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Board Empowerment: What Motivates Board Members of Founder-Owned Companies?

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Abstract

This article investigates the role of boards in founder-managed firms with concentrated ownership in emerging markets. The literature frequently suggests that in this type of companies, boards have little influence on the corporate decision making. The article conducts a case study of AFK Sistema—a large Russian founder-managed firm with concentrated ownership. We observe that, contrary to the expectations, in this company, the founder provided real authority to the board, at the same time focusing on recruiting independent (mainly foreign) members. Based on this case, we argue that selectively empowering boards in this type of ownership setting could be beneficial for the firm: Selective empowerment is a source of intrinsic motivation for the independent board members, making them proactively search for new projects and assist in their implementation on behalf of the firm. As a result, the company can overcome a number of important barriers in its development.

Keywords

board of directors, founder-managed firms, concentrated ownership, proactive engagement of board members, emerging markets

Introduction

What are the preconditions for a successful international expansion of an emerging market company? Although in the domestic markets, these businesses succeed because of vast networks of personal connections giving them access to partners and resources (Michailova & Worm, 2003; Peng & Heath, 1996; Smallbone & Welter, 2001), these networks have clear boundaries and are unlikely to reach beyond the home country or even a particular geographic area or industry (Aidis & Adachi, 2007). Outside the reach of these networks, opaque origin, intransparent political ties, and unstable domestic environment discourage potential partners: Emerging market companies face significant reputational problems. According to the Edelman Trust Barometer (2014), "companies headquartered in BRIC nations (Brazil, Russia, India and China) continue to suffer a trust discount, not just compared to global perception of western-based companies but also among respondents in western markets."

Emerging market companies are aware of these problems and undertake various measures to solve them. For example, in 2016, the *LetterOne* group (controlled by the Russian billionaire Mikhail Fridman) announced its plans to invest about US$2 billion to US$3 billion in the global health care market. As a first step in implementing this project, the group hired two high-ranked Washington-based lobbyists to support the company's endeavor, explicitly citing the disadvantage the company faces because of its Russian origin. This case also shows the importance of accessing new markets: According to Fridman, "[the group] cannot keep all of its assets in Russia: it is too risky" ("Fridman nanyal amerikanskikh lobbistov dlya vykhoda na novyi rynok," 2016). Thus, going beyond the reach of original networks is essential for company's long-run survival (Panibratov, 2012; Wright, Filatotchev, Hoskisson, & Peng, 2005).

The literature suggests that corporate boards could be instrumental in solving the problem we described through their *resource-provision task*, that is, when board members "serve to connect the firm with external factors which generate uncertainty and external dependencies" (Hillman, Cannella, & Paetzold, 2000, p. 238). For example, board

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members with their knowledge, expertise, and connections can help the firm to overcome the barriers of internationalization (Barroso, Villegas, & Perez-Calero, 2011; Chen, Hsu, & Chang, 2016; Naldi & Nordqvist, 2009; Sherman, Kashlak, & Joshi, 1998; on emerging markets firms, see Filippov, 2012; Mansilya-Cruz, 2011). In fact, one of the first steps of *LetterOne* in the example above was to appoint a reputable foreign manager as the head of the advisory council of the subsidiary responsible for the new health care project (LetterOne, 2016).

Although the existing research provides ample evidence on the relevance of the resource-provision task of the boards, it offers fewer insights into the issue of the *motivation* of board members. Motivation is very important, because it predicts whether the board members actually use their networks and knowledge to promote a company's agenda. If managers simply refer to board members in negotiations with potential new partners, it does not send a sufficiently strong signal in favor of the company: One does not know how much commitment board members themselves have and how strong their belief in the company is. Personal engagement of board members is time consuming and, hence, requires strong incentives. Our article adds to the literature by investigating a particular tool of creating incentives for the board members: the *selective empowerment* of the company's board. *Empowerment* is defined as the degree of involvement in the corporate decision making and the ability to act as a veto player (Almazan & Suarez, 2003). *Selective* empowerment is defined as giving the board the veto player power in some, but not in all aspects of corporate decision making.

The main contribution of this article is to show that the (selective) empowerment of the board provides intrinsic incentives for board members to implement specific resource-provision tasks allowing the company to overcome the otherwise existing barriers for entering new markets. In particular, we look at the *independent proactive acquisition* and *support in implementation of new projects* for the firm by the board members. We refer to the *acquisition of a project* if a company manages to identify a lucrative expansion opportunity in a new market or sector and then establishes a business project to exploit this opportunity (e.g., through the purchase of another company, creation of a new subsidiary or business division; Liesch & Knight, 1999; Madhok, 1998; Skaates, Tikkanen, & Lindblom, 2002). *Independent proactive* acquisition of a project by board members means that they personally (and on their own initiative) seek out new projects for the company, participate in negotiations concerning the projects, and are involved in their implementation, thus offering the company points of entry into new markets.

Our findings seem to be particularly interesting for a subset of companies with *concentrated ownership*,[1] in particular *founder-managed companies*, for two reasons. First, the extant literature demonstrates that precisely in these companies, boards typically have little power (Bagilioni & Colombo, 2013; Boone, Field, Karpoff, & Rajeha, 2007; Corbetta & Salvato, 2004; Denis & Sarin, 1999; Donelly & Kelly, 2005; Gabrielsson, 2007; Li, 1994). We show the previously underresearched benefits these companies can reap from the (selective) board empowerment. Second, in the context of emerging markets, founder-managed companies face a specific dilemma: The owner cannot step back from running the company, because otherwise, the access to political connections and to the original business partners will be lost; but, at the same time, the owner faces severe constraints in terms of access to new markets because of the lack of personal ties and reputation relevant for these markets. We show that independent board members can assist the company in solving this dilemma.

The article is based on a case study of *AFK Sistema*, one of the largest Russian corporations, which is owned and controlled by the founder. In spite of this fact, *Sistema* created a functioning board with a substantial influence on corporate decision making and with members proactively engaged in project acquisition and implementation. We demonstrate that the board members indeed exercise this task because of their strong intrinsic motivation, coming from a substantial (but still selective) empowerment of the board, and that the owner of *Sistema* consciously nurtures this motivation.

Literature Review

The task of the board we discuss in this article can be analyzed within the framework of two partly overlapping literatures: resource dependence theory (RDT) and corporate entrepreneurship theory (CET). The RDT's main elements were formulated in Pfeffer and Salancik (1978); Hillman, Withers, and Collins (2009) and Davis and Cobb (2010) offer a review of this literature's development. Its main focus is on how a company manages the uncertainties associated with its dependency on the external environment. The CET focuses on the ability of the firm to encourage innovation activity and to enhance and maintain the firm's ability to take risks (Covin & Slevin, 1991; Phan, Wright, Ucbasaran, & Tan, 2009). From the point of view of both theories, boards can be important in achieving the respective goals of the company.

From the point of view of the RDT, the board's task is to connect the firm to the external environment (Hillman et al., 2009). This is achieved by recruiting independent board members with the necessary personal or professional background, giving them *access* to the networks where the resources company needs are available, or the *experience* in how the access to the resources can be obtained (Borch & Huse, 1993; Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978). Independent board members can contribute to achieving this goal in a variety of ways (Bankewitz, 2016; Carpenter

& Westphal, 2001; Certo, 2003; Coles, Daniel, & Naveen, 2012; Daily, McDougall, Covin, & Dalton, 2002; Desender, 2009; Hillman, Shorpshire, & Cannella, 2007; Lynall, Golden, & Hillman, 2003; Zahra & Pearce, 1989; Zimmerman & Zeitz, 2002). There is a vast empirical literature showing that the RDT reflects an important aspect of the board's tasks (Dalton, Daily, Ellstrand, & Johnson, 1998; Huse, Hoskisson, Zattoni, & Vigano, 2011; Johnson, Schnatterly, & Hill, 2013) and looking at conditions, which enhance the ability of boards to provide resources to the company (Machold & Farquhar, 2013; Pugliese, Minichilli, & Zattoni, 2014). From the point of view of the CET, the board's task is to ensure that the organization behaves in a flexible and risk-taking way and to encourage innovations (Rigolini, 2013; Strikwerda, 2003). The CET also investigates under which conditions the board is better suited to support the corporate entrepreneurship (Audretsch & Lehmann, 2006; Rindova, 1999; Tuggle, Schnatterly, & Johnson, 2010; Zahra, 1996; Zahra, Neubaum, & Huse, 2000).

Both the RDT and the CET perspectives on board's tasks are relevant for companies both with dispersed and with concentrated ownership. Because in case of concentrated ownership, boards do not need to exercise some tasks relevant for the dispersed ownership case, for example monitoring of management to prevent it abuses its power at the expense of shareholders (Desender, Aguilera, Crespi, & Garcia-Cestona, 2013), the literature, in fact, points out the particular importance of the resource-provision tasks for this type of firms (Gabrielsson & Huse, 2005; Huse, 1990; Sur, Lvina, & Magnan, 2013; Uhlaner, Wright, & Huse, 2007; Van Den Heuvel, Van Gils, & Voordeckers, 2006; Zahra, Neubaum, & Naldi, 2007). In emerging markets, the resource-provision task frequently turns into the main one for the boards (Peng, Wang, & Jiang, 2008; Young, Ahlstrom, Bruton, & Chan, 2001). Similarly, companies with concentrated ownership can reap particular benefits from boards contributing to the corporate entrepreneurship (Brunninge, Nordqvist, & Wiklund, 2007; Daily & Dalton, 1992; Fiegener, 2005; Filatochev, Toms, & Wright, 2006; Gedajlovic, Lubatkin, & Schulze, 2004; Rigolini, 2013; Zahra, Filatochev, & Wright, 2009). Empirically, several studies look at the boards of companies with concentrated ownership from the point of view of the CET and the RDT and confirm the empirical importance of both theoretical perspectives (Gabrielsson & Huse, 2005; Voordeckers, Van Gils, & Van Den Heuvel, 2007).

The question we ask in this article is a direct continuation of this discussion: whether a company with concentrated ownership (especially a founder-managed company in emerging markets) should not only recruit independent board members but also empower the board, providing it with some real authorities. The argument of the RDT in itself does not require the company to empower the boards: Instead, it focuses on the interaction between the board members and the management, allowing the former to provide information, advice, and assistance to the latter (Westphal, 1999). The board empowerment has been a topic of a vast and well-developed literature within other approaches to studying boards, looking at the monitoring tasks of the boards protecting the interests of shareholders from managers (Baysinger & Hoskisson, 1990; Boyd, 1994; Dalton et al., 1998) and of small shareholders from the large ones (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Our article adds a further motive for the (selective) board empowerment: It can improve the motivation of board members in exercising their tasks highlighted by the CET and the RDT.

Advantages of Selective Empowerment of Boards in Emerging Markets

Tacit Knowledge, Networks, and Intrinsic Motivation

Both the RDT and the CET suggest that boards can be important in supporting the company in acquiring new projects and, thus, obtaining access to new markets. From the RDT point of view, board members are best equipped to scout for new business opportunities for the firm and to acquire them on its behalf (Baron, 2006). From the CET perspective, searching for new projects is an essential part of corporate entrepreneurship (Ferreira, 2001). In this article, we argue that, first, the company benefits if the board members *personally* use their time and effort to acquire and implement projects and, second, (selective) empowerment of boards *incentivizes* them to behave in this manner.

The first argument holds because of two characteristics of the board members. First, independent board members possess tacit knowledge (Kor & Sundaramurthy 2009; O'Hagan & Green, 2002).[2] Because tacit knowledge, by definition, cannot be easily verbalized or written down, it requires individuals working together on solving certain tasks to transfer the tacit knowledge to each other (Carlile, 2004; on boards specifically, see Brandes, Dharwadkar, & Suh, 2016). Thus, the full utilization of the tacit knowledge requires board members to become personally involved in the acquisition and implementation of projects. Second, independent board members possess reputation and connections in the markets and sectors, where the company itself enjoys bad reputation and lacks access to networks (George, Wood, & Khan, 2001). Katz and Kahn (1978) point out that relations between organizations are maintained by individual boundary spanners; (independent) board members are able to act as these boundary spanners (Lee & Roberts, 2015). Personal involvement of board members in a project can be seen as a costly signal by the board members to their external partners. The credibility of the signal goes up the costlier it is for the sender, for example, if it is associated with larger effort (Farrell & Rabin, 1996). Hence, actors consciously engage in more

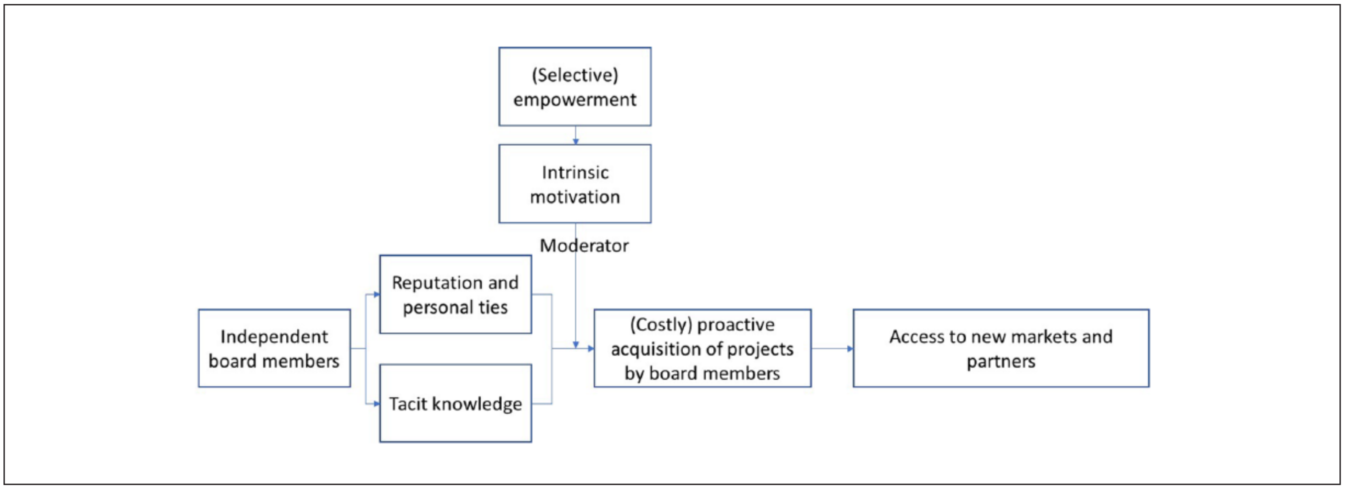

Figure 1. Structure of the argument.

costly activities to improve the credibility of the signals they send (Connelly, Certo, Ireland, & Reutzel, 2011). Thus, the more effort board members exercise (i.e., the stronger their personal involvement in the project), the higher the credibility of the signal that the company is worth doing business with.

Under these circumstances, the company faces the task of ensuring the necessary motivation of the board members. As the extant research shows, the independent board members' motivation is frequently insufficient to achieve the company goals (Volonte, 2015). Although we acknowledge that different tools can be used to motivate board members (i.e., monetary payments [Ryan & Wiggins, 2004] or status advantages [Masulis & Mobbs, 2014]), in this article, we concentrate on the ways to improve their intrinsic motivation.[3] We suggest that (at least selectively) *empowering the board provides the necessary incentives for the proactive involvement of its members in the acquisition and the implementation of projects*.

There are two main arguments in favor of our conjecture. The first comes from the literature on entrepreneurial motivation. Since Schumpeter (1937/2004), it has emphasized the role of nonmaterial factors; entrepreneurs are often driven by their aspiration to personal growth, self-actualization, and development (Benz, 2009; Carsrud & Brännback, 2009). By empowering board members and turning them into active participants in the firm's decision making, the company encourages them to act on similar motivation, making them interested coparticipants in the development of a complex and dynamic business (compare a similar argument of Kuratko, Ireland, Covin, & Hornsby [2005] for the middle management). The second argument comes from the psychological empowerment literature. It shows that greater involvement in decision making and perception of control improve motivation (Maynard, Gilson, & Mathieu, 2012; Spreitzer, 2008), and that empowerment enhances creativity (Zhang & Bartol, 2010), which is important for searching for new projects outside the traditional market of the company.[4]

In sum, we suggest the following argument (see also Figure 1). *Empowerment of boards* (at least, selective one) creates *intrinsic motivation* for their independent members. *Intrinsic motivation* makes independent members willing to *spend time and energy* on acquiring projects for the company and on supporting their implementation. If board members behave in this way, the company could be able to overcome barriers it faces in acquiring projects and finding partners outside its original market by better utilizing the *tacit knowledge* and the *personal connections/reputation* of the board members. Stated otherwise, the intrinsic motivation is a moderator for these characteristics of the board members, increasing their utility for the company. Furthermore, because of the substantial time and effort invested into the acquisition of projects for the company, the activity of the board members constitutes a *credible signal* to the external partners about the extent of their commitment to the company.

Emerging Markets and Founder-Managed Companies

Specifics of emerging market companies. As already mentioned in the "Introduction" section, emerging market companies face a number of specific challenges. First, within the country of their origin, they operate in an environment of weak rule of law (Claessens & Yurtoglu, 2013). As a result, access to assets, resources, and partners happens through personal connections—more so than in developed countries (Boisot & Child, 1996; Puffer & McCarthy, 2011). The company's executives typically have access only to specific networks, insufficient for expanding to other markets or industries. Outside the country of their origin, as mentioned in the "Introduction" section, emerging market companies typically have poor reputation (Filippov, 2010). As a result, for this group of firms, the entry barriers to new markets both outside and inside their country are particularly high. Proactive involvement of the independent board members can help the company to deal with these problems.

Although the internationalization of business activities[5] is an important setting where our argument could be relevant, our conjecture is not specific for the internationalization challenges: It applies to any case of expansion beyond the original market, industry, region, or set of partners. Internationalization is merely an example of a more general phenomenon. However, it has a particular advantage in terms of empirical research. Independent board members necessary to promote company's internationalization have distinct characteristics (in many cases, they are foreigners with high status in the business or political community; see Mansilya-Cruz, 2011), which are easy to identify—more so than if the company recruits board members to obtain projects in a new domestic market (intransparent business environment makes it difficult for an outside observer to identify particular characteristics necessary for accessing these markets and whether the board members possess them).

Specifics of founder-managed companies. Emerging markets' founder-managed companies have an even stronger interest to encourage the proactive behavior of the board members searching for projects and implementing them. The original success of these firms was primarily due to the founder's access to the relevant networks (Pappe, 2000). The political connections of the founder are important for protecting the company from the predatory government and bureaucracy, as well as for receiving government help, and hence, they have to be safeguarded at all cost (Dielman & Boddewyn, 2012). Weak shareholders' protection institutions create high risks for the founders, if they give up the day-to-day control over the company (Woodruff, 2000). Hence, the founder has to remain in control of the day-to-day operations of the business. At the same time, the founder is unable to provide the company with the access to new markets (e.g., foreign partners could be particularly cautious while dealing with a company run by an unknown developing country businessperson with no international experience; Shirokova & McDougall-Covin, 2012). The independent board members' proactive acquisition of projects can offer a way out of this trade-off.

Because the founder cannot relinquish control of the operations of the firm, the empowerment of the board (as a tool of its motivation) has to be selective. It can be achieved, for example, if the board receives the authority over a particular set of issues, with the founder keeping the ultimate power to make especially important decisions, or if the founder keeps the right to override the decisions of the board, but uses this veto power only in exceptional cases and insists on applying formal procedure and seeking the board's approval in the majority of company decisions. Nevertheless, even this selective empowerment can be *costly* for the company. First, the founder needs to consult outsiders on various decisions and is, therefore, constrained in the ability to use informal mechanisms, ties, and relations (Miller, Lee, Chang, Le, & Breton-Miller, 2009). Second, firm's decision making becomes more rigid and slow, which is a problem in an extremely unstable external environment of emerging markets (Arnold & Quelch, 1998). In the specific case we study, as we will show, the firm is well aware of these costs, but considers the benefits of incentivizing the board through selective empowerment to be larger.

The founder could also have a further motive for promoting the proactive and independent behavior of the board members. Uhlaner, Floren, and Geerlings (2007) point out the importance of the owner commitment, that is, "the degree to which owners as a group feel emotional attachments, involvement and identification to the firm of their own" (p. 276). From this point of view, a founder could be different from other types of dominant shareholders (Johannisson & Huse, 2000; Rigolini, 2013). The founders often look at the firm as their "creation" and not merely a tool of revenue (Schumpeter, 1937) and, thus, strive to ensure the long-term survival of the firm and its development. Then, the founder has to acknowledge that the company will eventually face the challenge of intergenerational transition (Haveman & Khaire, 2004), which jeopardizes its position on its original markets (acquired through the connections of the founder). To survive, access to new markets and partners is needed. Because the founder has to keep control over the company's day-to-day operations in the short run (because of political risks and the need to ensure access to the old markets), again, using the board members for the acquisition of projects could be an attractive solution for preparing for these long-run challenges.

Case Description

Country Case

In Russia, as in many other developing countries, key private companies are characterized by highly concentrated ownership (Chernykh, 2008). Because the origins of many companies are linked to the privatization of Soviet enterprises, Russian founder-managed firms frequently emerged as big business groups, where the initial owner managed to obtain control over a large portion of state-owned assets (Guriev & Rachinsky, 2005) through strong political and business connections (Yakovlev, 2006).

According to the Russian Joint Stock Company Act of 1995 (in power at the moment of our investigation), a joint stock company (*aktsionernoe obshchestvo*) has to establish a separate board of directors (supervisory board) if it has more than 50 shareholders. The board is elected annually by the shareholder meeting. This board is separated from the company's management, which is exercised either by a single CEO, or by a specialized management body (pravlenie); the second approach is more typical for large companies. The board is, according to the law, assigned the authority to determine the main directions of the company development and strategy, review the quarterly results of economic activity of the company, assemble and prepare shareholder meetings and determine their agenda, and make recommendations on the dividend payment. The bylaws of the company could grant the board the right to appoint managers of the company, to terminate managers' contracts before their expiration, to approve the issue of new stock, as well as to approve large transactions within particular limits (for a detailed description of the legal framework, see Iwasaki, 2007).

However, the formal rules described above play a less important role in Russia than the informal governance practices (Estrin & Prevezer, 2011). The tasks of boards in Russian companies have been investigated in a number of studies (Demirbas & Yukhanaev, 2011; Iwasaki, 2007, 2008; Lazareva, Rachinsky, & Stepanov, 2007; Muravyev, 2017; Muravyev & Berezinets, 2014; Peng, Buck, & Filatochev, 2003), showing substantial variation across firms. Some boards actually influence the decision making, whereas others are merely approval mechanisms, which have been established to satisfy the legal requirements or the requirements of the stock exchanges. The literature has looked at several possible factors explaining the empowerment of boards in Russian firms, although the number of studies is rather small given the difficulties one has to study the informal institutions (Dulyak, 2013a, 2013b; Melkumov, 2009; The National Code of Corporate Governance, 2010). Our article can, therefore, be seen as an attempt to provide a further explanation *why* the owners of the companies could be interested in (selectively) empowering the boards in some Russian firms.

Company Case

AFK Sistema was established in 1993 and by the late 1990s became one of the largest Russian business groups (Pappe, 2000). The company emerged as a conglomerate, including a large number of service and high-tech businesses. Over time, it transformed into an investment company[6] with a diversified portfolio, ranging over 15 sectors. As of early 2014, the two main assets of the company were *MTS* (one of three largest mobile service providers in Russia) and *Bashneft* (one of 10 largest oil companies in Russia). Until the acquisition of *Bashneft* in 2009, *Sistema* was one of very few large high-tech companies in Russia. *Sistema* has a highly concentrated ownership structure. As of 2013, the company's founder, Vladimir Evtushenkov, held more than 64% of the company stock and continued to be personally engaged in the management of the company.

Most assets of *Sistema* are located in Russia and the post-Soviet countries. However, many subsidiaries of *Sistema* (particularly *MTS*) have large investments abroad. Many of the holdings of *Sistema* were developed as joint ventures with European multinationals (e.g., *Allianz* and *Deutsche Telekom*). *Sistema's* stocks are listed both in Russia and in the United Kingdom. Thus, for *Sistema*, the task of broadly defined internationalization (including searching for partners abroad and acquiring capital) is highly relevant. After the Ukrainian crisis in 2014 started and the Russian Deputy Prime Minister Igor Shuvalov recommended Russian companies to consider delisting from Western stock markets quoting increasing risks, Evtushenkov, in an interview, empathically argued against this measure for his company ("Shuvalov sdelal reklamu Moskovskoy birzhe," 2014).

Data

Data collection for the study was based on semistructured interviews and archival research. We conducted 10 interviews with four groups of actors. The first set of interviews was conducted with the board members. We interviewed three Russian (including one independent) and two foreign (both independent) members of the board. In the management team, we interviewed the senior vice president responsible for corporate governance and two first vice presidents. We also interviewed the corporate secretary, that is, the person responsible for the implementation of the corporate governance system and organizing the communication between the board and the management team. Finally, we conducted an interview with the founder of the company. The access to the interview partners was obtained through the company owner, who himself was approached with an official recommendation by Evgeniy Yassin, academic supervisor of the National Research University Higher School of Economics and the former Russian minister of economic affairs. Archival research was used for preliminary information gathering and the analysis of formal rules concerning the task of the board in *Sistema*.

We analyzed the development of *Sistema* for the period of 2004 to early 2014. The lower boundary was determined by the fact that it was early 2000s when large Russian companies started developing elements of modern corporate governance (if at all); in the 1990s, economic crisis and unstable rules of the game made this issue irrelevant. Indeed, we show that the main innovations of the corporate governance of *Sistema* were implemented from 2004 on. The upper boundary was determined by the time when the interviews were conducted. After completion of the interviews, we collected additional information for subsequent time periods to verify the trends established in the study.

The interviews were conducted in October 2013 to February 2014 in Moscow in the premises of *Sistema* headquarters (mostly in personal offices of the respondents). In summer 2016, an additional interview with the corporate secretary was conducted to extend the article in line with the suggestions of the referees. All interviews were recorded (with the permission of the respondents, who never objected to it or indicated it to be a reason for concern). An interview lasted for 1 to 1.5 hr; it was conducted in English with foreign board members and in Russian with all other respondents. Although we based each interview on a set of questions prepared in advance and sent to the respondent, there were multiple deviations from the original plan following the particular path the interview took. Each interview was conducted by two of the coauthors of this article to avoid biased perception of responses and loss of information.

Although the problems of truthfulness of the responses and of questions of the interviewer indivertibly driving the respondents toward giving certain answers are always present in the qualitative research, we have reasons to believe that, in our case, these problems were less severe. First, we tried to obtain information from two separate sources: members of the board and managers of the company (who do not sit on the board). Second, foreign independent board members (a key group for our analysis) are unlikely to be strongly influenced by the corporate hierarchy within *Sistema*, which would bias their statements. Third, we structured the interviews in a way that we did not explicitly suggest any particular task of the board to the respondents (except the interview with the founder, which was conducted at the very end and used to verify the results of other interviews). The respondents themselves suggested to us the main task of the board we discuss in our study—the acquisition of projects.[7] To deal with the problem of power asymmetry in elite interviews (Welch, Marschan-Piekkari, Penttinen, & Tahvanianen, 2002), we did our best to inquire the respondents about the "big picture" of how they see the place of the board in the company, as well as the company's long-term development (in addition to questions about specific facts and issues). The respondents were—with some exceptions—eager to engage in this type of discussion.

The analysis of the interview data was organized as follows. To start with, we prepared the transcripts of the interviews (in the original language). Each transcript was analyzed by each of the coauthors individually (note that some of the coauthors were absent from the interview process and some were present; the latter also prepared short notes on the reaction of the respondents beyond what could have been obtained from transcripts). This should have reduced biases from interpreting data. Each of the coauthors used two approaches to "making sense" of data: the narrative strategy and the alternate templates strategy, as described by Langley (1999). In line with the first strategy, we organized the events reported to us by respondents in time, trying to trace the development of corporate governance and of the board of *Sistema.* Here, we linked the interview data with the archival research data. In line with the second strategy, we assigned information obtained from the interviews to different theories explaining the selective empowerment of boards. After each of the coauthors implemented the analysis as described above, we discussed our findings and integrated them into a coherent set of evidence. After the conclusion of the interviews, the text extracts assigned to individual theories were once again scrutinized to identify the power quotes and the proof quotes reported in the remaining part of this article (Pratt, 2009).

In the final step, we discussed our conclusions with the corporate secretary of *Sistema*, who reviewed a short summary of this article. This step was necessary, as otherwise the theoretical priors and a lack of information about particular details of company operations could have biased our results. *Sistema* eagerly assisted us to the final verification of our study. There were no interventions in the presentation of results and the arguments of the article.

Evolution of the Corporate Governance and the Board

Like most Russian companies, *Sistema* emerged as a business with a nontransparent property structure and with weak corporate governance. In the 1990s, the company's business was primarily concentrated in the city of Moscow and was based on the very strong ties with the city government (Pappe, 2000). In 1998, the company entered a period of expansion, associated with acquiring assets throughout the country. From 2002 to 2007, the company undertook a number of steps instituting formal corporate governance mechanisms (Dolgopyatova, Libman, Petrov, & Yakovlev, 2015) and conducted an initial public offering (IPO) on the London Stock Exchange (LSE). This transformation also affected the tasks of the board. Before 2006, the board primarily assisted the CEO in exercising managerial tasks and was composed of company executives. After 2006, the company refocused the tasks of the board, making it primarily responsible for strategy issues. The first independent board member joined *Sistema* in 2004; the first foreign board member was selected in 2005. However, the share of independent board members remained low (at the level of about one third of all board members) until 2011.[8]

By the end of the first decade of the 2000s, the company faced a number of important challenges. First, the challenge of internationalization and intensification of contacts with foreign partners became more pronounced. Second, given the aging of the owner (born in 1948), the company had to consider the issues of long-term development and stability.[9] Although these challenges were imminent for *Sistema*, our interviews suggest that the particular trigger, which made the company to reconsider future development options, was the global economic crisis of 2008 to 2009. "The crisis shook us up quite strongly, everybody started to move. Before crisis everything was good, we had a lot of money, we were growing, capitalization was growing. Euphoria was there. After the crisis everybody started to move" (board member).[10] The crisis showed the need for acquiring long-term strategic partners for the purpose of further internationalization, given the high volatility of portfolio investment attracted through capital market.

To respond to these challenges, the company pursued a strategy of strengthening corporate governance from 2011 to 2013. In particular, further changes were introduced regarding the tasks and the position of the board: Its power in the company went up and the share of foreign and of independent board members increased dramatically beyond both domestic and international benchmarks. As of 2013, 62% of the board members were independent, and 54% of the board members came from abroad. The background of board members also changed. After 2011, the company substantially increased the number of entrepreneurs and CEOs on the board (in 2010, only one of the independent board members had the background as the CEO/entrepreneur; in 2013, four members had respective backgrounds, being the largest group among the independent board members), at the same time, keeping the share of former bureaucrats and politicians relatively high (three in 2013 and the second largest group of the independent board members).[11] These two groups are particularly important if the main task of the board is to provide the company access to business networks and new markets.

Acquisition of Projects and Incentives Through Selective Empowerment

The changes in the composition of the board described in the previous section came hand in hand with changes in the tasks assigned to the board members. The interviews we conducted show that project acquisition became an important task for the members of the board, who are expected to proactively initiate and to support the implementation of these projects. An independent board member describes the work of the board in the following way: "We are generating projects; the board members are very active in this respect. I have brought several myself." On the management side, a member of managing body claims that,

> The board includes a large number of independent directors with broad interests, who are actively expressing their interest in deals made by company and suggest various investment opportunities—for instance, to me as the portfolio manager—which are associated with their activity, geography and membership in other boards.

As the interviews reveal, from the point of view of the management, the independence of board members is particularly relevant because they have larger network of contacts different from that of the management. One of the managers we interviewed describes the board as a "ministry of foreign affairs" or the "UN" of *Sistema*. A foreign board member suggests that the reason for his appointment was, among others, "to bring my international contacts, my international experience to this board." Board members use their networks to ensure that *Sistema* obtains access to the markets it wants to expand to:

> It starts with a name. A foreign investor does not know *AFK Sistema*, but he knows that a certain Mr. X, a reputable person, was once the *Coca-Cola* president and joined *Sistema*. He is a reputable person and would not join a company engaged in dubious activities. He accepted responsibility, including legal . . . But the member of the board would not join any company, there are currently serious risks—reputational ones, but also that of criminal prosecution. (board member)

The following case provides a good example of projects initiated and implemented with a substantial support of the board members. From 2013 to 2014, *Sistema* carried out a plan to create a joint venture of its subsidiary *Binnopharm* and of *Fresenius Kabi. Binnopharm* is one of the largest pharmaceutical companies in Russia. *Fresenius Kabi* is a global health care company with headquarters in Germany specializing in infusion and transfusion technologies. The companies intended to merge the assets of *Binopharm* and of the Russian subsidiary of *Fresenius Kabi* to combine their production capacities and distribution networks. According to the interviews, one of the members of the board was actively involved in negotiations with *Fresenius*, discussion of the assets evaluation and of the structuring of the deal; the respondent describes the activity of this board members as "leading the process from the level of the board."

Fresenius and *Sistema* successfully completed the negotiations and, in April 2014, publicly announced the deal. In November 2014, the transaction was called off, but not for reasons associated with the business activity of the company. According to the media reports, it happened because of the overall uncertainty of the situation concerning the future of *Sistema* (the prosecution of Evtushenkov; this issue is addressed in the "Discussion, Theoretical and Managerial Implications" section of this article; see Rossiyskaya Faramtsevtika, 2014); furthermore, in summer 2014, EU and U.S. sanctions against Russia were imposed, which forced many foreign companies to reevaluate their Russian engagement. These are events the company had no influence on and was unable to predict; the fact that the negotiations were announced to be concluded successfully in April 2014 (i.e., 2 months after the start of the Crimea crisis) shows the importance of the project for both sides.

According to the interviews, the importance of proactive participation of the board members in *Sistema* seems to be increasing over time:

> [In the past] a member of the board came, looked at the file, suggested an interesting question, asked it, looked at it [the question], and went away. Now everything has changed. Let us take a meeting with foreign investors . . . We [representatives of *Sistema*] go to a Singapore, where nobody knows us, but there is a person, who is known, who can say—I am responsible, I know them [*Sistema*]. This person [member of the board] is trusted. This is an entirely different situation. (board member)

Still, as the respondents point out, the activity and the connections of the board members should be perceived as complements to the founder's own contribution because of specific features of Russian business. Furthermore, as expected, the members of the *Sistema* board perceive the exercising of their mandates as a very time-consuming task. Members of the board residing abroad, for example, referred to a "board week" preceding the actual board session, when they have to come to Moscow and participate in numerous meetings (board of *Sistema* meets 8 times a year; furthermore, one has to take meetings of board committees into account). This makes the issue of motivating the board members especially important.

In line with the theoretical framework of this article, *Sistema's* board members highlight the importance of the intrinsic motivation for their proactive acquisition and implementation of projects. Independent board members repeatedly state that their motivation for proactive work on behalf of *Sistema* is based on their personal interest in the business model and activities of the company (e.g., because the breadth of the *Sistema* activities provides larger opportunities for the self-development of the board members) and on their feeling of involvement in *Sistema* that comes from the involvement of Evtushenkov in the board's work. A foreign independent board member, while describing his work on other boards, refers to another Russian company where he decided not to continue his engagement on the board because the business model of the company was less interesting and simpler than that of *Sistema*. A Russian independent board member repeatedly refers to the fact that contributing to the company is "interesting" for him.[12] On the management side, the importance of intrinsic motivation is also recognized:

> People, who work on the *AFK Sistema* board, do not work merely for money. There has to be money, for sure, . . . it is similar to what is paid to the board members of large companies. [But what is important is] activity, participation in what is happening, contacts, the ability to develop each other and the people around you. A person, who just came for money, is insufficient, we need creative motivation. It is a specific issue, one cannot gain it for money. (corporate secretary)

Evtushenkov makes a similar comment confirming the importance of the intrinsic motivation:

> Each of them [board members] is to a large extent already involved in the things we do, and—I will honestly say—not formally, not just that they come, spend some time and go. Many of them feel concerned, many come outside the official board meetings, many organize various connections to funds, to people, in the West, wherever they are.

The theoretical framework suggests that intrinsic motivation should come from empowerment (in case of a founder-managed company in an emerging market, a selective one). Indeed, almost all respondents explicitly argue in their interviews that *Sistema* board is a functioning institution with sufficient influence on corporate decisions. The managers and board members in this context refer to an "extended responsibility" of the board. In *Sistema*, key suggestions from the management are indeed subject of discussion of the board members, and it is not uncommon for the board to request a decision to be improved or revised. The respondents were not unanimous with respect to how often the board actually turns down the proposals of the management, but all agree that it is not a rare incident. It is also the case that the management adjusts the proposal for final discussion at the board meeting based on previous informal communication with the board members. The board rarely makes an immediate decision on the items on the agenda; typically, the members engage in a detailed discussion of the topic. Fast decisions happen only in the case of purely technical items, or for poorly prepared items. Board members also contribute items to the agenda of the meetings. There is a monitoring system for the implementation of the decisions of the board. An important part of the work of the board, which has been strengthened over time, is the functioning of board committees (including the strategy committee), where intensive discussion on the board's decisions takes place.

The interviews reveal that Evtushenkov himself devotes a lot of attention to the functioning of the board, actively participating in the discussions and encouraging board members to express their opinion. The company also invests substantial effort into cooperation among board members and, what is even more important, interaction between board members and managers. The board meetings are always preceded by an informal dinner, which managers and board members attend and where they have substantial opportunities to communicate. Once a year, Evtushenkov also has a special informal meeting with independent board members. The attention devoted by the company to the work of the board is perceived as extraordinary even by the board members and managers themselves: "I have never seen a company where a board meeting honestly lasts for several days" (board member);

> It is known that many Russian companies do it [implement the corporate governance norms] only formally, to satisfy some rating criteria. We intend to go away from it, although ratings are important for us, we look for efficient mechanisms of work. (member of the managing body)

The respondents, interestingly, see the strength of the *Sistema* board as unusual even for the standards of their Western partners with concentrated ownership:

> Recently I was engaged in negotiations with a very large European . . . company, which is controlled by one family. After we finished negotiations, where we did not find a common ground, we suggested as part of creating stronger ties between companies . . . to conduct joint sessions of the boards of directors and to exchange their members, so that two our members join their board and two of their members join ours . . . But in the end, we understood that for them the board is purely nominal: the owner makes the decisions. (board member)

At the same time, the management of the company argues that a functioning board comes at a cost within the Russian context. This applies generally to having a developed corporate governance structure. A board member points out that his personal feeling is that it may be better for the owner in Russia not to have a publicly open company and not to disclose any information. The interviews also show that traditional Russian informal culture of decision making cannot be sustained if the corporate governance structure becomes more advanced and foreign independent board members are involved in decision making. In addition, from the purely technical point of view, preparing a board meeting (with a large share of foreigners) appears to be not an easy task (Dolgopyatova et al., 2015). Still, in spite of these costs, the company opts for a strong board and explicitly supports it.

The interviews we conducted suggest that the selective empowerment of the board was the initiative of the founder (rather than of minority shareholders), which the respondents (at least, according to the current recollection of events) see as consequence of a long-term strategy of strengthening formal corporate governance institutions:

> I have spent 15 years at *Sistema* and have seen the entire development from a small company to a dynamically run company following all Western procedures. I have to acknowledge that there were many pessimists when this was promoted, many thought that it was excessive, there was excessive paperwork. But Mr. Evtushenkov—we have been working together for 15 years—consistently followed this line. (board member)

According to a member of the management body, "He [Evtushenkov] as a shareholder could have had absolute power. He, based on his convictions, consciously decided to balance it out." The shift in the composition of the board is also described by a foreign independent board member as an outcome of the initiative of Evtushenkov, willing to keep people with different experience and competences in the board.[13] The influence of minority shareholders on the actual appointment of board members did not go up over time. In 2014, the Association of Institutional Investors representing the minority shareholders attempted to nominate its own candidate to the board for the first time. He was not admitted not only due to a technical reason (delayed submission of documents) but also, arguably, because he did not attend any previous meeting of the board to establish contacts with its members and the management (Sal'manov, 2014).

Although this article focuses on the intrinsic motivation of board members through the selective empowerment of boards, other aspects of motivation (remuneration and status) should also be mentioned. In terms of remuneration, the company bylaws specify various forms of remuneration company pays to its board members. Furthermore, as mentioned, most of the board members hold small portfolios of stocks of the company (which is permitted by the Russian law). However, *Sistema* seems to pay more attention to the intrinsic motivation than to the extrinsic one. *Sistema* started focusing on recruiting independent board members and on encouraging them to proactively acquire projects for the company from 2011 to 2013. During this period, the power of the board of *Sistema* increased substantially, but the overall monetary payments did not go up, although the number of board members remained almost constant.

Similarly, *Sistema* seems to go beyond offering the board members simple status advantages to achieve its motivational goals, as one can see in the following example. In 2003, *Sistema* created an International Consulting Council, headed by Ron Sommer (former CEO of *Deutsche Telekom*) and including high-ranked (current and former) foreign managers and board members of *RWE, Coca-Cola*, as well as Russian influentials. The Council council was set up in preparation of the international IPO of *Sistema*, had no decision-making authorities, and represented a forum for the discussion of the company strategy. Participation in the council was in many instances not different from the participation in the board, except the latter had a decision-making authority. However, the council seems to have turned out to be an ineffective tool of achieving company's goals. Although it has, to our knowledge, never been officially disbanded, it ceased functioning and after 2005 is not mentioned in company statements and other documents. At the same time, some of the prominent members of the council were appointed independent board members, who eventually received substantial influence over the company decisions.

Discussion and Theoretical and Managerial Implications

Our results offer two important insights, relevant for the research on the board tasks. First, we suggest a plausible motive for the owners of founder-managed companies with concentrated ownership to implement the selective empowerment of the boards. In this setting, selective empowerment can also be important for a reason unrelated to the board's monitoring of management: It can serve as a tool of incentivizing the board members to invest sufficient time and effort in proactive involvement for the company. Although, generally, the issue of the motivation of the board members has been recognized as one of critical importance in the research on boards (Huse, 2000), the selective empowerment of boards has been rarely discussed in this context. From this point of view, our study can also be seen as a contribution to the large literature on the connection between motivation and empowerment (Locke & Conger, 2000). We expand this literature to the group of board members (although the main focus in most of the studies is on employees), and more important, offer a link between this literature and the studies of corporate governance. Corporate governance literature (and, generally, social and political debate on this topic) also focuses on power allocation within a company, but frequently from the point of view of extrinsic motivation and constraints of opportunistic behavior (Hambrick, Werder, & Zajac, 2008). This focus has been criticized in the literature (Osterloh & Frey, 2005). Our study, therefore, can be seen as calling for greater attention to the implications of corporate governance for intrinsic motivation.

Second, the article contributes to the research on emerging market companies, which, as mentioned, frequently are characterized by highly concentrated ownership. The literature pays substantial attention to the possible contributions formal corporate governance (including strong boards) can play in this context—for example, by attracting investments (Black, 2001) or improving the communication between companies in a business group (Dolgopyatova, Libman, & Yakovlev, in press). Our article argues that relying on the resource-provision task of the boards can allow the companies with concentrated founder ownership to overcome a difficult dilemma they face: the need for the founder to stay in control (to ensure the survival of the company) versus the need to access new markets and new partners (in spite of the lack of connections of the founder and reputational problems). But to achieve this goal, again, selective empowerment of the boards is necessary.

In terms of the *theoretical implications* of this study, our study asks a number of important questions concerning the functioning of boards. First, it calls for a more nuanced investigation and comparison of different incentive mechanisms a company can use to motivate its board members. How do companies combine different types of incentives? How do different incentives correspond to different board tasks? Our theoretical argument presupposes the link between intrinsic motivation through selective empowerment and board members' involvement in the project acquisition and implementation. Would selective empowerment also incentivize board members to exercise diligence in other tasks, where creativity and proactive involvement are less important? Are there other tools to boost intrinsic motivation rather than selective empowerment? Although the discussion on the intrinsic motivation of employees and its relation to extrinsic motivation is huge (Cerasoli, Nicklin, & Ford, 2014), it is not clear which instruments offered in it can be applied for board members. In our case, *Sistema* seems to combine selective empowerment with encouraging cooperation and joint work of the board members, which can be seen as a tool to strengthen intrinsic motivation as well (Forbes & Milliken, 1999; Roberts, McNulty, & Stiles, 2005).

Second, the mechanisms of selective empowerment of boards described in this article are potentially subject to the problem of credibility of commitments of the founder. In case of *Sistema*, it was the founder who systematically supported the selective empowerment of the board, but it also means that in case the founder changed his or her attitude toward the board position in the company, the selective empowerment could turn out to be unsustainable. Because the actual power of boards in Russian firms, as well as other aspects of their corporate governance, is influenced by informal rather than by formal institutions (Estrin & Prevezer, 2011), the founder could easily revise the role of the board in the company. How does the anticipation of this possible revisions influence the motivation of the board members, who, ultimately, have to put their reputation and their time and effort at stake by promoting the company? The problem of credible commitments of the actor in control of the organization to delegate authorities has received a lot of attention in the social science research, but many questions still remain open (Boix & Svolik, 2013; Gehlbach & Keefer, 2012). In the context of *Sistema*, the founder seems to increase the credibility of commitments by sticking to the same course of actions even in an unfavorable external environment (sanctions, economic crises). From this point of view, the personality of the founder potentially becomes important (de Jong, Song, & Song, 2013) and should deserve more careful analysis in the empirical and theoretical studies.

Related to this, third, how can one explain the variation among companies in their willingness to use the approach presented in this article? The issue of expansion toward new markets or industries is one many Russian companies face (Panibratov, 2012; Wright, Filatotchev, Hoskisson, & Peng, 2005); yet, quite a few of them prefer to avoid the (selective) empowerment of the boards. There are several explanations for these differences one could suggest. For an investment company such as *Sistema*, project acquisition may be more important than for other types of companies.

As mentioned, the personality of the founder could make a difference. Finally, one can see the case of *Sistema* as simply more advanced than other companies, which would follow suit once the learning process takes place (Shipilov, Greve, & Rowley, 2010). The current economic crisis and political situation could dampen the willingness of the Russian firms to expand and, thus, reduce their willingness to learn from *Sistema*, but one could also hypothesize that precisely economic and political difficulties will force Russian business to pay more attention to the tools boosting its reputation among foreign partners (as, in fact, the story of *LetterOne* we used to motivate our article suggests). This is an important area for future research.

An important question to answer is further how the experience of *Sistema* is linked to the external environment it operates in. From this point of view, our article is related to the literature investigating how external environment affects the composition and the tasks of the boards (Boyd, 1990; Hillman et al., 2000; Pfeffer, 1972). Our study highlighted one aspect of this problem: the features of the environment encouraging *Sistema* to assign certain tasks to the board. However, external environment can also serve as a constraint for implementing certain policies. For example, the state of the market for independent board members (Rajagopalan & Zhang, 2008) could make finding attractive candidates to fill the positions difficult. For the emerging market companies, political environment seems to be an aspect literature treats as important (Marquis & Raynard, 2015), as *Sistema*'s recent history shows.

In autumn 2014 (i.e., after the conclusion of our case study), unexpectedly for observers of the Russian economy and business community, the Russian prosecution initiated an investigation concerning the legality of the privatization of *Bashneft* and the subsequent purchase of this company by *Sistema*. Evtushenkov was put under house arrest, and *Bashneft* was renationalized. By the end of 2014, Evtushenkov was released from house arrest; *Sistema* was acknowledged as a bona fide acquirer entitled to compensation for the renationalized stocks it originally held. In 2016, all charges against Evtushenkov were dropped. In 2017, however, the new owner of *Bashneft* (the state-owned oil company *Rosneft* with very strong political connections to the Russian high leadership) filed a lawsuit against *Sistema* concerning damages caused to *Bashneft* while it was a subsidiary of *Sistema.* In August 2017, the court decided in favor of *Rosneft*; in December 2017, *Sistema* and *Rosneft* reached a settlement with *Sistema* agreeing to pay to *Rosneft* compensatory benefits of US$100 billion.

The situation has not influenced the results of our study: It was conducted before the events described above, and participants of the study were unable to predict this type of developments. At the same time, it illuminates the importance of political risks for a large Russian company, which massively contribute to the motivation of the founder we described while developing our argument (also showing that even political connections of the founder could turn out to be insufficient to protect the company). It also asks the question about the ability of the company to sustain the (selective) board empowerment under such adverse external political environment. As of November 2017, six of 11 members of *Sistema* board were independent board members, including four foreigners, showing high commitment of the company to the approach described above even under difficult external circumstances though. In June 2017, the independent foreign board members of *Sistema* have addressed the Russian president Putin with the request to pay attention to the uneasy situation around the company (Kozlov, 2017).

The study has a number of important *managerial implications.* It suggests that emerging market companies with concentrated ownership can achieve long-term strategic advantages by selectively empowering their boards, and indicates that, in this case, boards can effectively implement yet another task relevant for the company. In particular, empowered board can serve as a tool of supporting company's access to new markets and industries, including internationalization, which is an attractive, but challenging task for many emerging markets companies (Filippov, 2012). As such, the benefits of the empowered board could also matter in the long run, when the founder's personal connections will be not at the disposal of the company any more (e.g., due to the generational change). Selective board empowerment, therefore, should not be seen as merely a tool satisfying the demands of minority shareholders or as an instrument monitoring the management in case the founder decides to reduce one's own personal involvement in the day-to-day management of the company. Our study highlights that the selective empowerment of board requires substantial personal commitment of the founder—both to create corporate governance institutions over the long period of time and to invest sufficient amount of one's time in the interaction with the board (as well as to encourage the managers to do the same).

Our results could matter for companies outside the emerging markets context as well. They apply to various circumstances when entering a market or industry is particularly difficult without a set of individuals using their personal ties and their reputation to promote the company's cause. Personal connections have been shown to matter in some of the contexts of the industrial economies as well (Johannissson, 1998), and this is the environment where the approach discussed in this article could be attractive for companies to use.

Conclusion

The goal of the article was to show that founder-managed companies with concentrated ownership, especially those in emerging markets, can benefit from selective empowerment of boards populated by independent members. We argued that selective empowerment can provide intrinsic incentives to board members to engage in resource-provision tasks. More specifically, we looked at the proactive involvement of the board members in the acquisition and implementation of projects for the company. We argued that for companies in emerging markets, and especially for founder-managed companies, this proactive behavior of the board members can be important, especially to solve the problem of entering new markets, sectors, and industries (including internationalization), which many of these companies face but where they have to deal with substantial barriers. But because proactive behavior is costly for the board members (in terms of their time and effort), strong incentives are needed.

Our analysis of the large Russian company *AFK Sistema* reveals several key features of its board, which seem to fit our theoretical considerations. First, the board members of *Sistema* are proactively involved in acquiring projects and participate in their development. Second, board members are primarily motivated by intrinsic factors, especially by their ability to be involved in the activities of the company and to influence the company's decisions. This is possible because, third, the board of *Sistema* has received substantial authorities to provide the necessary intrinsic motivation. Fourth, selective empowerment was a clear intention of the founder (implemented in spite of certain costs for the company).

We acknowledge that the results of this article are based on a single case study. Hence, they call for subsequent empirical research testing the validity of our results, especially for comparative studies, as well as large-*N* research. In particular, there are three main lines of research one can derive from the arguments of this study (in addition to the task of validating results in different contexts). First, one ought to ask about the conditions (country, industry, or company specific), under which the implementation of the approach described in the article is feasible and attractive for the company. Although we suggested a number of explanations for the apparent differences between *Sistema* and other Russian companies, more explicit comparative research is needed. And, how special is the case of Russia compared with other emerging markets? How does the logic of this article work in industrial economies? Second, an extension of this article could be to look at different levels of selective empowerment, that is, authorities delegated to the boards. How could this variation influence the intrinsic motivation of board members? Third, how sustainable is the selective empowerment in the long run, given the frequent and unpredictable changes in the external environment particularly typical for emerging markets (Smallbone & Welter, 2001)? We hope that our study could spur interest into the role of selective empowerment as a tool of motivating the board members.

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Notes

1. Companies with concentrated (as opposed to dispersed) ownership are those where a particular owner (individual or organization) controls the majority of stock in the company (La Porta, Lopez-de-Silanes, & Shleifer, 1999). Founder-managed companies are those where the founder exercises the day-to-day management (Villalonga & Amit, 2006). Founder-managed companies with concentrated ownership are those where founder owns the majority stock in the company capital *and* runs the company on a daily basis.
2. Tacit knowledge is defined as knowledge, which cannot be transferred to another individual through verbal or written communication (Polanyi, 1966).
3. Intrinsic motivation is defined as motivation associated with the board members' own interest and passion (Calder & Staw, 1975).
4. Generally, the idea that empowerment can assist in improving the motivation within a company has been discussed by Conger and Kanungo (1988); Golden and Zajac (2001) show that there is a link between board power and the willingness of its members to engage in strategic management.
5. Broadly defined as the acquisition of assets abroad, implementation of projects in other countries, establishment of partnerships with foreign firms or search for foreign investors (Sullivan, 1994).
6. For the definition of an investment company see https://en.wikipedia.org/wiki/Investment_company
7. If the respondents were to report a biased optimistic picture on the functioning of the boards, they would probably focus on the board's monitoring of management—it is important for stock markets, and the company could try to overestimate its importance in their corporate governance structure to attract investors.
8. Similarly, as Dolgopyatova, Libman, and Yakovlev (in press) show, *Sistema* implemented initial public offerings (IPOs) of several of its subsidiaries and, for this purpose, strengthened their corporate governance and their supervisory boards.

9. In an interview to the Russian business newspaper, *Vedomosti*, Evtushenkov stated that "Sistema is not a family business, and will never be one" (Derbilova, Zukanov, & Voronina, 2013).
10. All quotations from the Russian-language interviews and sources translated by the authors.
11. Double counting is possible if board members have multiple fields of expertise.
12. In Russian, the word "interesting" is used to describe curiosity or issues one personally enjoys as opposed to financial interests or promotion.
13. The long-term Schumpeterian motivation of Evtuschenkov in this case is very likely. In a media interview, he claims that he "enjoys the process of building and structuring a big business out of nothing. Some people like boats, some playing golf, and I enjoy this thing [creating and advancing businesses]" (Malkova, 2016).

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