *Agreeableness* relates to interpersonal orientation, described as trusting, forgiving, caring, altruistic, and gullible. Individuals with higher agreeableness tend to value cooperation and positive interpersonal relationships more. *Emotional stability* is described as self-confident, calm, even-tempered, and relaxed. Emotional

stability is the opposite of neuroticism, representing negative emotions, including anxiety, hostility, depression, self-consciousness, impulsiveness, and vulnerability (Costa & McCrae, 1992). *Extraversion* indicates an individual is assertive, dominant, energetic, active, talkative, and enthusiastic. Finally, *conscientiousness* represents an individual's degree of organization, persistence, hard work, and motivation to achieve goals.

From the upper echelon perspective, management studies have shown that executives' Big Five Personality traits influence managerial decisions. For example, Harrison, Thurgood, Boivie, and Pfarrer (2019) measured 3,000 CEOs' Big Five personality traits and found that CEOs' personality traits had a significant impact on strategic change, contingent on firm performance. Likewise, the team literature provides insight into the effects of team members' personality. As a meta-analysis of personality and team performance, Peeters, Tuijl, Rutte, and Reymen (2006) demonstrated that teams with higher agreeableness and conscientiousness perform better.

Individuals with higher openness to experience frequently communicate with others (Lee-Baggley et al., 2005). Such individuals have a constructive, communicative style, actively negotiating conflicts considering others' perspectives. Individuals with higher openness to experience freely express their feelings and work together to solve problems (LePine, 2003; McCrae & Sutin, 2009). Accordingly, outside directors with higher openness to experience will engage more in board monitoring and advice and counsel provision.

Agreeableness individuals tend to positively affect the team process by promoting open communication and cooperation because of their honesty and friendliness toward others, thereby avoiding confrontation and protecting social relationships (O'Brien & DeLongis, 1996; Peeters et al., 2006). Further, individuals with higher agreeableness are more likely to emphasize

compliance with team goals and task cohesion (van Vianen & De Dreu, 2001). Therefore, outside directors with higher agreeableness will be able and motivated to engage in board monitoring and advice and counsel provision toward managers.

Individuals with higher emotional stability can steadily cope with adverse events and pursue chosen goals and decisions (Van Vianen & Dreu, 2001). Within teams, such individuals enhance cooperation and foster a relaxed atmosphere among team members (Molleman et al., 2004). Accordingly, outside directors with higher emotional stability will be more prepared to deal with boardroom interpersonal conflicts. Facing such conflicts, they will monitor board members and provide advice to solve them.

Individuals with higher conscientiousness tend to engage more in problem-focused strategies, such as planning, problem-solving, and suppression of competing activities (Hooker et al., 1994; Watson & Hubbard, 1996) rather than avoiding problems, such as distraction or disengagement behaviors (Watson & Hubbard, 1996). Therefore, when outside directors with higher conscientiousness find problematic issues in the board room, they will commit themselves to solve them by monitoring and advising the board.

Finally, individuals with higher extraversion tend to have a positive attitude toward teamwork. Since individuals with higher extraversion prefer to talk with others, they will smooth interpersonal interactions and open discussions within teams (Barrick et al., 1998). Likewise, individuals with higher extraversion are more likely to adopt support-seeking and positive thinking or reinterpretation (McCrae & Costa, 1986; Watson & Hubbard, 1996). Accordingly, outside directors with higher extraversion will engage more in board monitoring and advice and counsel provision.

Emotional Intelligence of Outside Directors

In addition to the big five factors of personality traits, the emotional intelligence of outside directors may play a role in performing their functions. Emotional intelligence is "the subset of social intelligence that involves the ability to monitor one's own and other's feelings and emotions, to discriminate among them, and to use this information to guide one's thinking and actions" (Salovey & Mayer, 1989). Emotional intelligence consists of four dimensions: *self-emotional appraisal*, *others' emotional appraisal*, *regulation of emotion*, and *use of emotion*. Self-emotional appraisal is "the individual's ability to understand their deep emotions and be able to express these emotions naturally" (Wong & Law, 2002). Others' emotional appraisal is defined as the "ability to perceive and understand the emotions of those people around them" (Wong & Law, 2002). Regulation of emotion is referred to as the "ability of people to regulate their emotions, which will enable a more rapid recovery from psychological distress" (Wong & Law, 2002). Finally, the use of emotion is the "ability of individuals to make use of their emotions by directing them towards constructive activities and personal performance" (Wong & Law, 2002).

Previous studies reported that emotional intelligence enhances team-level performance. People with higher emotional intelligence are good at paying attention to others' frustration and avoiding intrateam conflicts (Law et al., 2004; Lee & Wong, 2019). Emotionally intelligent individuals can effectively regulate emotions, improving interpersonal understanding, relationships, and interaction (Lee & Wong, 2019). Barczak, Lassk, and Mulki (2010) showed that team members with higher emotional intelligence tend to create a collaborative team culture.

We propose that outside directors with higher emotional intelligence will be more engaged in board monitoring and advice and counsel provision. Such emotionally intelligent

outside directors can sense what kind of support managers seek from their emotional expressions, provide constructive advice considering managerial emotions and recover from psychological distress from performing their functions. Although monitoring board members may offend their emotions, outside directors with higher emotional intelligence can effectively engage in it without disturbing the atmosphere of board rooms. Likewise, outside directors with higher emotional intelligence will engage more in advice and counsel provision. Managers may receive advice as negative feedback by managers and evoke an adverse reaction toward outside directors. Outside directors with higher emotional intelligence will better avoid losing managers' faces in giving advice.

RESEARCH METHODS

Sample and Data Collection

Our sample is survey data on 185 outside directors of 155 Japanese listed firms. With the Ministry of Economy, Trade and Industry, we distributed the request for participation in the survey to all the Japanese firms listed in Tokyo Stock Exchange 1st section in November 2019. Then, we asked the representative of each firm to forward the request to its outside directors. The outside directors were asked to send their responses to the survey online. The number of responses was 258. Based on the number of outside directors, 6,167, in 2019, the response rate is approximately 4.18 percent. Dropping the responses with missing values, we obtained 185 responses for the analysis.

In addition to the survey responses from outside directors, we collected data on firm characteristics and outside directors' demographic information from archival sources. Firm characteristics data were collected from NEEDS Cges (Corporate Governance Evaluation

System), whereas outside directors' demographic information was from *Yakuin Shikiho* (Annals of Executives). These data sources are reliable because listed firms must publicly disclose this information.

Variables and Measures

Dependent variables: board monitoring and advice and counsel interactions. Following Westphal (1999), we measured these variables by asking each outside director about their board monitoring and advice and counsel interactions. Board monitoring was measured by three items, which are 7-point Likert-type scale from "completely disagree" (1) to "completely agree" (7): "I monitor the CEO's strategic decision making," "I formally evaluate the CEO's performance," and "I try to link the CEO's compensation to the firm performance" (Brio et al., 2018). The alpha of the responses is 0.54. We averaged their scores as the scale of board monitoring.

Likewise, we assessed the variable of advice and counsel provision with three 7-point Likert scale items: "I provided advice and counsel to the CEO in discussions outside of board/committee meetings," "I provide information to the CEO which I obtained through my personal networks," and "I make my external professional relationships available to the CEO." (Brio et al., 2018). The alpha of the responses is 0.69. We averaged their scores as the scale of advice and counsel provision.

Independent variables. Our independent variables are outside directors' psychological states and traits. First, we measured *organizational identification with the focal firm that the outside director is serving* by six items selected from Zhu and Yoshikawa (2015): "When someone criticizes the firm, it feels like a personal insult," "I am very interested in what people think about the firm," "When I talk about the firm, I often say "we" rather than "they," "When someone makes positive remarks about the firm, it feels like a personal compliment," "This

firm's successes are my successes," and "Being a board member of the firm is a major part of who I am." We obtained the responses on a 7-point Likert-type scale. We adopted the average of the response scores as the level of organizational identification.

Second, five items in De Jong and Elfring (2010) measured an outside director's perception of intrateam trust. "I am able to count on my team members for help if I have difficulties with my job," "I am confident that my team members will take my interests into account when making work-related decisions," "I am confident that that my team members will keep me informed about issues that concern my work," "I can rely on my team members to keep their word," and "I trust my team members." The items are 5-point Likert-type scale.

Third, we measured Big Five personalities (extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience) using ten items developed by Gosling, Rentfrow, and Swann (2003). Each component of the personality is measured by two items, which are 7-point Likert-type scales. We employed its Japanese translation by Oshio, Abe, and Cutrone (2012).

Fourth, we measured *emotional intelligence* by employing 7-point 16 items from Wong and Law (2002), for example, "I have a good sense of why I have certain feelings most of the time," "I have good understanding of my own emotions," and "I really understand what I feel." We used the average of the responses to the 16 questions as the score of emotional intelligence.

Controls. In order to avoid the possibilities of alternative explanations, we included individual- and firm-level factors in the estimation. As an individual-level factor, first, we controlled for the organizational tenure of an outside director, measured by the natural logarithm of the number of months during which the outside director had served for the focal firm.

Second, an outside director's log-transformed age was controlled. Third, we included

the dummy variable of specialists, which values 1 when the outside director is a lawyer, accountant, or professor and 0 otherwise. Finally, we included the dummy variable of female outside directors in the estimation.

We also controlled for firm-level factors. First, we included the proportion of the outside directors of a firm, which is the number of its outside directors divided by its board size. Second, the board size was controlled. Third, as a measure of board monitoring, we controlled for the firm's foreign ownership ratio. Fourth and fifth, we created the dummy variables valuing 1 when the firm had a nominating committee or audit and supervisory committee, respectively. Sixth, the firm's return on assets (ROA) was controlled. Seventh, as the measure of firm size, we included the natural logarithm of the number of the firm's employees in the estimation. Finally, the dummy variable of manufacturing industries, which takes 1 when the focal firm operated in the manufacturing industries, was controlled.

Model Specification

We used ordinary least squares regressions with robust standard errors. In addition, because several outside directors belonged to the same firms, their psychological characteristics and behaviors might not be independent. Accordingly, we conducted regression models by estimating standard errors clustered by the firm as a robustness check.

RESULTS

Table 1 summarizes the variables' descriptive statistics and correlation matrix, whereas Table 2 presents the results of the estimation models. In Table 1, the statistics of the big five personalities of board members display that outside directors' values in all the dimensions of the big five personalities are slightly higher than those of Japanese university students (Oshio et al.,

2012). Likewise, their value of emotional intelligence is 5.03, which is higher than non-teaching employees in a university in Hong Kong (Wong & Law, 2002).

Tables 1 & 2 about here

The dependent variable of Models 1 and 2 is board monitoring, whereas that of Models 3 and 4 is advice and counsel provision. Models 1 and 3 included only the controls and Models 2 and 4 independent variables in addition to the controls. We found that the R-squared of Models 2 and 4 (0.368 and 0.347), including outside directors' psychological factors, significantly increased from those of Models 1 and 3 (0.170 and 0.103). Accordingly, beyond demographic background and firm-level factors, the psychological factors explain the variance in outside directors' engagement in board monitoring and advice and counsel provision.

First, we examine the impact on board monitoring. In Model 2, the regression coefficient for organizational identification with the focal firm is positive and statistically significant at the 1-percent level ($b = 0.172$, $se = 0.0609$, $p = 0.005$). Likewise, the regression coefficient for openness to experience is positive and statistically significant at the 5-percent level ($b = 0.131$, $se = 0.0594$, $p = 0.029$).

Next, we check the results of advice and counsel provision. In Model 4, the regression coefficient for emotional intelligence is positive and statistically significant at the 5-percent level ($b = 0.349$, $se = 0.164$, $p = 0.035$). Likewise, the regression coefficient for openness to experience is positive and statistically significant at the 1-percent level ($b = 0.416$, $se = 0.091$, $p < 0.001$). Surprisingly, the estimated coefficient for conscientiousness is negative and statistically significant at the 5-percent level ($b = -0.244$, $se = 0.0943$, $p = 0.011$). Although the significance level is slightly lower, the regression coefficients for agreeableness and for intrateam trust are positive and statistically significant at the 10 percent level (agreeableness: $b = 0.212$, $se = 0.119$,

$p = 0.075$; intrateam trust: $b = 0.210$, $se = 0.119$, $p < 0.081$), respectively.

As a robustness check, we included the independent variables individually in the estimation from Models 5-20; the dependent variable is board monitoring from Models 5-12 and is advice and counsel provision from Models 13-20. Corresponding with the results of Model 2, whose dependent variable is board monitoring, the coefficient estimates on identification with the firm and openness to experience are positive and statistically significant. Likewise, in estimating the impact of advice and counsel provision, the coefficient estimates of emotional intelligence, openness to experience, and intrateam trust are positive and statistically significant, consistent in Model 4. On the other hand, the coefficient estimates on agreeableness and conscientiousness are not statistically significant in Models 16 and 17, which are inconsistent with those in Model 4. Accordingly, this result suggests that agreeableness and conscientiousness might be confounded with other psychological characteristics.

Further, we also conducted regression models with clustered standard errors by the firm because 25 firms have multiple outside directors in the sample, possibly violating the independence of the responses by the outside directors of the same firm. The estimation results are almost identical to those of the original.

DISCUSSION

In this study, using the survey data on 185 outside directors in 155 Japanese listed firms, we empirically tested the impact of psychological characteristics of the outside directors on board monitoring and advice and counsel provision. Our findings are threefold. First, outside directors with higher openness to experience tend to engage more in board monitoring and advice and counsel provision. Second, organizational identification with the firm that an outside

director is serving promotes his/her engagement in board monitoring. Third, an outside director with higher emotional intelligence will engage more in advice and counsel provision.

Theoretical Implications

The theoretical implications derived from this study are threefold. First, outside directors' psychological characteristics explain the variances in their board monitoring and advice and counsel provision. Previous studies of corporate governance have offered limited insight into the roles of psychological factors in performing outside directors' functions. Our study indicates that beyond demographic backgrounds, such as tenure, age, gender, and specialization, psychological characteristics will matter to outside directors' abilities and motivation. Accordingly, we can enrich the theoretical framework for outside directors' functions by including psychological factors.

Second, among the Big Five personality traits, openness to experience consistently promotes outside directors' engagement in performing their functions. For outside directors, the board they are serving will be a new environment that may not be so familiar. Besides, outside directors generally have limited knowledge of the firm's business and industry. Accordingly, it is reasonable that openness to experience will be the most influential psychological trait in performing outside directors' functions in this context.

Third, outside directors' emotional intelligence positively impacts their engagement in advice and counsel provision to TMT members. TMTs may react to such advice negatively because they may feel like losing face in the boardroom. Outside directors with higher emotional intelligence will be able to avoid TMT members' adverse reactions by acknowledging their emotions and choosing appropriate expressions in advising.

Fourth, organizational identification with the firm that an outside director serves

increases his/her engagement in board monitoring. Although board monitoring causes psychological stress, outside directors do not hesitate to engage in it when they have a psychological attachment to their firms because serving the firms with which outsiders have identification will improve their utility.

Finally, outside directors with higher intrateam trust are more likely to engage in advice and counsel provision. When outside directors trust one another, they can provide advice from their specialists' perspectives without fear. Outside directors may hesitate to advise the board if it is too specialized and lacks a comprehensive viewpoint. Intrateam trust among outside directors will create higher expectations about support and complemental comments from others, thereby encouraging their engagement in providing advice and counsel.

Practical Implications

This study provides several practical implications. First, a firm may need to explicitly consider its psychological traits beyond demographic background in selecting outside directors. The study's findings suggest that outside directors' engagement in their functions depends partially on personality and emotional intelligence because such psychological traits would affect their abilities and motivation. To date, firms have focused exclusively on outside directors' demographic background, which is believed to represent psychological traits and influence their functions. However, our findings suggest that the impact of psychological traits on board monitoring and advice and counsel provision is independent of that of demographic background. Rather than choosing outside directors based only on their background, examining their psychological traits will help firms find capable outside directors.

Second, a firm may benefit from adopting a practice enhancing an outside director's organizational identification with the focal firm. Outside directors tend to feel alienated from

inside directors of a firm. If the firm promotes outside directors' involvement in its board, their organizational identification may also increase, promoting their engagement in fulfilling functions.

Limitations and Future Directions

Our findings should be interpreted with caution for three reasons. First, our independent and dependent variables were collected at the same time point. Accordingly, outside directors' psychological characteristics might be affected by their monitoring and advising behaviors, which means the possibility of reverse causality. However, because psychological traits are relatively stable, there will be a limited possibility of reverse causality. On the other hand, the psychological states in this study, such as organizational identification and intrateam trust, may be subject to simultaneous and common method biases. Conducting causal inferences regarding outside directors' psychological states and their engagement in board monitoring and advice and counsel provision will be required to ensure causality.

Second, the findings may suffer from an endogeneity problem. For example, a firm with an open and innovative organizational culture, where managers and directors actively and freely provide support to one another, may prefer to appoint outside directors who fit the culture. Future studies may corroborate our findings by conducting research correcting for this possible endogeneity problem.

Third, we could not examine how outside directors' psychological traits and states influence the *quality* of their monitoring and advice. Our study examined only self-reported *engagement* in monitoring and advice provision, which does not necessarily ensure higher-qualified monitoring or advice. Future studies will benefit from testing the relationship between outside directors' psychological characteristics and their monitoring and advice quality, further

clarifying the mechanism of outside directors' psychological characteristics.

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Table 1: Descriptive Statistics and Correlation Matrix

No	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9
1.	Board monitoring	5.24	0.74	1.00								
2.	Advice and counsel provision	4.60	1.08	0.38	1.00							
3.	Identification with the firm	5.06	0.91	0.25	0.22	1.00						
4.	Intrateam trust	4.04	0.65	0.07	0.14	0.24	1.00					
5.	Extraversion	4.93	1.09	0.29	0.29	0.02	-0.02	1.00				
6.	Agreeableness	4.50	0.54	-0.03	0.05	0.00	-0.02	-0.02	1.00			
7.	Conscientiousness	5.30	0.88	0.31	0.04	-0.01	-0.05	0.30	0.12	1.00		
8.	Emotional stability	5.14	0.91	0.22	0.11	0.08	-0.01	0.23	0.20	0.48	1.00	
9.	Openness to experience	4.85	1.03	0.37	0.43	0.11	0.03	0.38	0.04	0.35	0.37	1.00
10.	Emotional intelligence	5.03	0.61	0.31	0.22	0.19	0.20	-0.10	0.45	0.48	0.39	-0.02
11.	ln(organizational tenure as outside director [month])	3.15	0.97	0.01	0.02	-0.07	0.08	-0.06	-0.03	-0.11	-0.10	-0.22
12.	ln(age)	4.14	0.16	0.13	-0.05	-0.16	-0.25	-0.02	-0.05	0.08	-0.02	-0.01
13.	Specialist dummy	0.31	0.46	-0.24	-0.14	-0.07	0.27	-0.20	-0.08	-0.15	-0.11	-0.21
14.	Female dummy	0.16	0.37	0.11	0.08	0.04	0.01	0.17	0.02	0.05	-0.03	0.03
15.	Proportion of outside directors	0.32	0.16	0.11	-0.01	0.11	0.03	-0.02	0.01	0.11	0.04	0.04
16.	Board size	11.51	2.74	0.05	-0.10	-0.13	-0.17	0.06	0.01	0.15	0.11	0.07
17.	Foregn ownership ratio	0.02	0.08	0.11	0.03	-0.05	0.02	-0.01	0.08	-0.08	0.06	0.15
18.	Nominating committee	0.09	0.28	0.07	-0.02	0.04	0.04	0.07	-0.03	0.16	0.09	-0.02
19.	Audit and supervisory committee	0.35	0.48	-0.04	-0.12	0.09	0.15	-0.19	0.01	-0.15	-0.09	-0.18
20.	Return on assets	0.06	0.07	0.17	0.17	-0.01	0.05	0.12	-0.06	-0.02	-0.16	0.16
21.	ln(number of employees)	8.03	1.71	0.14	-0.07	-0.08	-0.15	0.05	0.01	0.18	0.17	-0.01
22.	Manufacturing industry dummy	0.53	0.50	-0.08	0.03	0.06	-0.02	-0.08	0.06	0.00	0.02	0.00

n = 185. Correlation coefficient |0.14| or more is statistically significant at the 5-percent level.

Table 1: Continued

No	Variable	10	11	12	13	14	15	16	17	18	19	20	21
1.	Board monitoring												
2.	Advice and counsel provision												
3.	Identification with the firm												
4.	Emotional intelligence												
5.	Extraversion												
6.	Agreeableness												
7.	Conscientiousness												
8.	Emotional stability												
9.	Openness to experience												
10.	Intrateam trust	1.00											
11.	ln(organizational tenure as outside director [month])	-0.13	1.00										
12.	ln(age)	-0.04	0.19	1.00									
13.	Specialist dummy	-0.06	0.07	-0.33	1.00								
14.	Female dummy	0.08	-0.24	-0.29	0.20	1.00							
15.	Proportion of outside directors	0.08	-0.11	0.00	0.02	0.11	1.00						
16.	Board size	0.17	0.10	0.33	-0.08	-0.01	-0.35	1.00					
17.	Foregn ownership ratio	0.04	0.11	-0.14	-0.05	-0.09	-0.08	0.00	1.00				
18.	Nominating committee	0.08	-0.09	0.09	0.04	0.03	0.61	-0.09	-0.02	1.00			
19.	Audit and supervisory committee	-0.11	0.03	-0.12	0.15	0.03	0.37	-0.41	0.00	-0.22	1.00		
20.	Return on assets	-0.01	0.00	-0.04	-0.01	0.09	0.03	-0.21	-0.05	-0.10	0.03	1.00	
21.	ln(number of employees)	0.08	-0.01	0.42	-0.10	0.05	0.27	0.49	-0.10	0.37	-0.20	-0.30	1.00
22.	Manufacturing industry dummy	0.06	-0.04	0.12	-0.17	-0.10	0.14	-0.03	0.00	0.17	-0.02	-0.26	0.28

n = 185. Correlation coefficient |0.14| or more is statistically significant at the 5-percent level.

Table 2: Estimation Results

Variable	Board monitoring		Advice and counsel provision	
	Model 1	Model 2	Model 3	Model 4
Identification with the firm		0.172**		0.131
		(0.0609)		(0.0818)
Intrateam trust		0.101		0.210+
		(0.0779)		(0.119)
Extraversion		0.0524		0.137
		(0.0492)		(0.0894)
Agreeableness		-0.0383		0.212+
		(0.0818)		(0.119)
Conscientiousness		0.119		-0.244*
		(0.0722)		(0.0943)
Emotional stability		-0.0166		-0.0825
		(0.0666)		(0.0961)
Openness to experience		0.131*		0.416**
		(0.0594)		(0.0911)
Emotional intelligence		0.172		0.349*
		(0.119)		(0.164)
ln(organizational tenure as outside director [month])	0.0362	0.0756	0.0999	0.179*
	(0.0580)	(0.0462)	(0.0896)	(0.0804)
ln(age)	0.279	0.655	-0.381	0.127
	(0.407)	(0.400)	(0.572)	(0.537)
Specialist dummy	-0.397**	-0.264+	-0.333+	-0.186
	(0.136)	(0.143)	(0.187)	(0.175)
Female dummy	0.302*	0.268*	0.301	0.232
	(0.142)	(0.125)	(0.216)	(0.213)
Proportion of outside directors	0.452	-0.110	0.463	-0.574
	(0.645)	(0.599)	(0.889)	(0.727)
Board size	-0.00448	-0.0281	-0.0670	-0.0987*
	(0.0284)	(0.0264)	(0.0420)	(0.0381)
Foreign ownership ratio	1.308+	1.230+	0.346	-0.831
	(0.704)	(0.663)	(0.961)	(0.678)
Nominating committee	-0.0223	0.00501	-0.440	-0.0863
	(0.332)	(0.287)	(0.433)	(0.372)
Audit and supervisory committee	-0.0404	0.0632	-0.525*	-0.268
	(0.172)	(0.158)	(0.231)	(0.207)
Return on assets	1.878*	1.401+	2.152	0.768
	(0.816)	(0.748)	(1.385)	(1.102)
ln(number of employees)	0.0715	0.0914*	0.0189	0.0691
	(0.0470)	(0.0439)	(0.0765)	(0.0666)
Manufacturing industry dummy	-0.184	-0.210*	0.101	-0.00626
	(0.117)	(0.106)	(0.165)	(0.151)
Constant	3.353*	-1.475	6.420**	-0.820
	(1.627)	(1.763)	(2.189)	(2.486)
Observations	185	185	185	185
R-squared	0.170	0.368	0.103	0.347

Robust standard errors in parentheses
** p<0.01, * p<0.05, + p<0.1

Table 2: Continued

	Board monitoring							
VARIABLES	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Identification with the firm	0.225**							
	(0.0589)							
Intrateam trust		0.208*						
		(0.0892)						
Extraversion			0.139*					
			(0.0543)					
Agreeableness				-0.0593				
				(0.0915)				
Conscientiousness					0.223**			
					(0.0639)			
Emotional stability						0.170**		
						(0.0565)		
Openness to experience							0.248**	
							(0.0561)	
Emotional intelligence								0.378**
								(0.0973)
ln(organizational tenure as outside director [month])	0.0355	0.0224	0.0333	0.0357	0.0516	0.0507	0.0930+	0.0609
	(0.0564)	(0.0553)	(0.0569)	(0.0580)	(0.0550)	(0.0576)	(0.0531)	(0.0566)
ln(age)	0.529	0.459	0.367	0.263	0.318	0.411	0.292	0.410
	(0.397)	(0.406)	(0.410)	(0.407)	(0.402)	(0.415)	(0.403)	(0.403)
Specialist dummy	-0.329*	-0.449**	-0.312*	-0.404**	-0.335*	-0.357**	-0.329*	-0.370**
	(0.138)	(0.138)	(0.137)	(0.136)	(0.135)	(0.133)	(0.136)	(0.127)
Female dummy	0.298*	0.324*	0.226+	0.304*	0.291*	0.331*	0.312*	0.280*
	(0.146)	(0.144)	(0.135)	(0.144)	(0.131)	(0.140)	(0.133)	(0.125)
Proportion of outside directors	0.364	0.604	0.530	0.466	0.257	0.399	-0.165	0.0544
	(0.641)	(0.661)	(0.607)	(0.650)	(0.623)	(0.621)	(0.604)	(0.610)
Board size	-0.00540	-0.00201	-0.00438	-0.00414	-0.0152	-0.00748	-0.0164	-0.0322
	(0.0277)	(0.0282)	(0.0277)	(0.0285)	(0.0266)	(0.0279)	(0.0268)	(0.0273)
Foreign ownership ratio	1.523*	1.344+	1.327*	1.337+	1.465*	1.202+	0.707	1.172+
	(0.770)	(0.728)	(0.612)	(0.689)	(0.730)	(0.658)	(0.590)	(0.606)
Nominating committee	-0.0601	-0.120	-0.0862	-0.0315	-0.0562	-0.0251	0.238	0.00833
	(0.327)	(0.350)	(0.311)	(0.334)	(0.322)	(0.335)	(0.295)	(0.311)
Audit and supervisory committee	-0.0677	-0.0933	-0.00928	-0.0416	0.00264	-0.0241	0.136	0.0126
	(0.162)	(0.172)	(0.167)	(0.173)	(0.170)	(0.169)	(0.167)	(0.167)
Return on assets	1.986**	1.733*	1.619*	1.852*	1.858*	2.143**	1.309+	1.795*
	(0.729)	(0.829)	(0.750)	(0.815)	(0.906)	(0.769)	(0.723)	(0.865)
ln(number of employees)	0.0814+	0.0712	0.0647	0.0716	0.0672	0.0573	0.0843+	0.0917*
	(0.0455)	(0.0460)	(0.0463)	(0.0472)	(0.0455)	(0.0462)	(0.0449)	(0.0460)
Manufacturing industry dummy	-0.208+	-0.196+	-0.155	-0.181	-0.160	-0.160	-0.200+	-0.222*
	(0.111)	(0.118)	(0.116)	(0.117)	(0.113)	(0.117)	(0.115)	(0.108)
Constant	1.137	1.791	2.321	3.680*	2.138	2.007	2.102	1.121
	(1.663)	(1.697)	(1.685)	(1.704)	(1.671)	(1.715)	(1.581)	(1.700)
Observations	185	185	185	185	185	185	185	185
R-squared	0.240	0.255	0.206	0.172	0.232	0.209	0.261	0.198

Robust standard errors in parentheses
** p<0.01, * p<0.05, + p<0.1

Table 2: Continued

	Advice and counsel provision							
VARIABLES	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18	Model 19	Model 20
Identification with the firm	0.261**							
	(0.0892)							
Intrateam trust		0.312*						
		(0.133)						
Extraversion			0.242**					
			(0.0877)					
Agreeableness				0.0707				
				(0.128)				
Conscientiousness					0.0353			
					(0.0985)			
Emotional stability						0.166*		
						(0.0823)		
Openness to experience							0.476**	
							(0.0805)	
Emotional intelligence								0.430**
								(0.145)
ln(organizational tenure as outside director [month])	0.0991	0.0792	0.0948	0.100	0.102	0.114	0.209**	0.128
	(0.0911)	(0.0877)	(0.0877)	(0.0900)	(0.0904)	(0.0893)	(0.0801)	(0.0892)
ln(age)	-0.0919	-0.112	-0.228	-0.362	-0.375	-0.252	-0.356	-0.231
	(0.572)	(0.573)	(0.551)	(0.579)	(0.579)	(0.579)	(0.546)	(0.576)
Specialist dummy	-0.253	-0.411*	-0.184	-0.326+	-0.323+	-0.294	-0.202	-0.302+
	(0.191)	(0.188)	(0.190)	(0.188)	(0.189)	(0.188)	(0.176)	(0.179)
Female dummy	0.296	0.333	0.167	0.299	0.299	0.329	0.319	0.275
	(0.217)	(0.224)	(0.208)	(0.215)	(0.215)	(0.219)	(0.202)	(0.220)
Proportion of outside directors	0.361	0.690	0.600	0.447	0.432	0.411	-0.722	0.0107
	(0.869)	(0.876)	(0.806)	(0.894)	(0.890)	(0.901)	(0.795)	(0.868)
Board size	-0.0681+	-0.0633	-0.0669+	-0.0674	-0.0687	-0.0700+	-0.0900*	-0.0986*
	(0.0405)	(0.0405)	(0.0391)	(0.0422)	(0.0430)	(0.0420)	(0.0381)	(0.0439)
Foreign ownership ratio	0.595	0.399	0.379	0.312	0.370	0.242	-0.810	0.191
	(1.027)	(1.003)	(0.796)	(0.982)	(0.971)	(0.905)	(0.688)	(0.814)
Nominating committee	-0.484	-0.587	-0.551	-0.429	-0.445	-0.443	0.0608	-0.405
	(0.423)	(0.433)	(0.402)	(0.435)	(0.437)	(0.452)	(0.403)	(0.442)
Audit and supervisory committee	-0.556*	-0.604**	-0.470*	-0.523*	-0.518*	-0.509*	-0.184	-0.464*
	(0.230)	(0.226)	(0.218)	(0.232)	(0.232)	(0.226)	(0.211)	(0.223)
Return on assets	2.278+	1.936	1.702	2.183	2.149	2.412+	1.060	2.059
	(1.265)	(1.404)	(1.249)	(1.392)	(1.408)	(1.358)	(1.163)	(1.470)
ln(number of employees)	0.0303	0.0184	0.00707	0.0188	0.0182	0.00492	0.0434	0.0418
	(0.0749)	(0.0754)	(0.0737)	(0.0763)	(0.0767)	(0.0753)	(0.0692)	(0.0747)
Manufacturing industry dummy	0.0734	0.0845	0.152	0.0980	0.105	0.125	0.0712	0.0580
	(0.166)	(0.166)	(0.155)	(0.166)	(0.164)	(0.164)	(0.152)	(0.159)
Constant	3.854+	4.078+	4.623*	6.030*	6.228**	5.104*	4.015+	3.879
	(2.267)	(2.360)	(2.152)	(2.328)	(2.310)	(2.292)	(2.143)	(2.433)
Observations	185	185	185	185	185	185	185	185
R-squared	0.147	0.155	0.154	0.104	0.103	0.121	0.263	0.133

Robust standard errors in parentheses

** p<0.01, * p<0.05, + p<0.1