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The Problems of Employment Form Selection of Capital Group Management Team Members in the Light of Chosen Company Management Theories

D. Bąk-Grabowska, A. Jagoda

Abstract**—**Managing a capital group is a complex and specific process. It creates special conditions for the introduction of team work organization of managers. The selection of a manager employment form is a problem which gets complicated in case of management teams. The considered possibilities are an employment-based and non-employment managerial contract, which can be based on a thorough action or on formulating definite expectations regarding the results of a manager's work. The problem of selection between individual and collegiate settlement of managers' work has been pointed out. The deliberations were based on the assumptions of chosen company management theories, including transactional cost, agency theory, *nexus of contracts theory, stewardship theory and theories referring directly to* management teams, i.e. Upper echelons theory.

Keywords**—**Capital group, employment forms, management teams, managers.

I. Introduction

TWENTIETH century resulted in the development of economic systems which caused significant transformations in the comprehension of the importance of ownership so far. First of all, a tendency to leave a sole proprietorship form towards corporation forms, where ownership lies in the hands of shareholders or contributors. The development of corporation forms, globalization of economy and turbulence of the surroundings started an organizational concentration trend – at the beginning of the 20th century in the United States and in Europe the first capital groups appeared.

As a consequence of the appearance of the mentioned phenomena another trend emerged: separation of the owner's and manager's functions – management of a company by many often dispersed owners is an impossible task, therefore the necessity to employ professional managers who run the business activity on behalf and for the benefit of the owners. Another criterion leading to the separation of the indicated functions is the problem of management quality and professionalization of this process in case of its performance by an experienced and educated person and their influence on the effectiveness of a company. In case of entrusting a managerial function to qualified managers an extra problem of corporate governance over them and their activity appears.

The position of the owner and the manager in a company may be different, depending on how separated the managerial and proprietor's functions were. Among many decisions made in the process of company management there are key decisions which are exclusive to the owner. In literature it is emphasized that the border between the owner's and manager's decisions is blurred because professional management takes over and appropriates more and more entrepreneurial functions [1]. The problem additionally intensifies in case of managing multilayered business units, such as capital groups which are set up as a result of the mentioned concentration processes. The difficulty in making decisions in a group of companies, where one manages the others uniformly, in other words seizes an opportunity to impose its will on the others, obviously complicates making managerial decisions.

II. Managers and Owners' Relations in Company Theories

The role of a manager in an organization experiences a revolution in the theoretical context. Starting with granting autonomy to the management in the range of taking all decisions (the idea of managerial hegemony) to controlling strategic resources of a company (strategic management) to building relations with stakeholders and balancing conflicting expectations of different interest groups (the idea of stakeholders, the idea of social responsibility of a company) [2]. Attempting to single out the mentioned key decisions which should stay in the hands of the owners, the ones are pointed out which the lifecycle of a company depends on (the so-called constitutive decisions), leaving out the rest in the hands of the manager (the so-called functional decisions) [3]. The indicated demarcation describes the division of power, authorities and tasks which are supposed to lead to an optimal creation of the company's resources by the manager. Managers act thus the main role in the selection of directions where the company is heading, which is emphasized in many today's theories of the firm. Analyzing the selected ones, referring to the roles of firm managers, the problems of

D. Bąk-Grabowska is with the Economics and Organization of Enterprise Department, Wrocław University of Economics, Poland (e-mail: dominika.bak-grabowska@ue.wroc.pl).

A. Jagoda is with Economy, Management and Tourism Faculty, Wrocław University of Economics, Poland (e-mail: agnieszka.jagoda@ue.wroc.pl).

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corporate supervision and managerial contracts, it has been noticed that two basic groups can be distinguished among them:

1. Theories/conceptions emphasizing the differences of interest between the owners and the managers
2. Theories/conceptions referring to the coherence of interest and emphasizing the importance of public trust category.

One of the theories characteristic for the first of the indicated trends is the transaction cost theory. O. Williamson constructed his version of the theory based on three basic assumptions: limited rationality, divergence of interests of the company's particular subsystems and opportunism. The assumption of limited rationality implies that the units comprising the subjects of a transaction act rationally on their intentions, but only within a limited scope, however their behavior framework is designated by cognitive possibilities [4]. The second assumption of the theory – speaking about the divergence of interests of the company's particular subsystems (e.g. production, marketing, finance), leading to the search for a compromise between them, proves that the firm does not look for an optimal organization [1]. Whereas the assumption of opportunism implies that a unit (the manager) by pursuing an established goal is able to give up moral rules only to achieve temporary benefits, thus it is capable of lying or cheating in order to lead to an incomplete or distorted information disclosure and to conclude a transaction [4].

An interesting analysis – characteristic for the given division – was accomplished by L. Kozioł referring critically to the agency theory, acknowledged commonly as the basic model of the description of corporate supervision. Similarly to the theory of transaction cost it assumes the existence of conflict between the owner and the manager (in a soft version it is referred to as a divergence of interests). The author conducted a reasoning resulting in the fact that a too antagonistic presentation of a particular party's interests may lead to absurd. The question arises: should business be done with someone who will act, by definition, inconsistently with the expectations of the other party, i.e. stockholders? The problem of interest divergence lies – in the author's opinion – rather in the fact that the stockholders do not want or do not have their own properly defined business model, or even a vision of this model, moreover they differ from each other in this respect [5]. The presented problem refers to a possible conflict between the needs and goals of the principal (owner) and the needs and goals of the agent (manager). The latter may avoid fulfilling their obligations or in the process of work performance may display their egoistic interest (for instance they may use their working time or organization resources to satisfy their own needs or to achieve property advantages). In the agency theory yet another problem can be observed, resulting from the one presented. It is connected with difficulties in monitoring and verification of an agent's (manager's) work, assuming interest divergence of both parties. The more autonomy and independence the agent gets from the principal, the bigger the moral hazard in the manager[1] [6], [7].

In the group of theories emphasizing the differences among specific interest groups a conception of stakeholders should also be mentioned. It simultaneously indicates the need of realizing coalition goals which result from a compromise between different groups of expectations. This conception is contrasted with the conception of shareholders, which assumes that a company's goals should be subordinate to the owners' expectations. In the subject literature a broad analysis of both approaches was carried out, mentioning numerous arguments for the owners' approach as well as stakeholders' conception [8]. It needs to be pointed out that along with the development of organizational studies the conception of stakeholders gained advantage which was the basis for the corporate social responsibility.

Within nexus of contracts theory – an organization is treated as a series of contracts – explicit contracts and implicit contracts based on informal rules. The theory assumes preferred importance of an entrepreneur who goes into relations with other groups of stakeholders. Within its scope the differences in goals and expectations of specific entities are accepted, but simultaneously the importance of trust between business partners is emphasized and in the broader scope – the importance of social trust level [9].

The stewardship theory needs to be included in the group of theories emphasizing the coherence of interests and the importance of organizational trust category. This theory assumes that managers act in their customers' interest and that they can be trusted. Within this theory it is accepted that in order to increase the effectiveness of the organization and the value for stakeholders the managers should be provided with the freedom of action with reference to nonmaterial motivation tools. This theory emphasizes psychosocial aspects of organizational functioning and is in opposition to the agency theory [10]. The conception of human resources management is the basis for the coherence of interests – although with reference to the relations between the employers and employees. It is stated that the constitutive feature of this conception is „*acknowledging that employees and employers' interests are common (the rule of interdependence), thus rejecting the approach that these interests may be different*" [11]. In the context of relations between the managers and the owners the indicated conception may be of relevance in case when these relations are based on employment relationship.

III. Capital Group Management

We can talk about capital group management only when we assume that it is something more than a set of companies connected with each other in a capital way. Namely, these

[1] The moral hazard is a phenomenon saying that a unit protected from the risk may behave differently than if exposed to it. If both parties' interests are not analogical, an agent may feel the temptation to realize actions unwanted by the principal in a situation when they are not monitored by them.

companies cooperate in order to achieve common economic goals. Such an approach classifies the capital group within the range of an independent business entity. However, capital group management is a more complicated and complex process than managing a single traditional or multi-factory enterprise. One of the characteristics for the capital group is the so-called double enterprise; the realization of the economic process is an attribute of subordinated entities, a holding company, as well as the whole group. The basic organizational and management problem appearing in this area is reduced in fact to the choice of management model determined by the so-called managerial role of holding company, or in other words establishing the scope of managerial functions performed by it.

The superordinate company by managing the group does not have a possibility to issue orders directly to subordinate companies, which means that in order to interfere in their activity it is forced to use indirect instruments. It is connected with the specifics of this institution resulting from such characteristics as:

- the complexity of capital groups,
- dispersion of capital groups,
- multiple instances,
- legal independence of companies being part of the group,
- capital connections arrangement.

The first characteristic for managing a capital group is its complexity. A holding includes many economic entities connected with each other and grouped in a bigger whole, often differing in size and the character of the activity, which undoubtedly affects the increase of the level of difficulty in managing such an institution.

The dispersion of capital groups is possible not only within a country but also internationally and globally (apart from traditional issues connected with the management there are additionally problems resulting from other political, economic, cultural and social conditions in different countries).

The third feature complicating the process of capital group management are its multiple instances consisting in subordinating to a selected economic entity other ones which may be in turn superordinate for the next ones etc. The difficulty in managing lies in delegating tasks and commands directed to the lower levels. Thus, it is necessary to formulate them in such a way that they are understandable for employees of lower instances.

The fourth of the indicated characteristics refers to the fact of possessing legal independence by companies being part of a capital group (as a rule they are joint-stock companies or a limited company), which are equipped with organs of authority having certain powers. The problem consists in performing homogeneous management in a capital group and at the same time not violating the rights of these authorities.

The last mentioned feature is connected with a complicated arrangement of capital connections – from minority shares to majority shares – which complicates the transparency of the authority and makes the realization of the homogeneous management rule difficult.

All of these characteristics force the management process – in order to be effective and to bring positive effects – to be tightly connected with the power structure in a group. This specific feature bears a special paradox often leading to conflicts in the capital group structure. In the subject literature it is stated that managers managing a holding company direct their steps towards social-economic interest of the whole union, while company law demands directing the steps towards the superordinate company (where the managing board of the group is). This bears a conflict between the realities of management and decision making in a holding company and the legal order of company law.

Summing up, by speaking about managing a capital group we mean collective, multi-entity acting of its managers. This acting is, however, a series of individual actions. Nevertheless, the authors assume a thesis that it should not be the sum of a single entity's actions – there should appear the effect of synergy in it. The managers of subsidiary companies and the superordinate company should be obliged to the need of collective thinking, possible to be realized only in case of appointing top management teams.

IV. Top Management Teams of Capital Groups

A critical moment for this thesis to be authorized was the 1980's presentation of assumptions regarding managers' work within upper echelon theory, showing the dependence between different characteristics of managers comprising top management teams and the company's outcome. The upper echelons theory posits that observable characteristics of top management team (e.g. educational background, functional background, age) are the proxy measures of psychological factors (e.g. values, cognitive style, and cognitive content) that influence strategic choice [12]. In the light of this theory managers working in a team achieve better results than while working individually. It has been argued that a diverse top management team with members having different traits, values, experiences, and skills is more likely to make a comprehensive evaluation of opportunities and threats, therefore facilitates firm innovation [13]. Admittedly, the upper echelons theory itself is not of interest in this article; however, since it emerged there has been influence in the subject literature on building top management teams in companies.

A team is defined as members who work in a coordinated effort with other team members in striving for a common goal [14]. Another definition deriving from psychology says that a team is considered to comprise two or more individuals who have some interdependence or relationships and who have an influence on each other through their interactions [15]. Among the factors guaranteeing success to teams, in the subject literature, the following have been pointed out: clear sense of purpose, well understood norms of behavior, measurable success indicators, clear roles and responsibilities and operating rules [16]. Additionally, successful high-level performance teams adopt a set of positive behaviors like dynamism, flexibility, action focus, and new challenge acceptance. Team attention directs itself towards capitalization based on competencies, high mutual trust, unconditioned team attachment, innovation, continuous learning and development [17].

For the Authors the notion of top management team means a group of people comprising the president, the board and the main management of a company – and in case of capital groups of companies being part of a group, whose characteristics, behaviors and relations fit within the mentioned team definition. It seems, though, that the top management team formula itself seems to make up an oxymoron. In the subject literature with reference to the work of a manager a lot of attention is drawn, however, to the question of individual action, building models of managerial decision making. In a manager's work individualism is appreciated as well as management skills (i.e. planning, organizing, motivating and monitoring) over the subordinate team or teams. Paraphrasing, it can be concluded that features characteristic for a team member are not expected from a manager – their occurrence is in contradiction with leadership skills, which he should have.

Team creating processes at the top level of management became the subject of empirical research of C. O. Longenecker, who analyzed the statements of 229 managers employed in production companies in the USA. He managed to diagnose the respondents' conviction about the necessity of team work of an organization management with the parallel aversion for this kind of cooperation. Based on the carried out research factors were identified which are the cause of work negligence in the top management team; it is possible to find among them [18]:

- strong personalities conflict,
- inconsistency of aims, lack of unified directions of action,
- incentive scheme directed towards individual manager's efficiency,
- structural/system cooperation barriers,
- respondents' conviction that cooperation and team working are not priorities of managerial work,
- lack of awareness about the benefits resulting from team work.

As can be seen among the indicated factors, apart from the leadership features influencing team work in a negative way, in the respondents' statements there are also organizational issues, mainly of motivational character and resulting from the lack or inability to build complex course of action of a company. They are system barriers limiting the possibility of entering into cooperation and team work brakes at the top management level.

By referring these deliberations to capital groups, it is worth observing that among the instruments of group management there appears the so-called cross directorship and board of supervisors of the superior company and subordinate entities. It takes place in case of one person joining functions in the organs of authority of at least two enterprises being part of the group. It is thus an instrument bringing to life in a natural way an organ which is the management team.

Thanks to cross directorship the integration of a capital group is reinforced, the flow of information improves as well as the transfer of skills between companies. It also speeds up the decision making process and facilitates supervision over the actions of subsidiaries through the possibility of direct insight into their functioning. The interests of these companies are better recognized and taken into consideration in group management. Moreover, the existence of cross directorship decreases the demand for highly qualified management staff in the group, thanks to which its recruitment and maintenance generates lower cost [19]. As can be seen, cross directorship in case of appointing the management team of a capital group makes most team work negligence indicated by Longenecker nonexistent here.

From the point of view of effective realization of the management process in a capital group, one of the organizational solutions which can influence cooperation positively and improve communication between people responsible for its realization and for providing synergy of collective thinking is an offer of using the so-called collegial model of cross directorship. It manifests itself by positioning the teams, created in order to improve the cooperation of group participants, by the superior company board. Such a team appears in economic practice under different notions; most often it is called the capital group board. Representatives of superior company management and representatives of all or some subsidiaries are part of it. Internal or external experts can also be included in the team permanently or for some time [19].

The team would meet periodically in order to exchange information about the situation in the group, to establish the rules of the group management. It would cooperate with the holding management in cases regarding the strategy of the group and subordinate enterprises, to present and discuss the planned common undertaking as well as to exchange knowledge and experiences. The team should also identify and solve problems and use the work and experience of all its members.

The use of collegial model of cross directorship and creating the management team in a capital group is connected with some advantages. It is worth pointing out among them [20]:

- better skill of task performance and a wider base of evaluation (thanks to joining different scopes of knowledge, different scopes of information given, different skills and experiences of team members) which directly refers to the presented Upper Echelon Theory,
- shortening the ways of communication,
- motivation effects (team members motivate each other – they feel the responsibility for the assigned tasks because they actually take part in the decision making process),
- possibility to learn from the others,

- better work coordination (thanks to common work within the team the effect of adjusting the views of its members and coordination of action can be achieved),
- the acceptance and realization of the decisions made (decisions are better accepted if people they concern took part in their preparation).

Summing up all of the reasoning, it is worth emphasizing that the pilot empirical study carried out by the Authors[2], 7 capital groups in Poland were part of it, results in the fact while it is true that in the analyzed groups management teams are created with the use of the instrument such as cross directorship, however it lacks clearly described and accepted by the managers rules of cooperation. These rules, as it results from the carried out analysis, should include the way of decision making, problem solving, coming up with strategic and current decisions, performing tasks, choice of tools to realize these tasks and reporting about the course of work. It seems that the rules may be elaborated through the team work of managers, providing their engagement.

V. The Selection of Employment Form of TMT Members in Capital Group

Deliberations presented in the subject literature on the employment forms of managers and the problem of drawing up managerial contracts refer above all to the relation of an owner (or a group of owners) – a single manager. An interesting issue is the analysis of the indicated relation with regard to the management team.

The basic division of employment forms of the managerial staff includes employment contracts and other employment agreements, i.e. managerial contracts. In the first case the owner appears in the role of an employer who enters into a labor contract with the manager. In the second case the parties conclude a civil-law contract. The manager, as a party of the contract, may appear as a physical person, a self-employed person or as a legal person. The choice of the specific employment form of a manager may be considered through the prism of the assumptions of the presented theories/conceptions of management.

Employment forms consisting in entering into a labor contract with a manager are connected with the limitation of freedom of business partners through the necessity of adapting the conditions of cooperation to the regulations describing rights and obligations of employers and employees. A manager employed under a labor contract formally runs the company being subject to the orders and supervision of the owner (employer), at the time and place set by them. It leads to the limiting of a manager's freedom who administers the company. In the subject literature as a rule it is discouraged to employ managers under a labor contract with reference to the members of the board of capital enterprises. A manager running a company – in accordance with the idea of management and also by virtue of the law – should perform managing actions in a wide and possibly unlimited scope, which is contradictory to the essence of labor relations [21]. In the argumentation referring to the German experiences it is stated that the attitude excluding the possibility of a board member to have an employee status always had a pronounced advantage [22].

A negative attitude towards the usage of labor contracts as an employment form of managerial staff is not so unambiguous in case of lower level managers. It is pointed out that drawing up managerial contracts with reference to the managers of medium and lower levels "*influences substantially the effectiveness and efficiency of management and the development of the effectiveness of the organization”* [5]. In such case this is a solution profitable for owners. On the other hand, it needs to be considered whether non-employment forms may be connected with the loss of right to use employee privileges, such as a paid holiday or a parental leave. Such a situation depends on the legal regulations binding in a given country. In the light of the stakeholders' conception or the conception of public responsibility a manager's interests should be taken into consideration. It may turn out that they prefer employment contracts, especially when „compensation” of resignation from employee privileges is not a high salary resulting from a managerial contract. It also needs to be considered whether labor law binding in a given country creates a possibility to introduce flexible organization of working time or a remuneration partially dependent of results, which is specific for a manager's work. It seems that the choice of employment form of lower level managers should be preceded by an analysis of how much performing managerial actions requires a manager's independence. The bigger the need of autonomy the bigger the relevance of withdrawal from employment contracts. What is more, interests of both contract or employment agreement parties should be taken into consideration.

In the analysis of other employment agreements of managerial staff legal bases and the consequences resulting from them cannot be disregarded. In the Polish legal system a managerial contract relies upon a mandatory contract which is an agreement of due diligence, which means that a manager is obliged to perform his duties with proper diligence. However, they are not obliged to achieve a specific result. Research carried out under B. Haus at the end of the previous century within the project „*Managing company and managerial contract as new forms of company management in Polish economy*” showed that at the initial period of using managerial contracts in Poland they were based on the rule of due diligence. The authors claimed that the aim of contracts is a generally understood management, although it may consider only realization of a specific function, e.g. trading. The aims should not be formed as increasing profit or profitability or lowering cost. These goals result from the rules of good management [23]. Entrusting company management with a contract manager bears, however, expectations towards specific effect achievement, which may result in the wish to

[2] The research was carried out in 2007 with the use of questionnaire method and purposive sampling.

include a given notation in the managerial contract. It is connected with introducing into contracts resolutions obliging a manager to achieve a certain result.

It is an essential problem referring to the presented analysis of the assumptions of the theory/conception of company management. The following conclusion seems proper. In the light of theory from the first group – emphasizing the divergence of interest – the aspiration will be relevant to secure the owners' interests through entering into managerial contracts based on results, specific effects. According to the authors opting for such an approach the so-called incentive contracts should be formed [24]. However, in the light of assumptions of the theory/conception assuming the coherence of interests and the importance of trust, it will be relevant to form contracts on the basis of due diligence.

As noticed, the problem of selecting the manager's form of employment gets complicated when we deal with a management team. Because of the already mentioned arguments using labor contracts should be discouraged as a form of employment of management team members of higher level. Additionally, functioning of such teams is usually of a periodical character which constitutes another argument for using non-employment agreements, i.e. managerial contracts.

In such case, the problem of selecting the way of constructing a managerial contract remains. Here, the question should be answered about what would motivate a team better to effective management: trust from the side of the owners declared on the basis of an agreement of due diligence or facing the team with specific demands regarding the expected level of profit or other values? Upper echelons theory indicates that the use of teamwork itself in management – thanks to a wider range of competences and the effect of synergy – is a guarantee of introducing more innovative and creative solutions. In such case, it can be concluded that it will be proper to provide freedom of action to the managers and for the cooperation to be based on trust. On the other hand, it is indicated that a clear sense of purpose and measurable success indicators are the factors increasing the chances of team success [16]. It can be concluded that the preferred form of contracts should be these based on definite expectations.

Another problem refers to the way of formulating expectations and calculating the work of managers working in a team. A question should be answered whether to formulate expectations and calculate managers' work individually or collectively. As Longenecker showed, the individualized incentive scheme weakens the efficiency of team management. On the other hand, the collective team evaluation and making the managers' remuneration dependent on it may lead to conflicts. It can be stated that the problem of selecting the way of drawing up contracts of managers working in management teams cannot be unambiguously decided in the light of the presented theories of enterprise and team work.

VI. Conclusion

The importance of team work is emphasized in the subject literature as well as in economic practice and may also be used in case of key organization employees who, by cooperating in the management team, aim for the achievement of competitive advantage of an organization where they were employed. It seems especially important to appoint management teams in multi-instance economic entities such as capital groups. Thanks to the cross directorship their functioning guarantees the preservation of unified politics in all enterprises in a group. Admittedly, as it results from the analysis carried out in the article, it is difficult to keep the cohesion of such a team. It seems that apart from the tool of keeping such cohesion, apart from the analyzed employment forms there are many more factors which the authors will devote further elaborations based on the results of the representative empirical research carried out at present in Polish capital groups.

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