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FOREWORD

The international scientific conference on Contemporary Issues in Economics, Business and Management (EBM) has become a significant event for scientific and professional community of Southeastern Europe, organised by the Faculty of Economics – University of Kragujevac. The Conference traditionally draws attention of researchers and professionals from Serbia and other countries. The objective of this biennale scientific meeting is building research capabilities and thus improving the quality of research results in the fields of economics, business and management, as well as enabling academics, researchers and PhD students to share their knowledge and valuable experiences, to address important questions, but also to raise new ones. Challenges of ongoing global economic crisis, turbulent business environment and increasing competitiveness require new, progressive thinking on economic policy and new business models that will create the change we want to see and finally lead to innovative solutions of various business issues. Therefore, the EBM Conference is a great platform for networking among researchers from different countries, for exchange of ideas and substantial contribution to the development of existing theory and practice.

The EBM 2012 Conference gathered around 120 participants, mostly from the Western Balkans countries and EU. Within plenary and four parallel sessions, the authors have presented their most recent papers that related to theoretical, methodological and practical research.

This book represents conference proceedings and consists of four parts. The first part includes papers dealing with key topics in contemporary management and marketing while the second part addresses challenges related to globalization and regionalization. The focus of the third part is associated with contemporary concepts and issues in accounting and business finance. The fourth part contains papers that utilize quantitative methods and models in economy and management.

I would like to thank all contributors for creating an impressive book that further advances traditional concepts in economics and opens new research perspectives. I also owe many thanks to paper reviewers for their enthusiasm, diligence and constructive comments that have provided the authors with guidelines for improving the quality of their papers, and thus the publication itself. Therefore, I strongly believe that the conference proceedings will fulfil their intention to serve to the readers as a helpful resource for their scientific work and further research efforts.

Editor
Verica Babić

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BOARD STRUCTURE AND CORPORATE PERFORMANCE: TRADITIONAL VS. CONTEMPORARY APPROACH

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Abstract: *In dealing with the agency problem, the board as an internal mechanism of corporate governance has a control role in order to protect the owners' best interests. In addition to control, the board has a strategic role in the process of strategy formulation and implementation. In line with board roles, board effectiveness, seen as the degree to which boards are successful in carrying out their roles, represents an important determinant of corporate performance. Traditional approach has been based on the hypothesis that board structure determines its effectiveness. However, the empirical research dichotomy and new research perspectives indicate that board structure is significant, but not the only factor affecting board effectiveness and, consequently corporate performance. In this paper, we analyze relationship between the board structure and corporate performance. Starting from traditional perspective limitations, this paper contributes by proposing contemporary framework and expanding the understanding of the interdependence between board effectiveness and corporate performance.*

Keywords: *board structure, board effectiveness, corporate performance, corporate governance, contemporary approach.*

Introduction

In the study of corporate governance, the essential issue is how to ensure that managers act in the best interest of owners. According to the agency theory, in terms of separation of ownership and control, the interests of owners and managers may collide, resulting in traditional agency problem between the owner (*principal*) - manager (*agent*). The agency theory hypothesis that managers as shareholders' agents may make decisions contrary to the owners' interests. In dealing with the agency problem and conflict of interests, the board as an internal mechanism of corporate governance has a role to monitor and control managers, in order to protect the owners' best interests. In addition to control, the board has a strategic role, which evolved from the strategy evaluation and ratification, to active participation in the process of formulation and implementation.

Traditional approach has been based on the hypothesis that board structure determines its effectiveness, and consequently, on corporate performance. Therefore defining the actual board structure becomes crucial. Board structure is evaluated on the basis of three structural variables: board composition, leadership structure and board size. Traditional perspective further argues that understanding of board structural variables was a sufficient basis for defining the principles and the formulation of regulations required for effective corporate governance. In addition, board effectiveness, seen as the degree to which boards are successful in carrying out their roles, represents an important determinant of corporate performance. In the line with traditional approach, *research paper focuses* on interdependence between the board structure and corporate performance. *The main*

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