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**Corporate governance and the board of directors: a
qualitative-oriented inquiry into the determinants of board
effectiveness**

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SUMMARY

This dissertation examines the determinants of board effectiveness. The board of directors is considered to be an important governance device and boards are increasingly being held accountable for the organisations they govern. High profile corporate collapses, leading to major economic losses, have raised serious doubt on the effectiveness of boards in protecting the interests of shareholders and other stakeholders. As a consequence, much of today's corporate governance reforms (codes and recommendations, regulation etc.) are directed at improving corporate governance through upgrading the board's functioning. Despite the fact that boards of directors are presumed to be vital for a company's survival, there is still relatively little known about the way boards actually operate. In most countries, boardrooms have been shielded from view, which makes them difficult to study.

Corporate governance and board research have mainly been influenced by agency theory. From an agency perspective, the board of directors is an internal control mechanism designed to address the conflicts of interest between managers (agent) and shareholders (principal) and to bring their interests into congruence. Stimulated by the dominance of the agency theory in corporate governance, board effectiveness has commonly been viewed as the ability of boards to act independently from management to protect shareholders' interest. Structural board characteristics (e.g. size, insider/outsider representation, CEO duality) are treated in empirical studies as appropriate and adequate proxies for understanding board effectiveness. However, there is little definitive and striking evidence that these structural measures have had considerable impact on board or corporate performance.

This dissertation aims at understanding the factors that contribute to the effectiveness of boards, how these factors interrelate, and the extent to which board processes have an impact. In this respect, it attempts to open up, as much as possible, the "black box" of actual board conduct by also examining the inner workings of boards of directors. Our field studies focus on boards of directors of Belgian companies and unfold along a carefully chosen qualitative research methodology. A mixed methods research design (involving directors of both listed and non-listed Belgian companies as well as

experts in the field of corporate governance) and a case study (a board of directors of a major listed Belgian company) provide rich insights into the complex web of factors which shape the effectiveness of boards.

In a first study, we explore and identify the variety of criteria that potentially contribute to the effectiveness of boards. For this purpose, we conducted an in-depth review of the corporate governance literature. Empirical data was gathered through interviews, complemented by two small questionnaires. The study raises three major points. First, the findings highlight a gap between the limited number of structural board measures consistently found in literature, and the broad set of criteria that is emphasized by the directors themselves. In particular, we found a systematic occurrence of a number of intangible or behavioural factors in directors' perceptions of what constitutes a good corporate board. Second, the findings suggest that the value of independence may be overemphasized at the cost of the broader issue of diversity. Still, the concept of diversity is to a large extent under-exposed in board research. Finally, we found that information and the leadership style of the chairman are two additional conditions under which a board of directors can make an effective contribution to the strategic direction and control of a company. What becomes clear by this study is that many aspects of board effectiveness are invisible to mainstream researchers and as such poorly understood. Our findings suggest that the ambiguity in current research evidence can, to some extent, be attributed to the ignorance of a wider range of structural and behavioural factors which actually shape the effectiveness of boards in performing their roles.

The second study elaborates these empirical findings by examining - from a theoretical point of view - the interrelationship between the different criteria while paying special attention to the more intangible aspects of board conduct as well as to the issues of diversity. This study encompasses the development of a process-oriented model of board effectiveness and integrates the corporate governance literature with literature on group effectiveness. In essence, the model follows an input-process-output approach and has three main characteristics. First, board effectiveness (output variable) is defined in relation to the tasks the board of directors is expected to perform. In particular, we have defined an effective board as one that can successfully execute a dual role set, namely its strategic and monitoring role. Second, strong

emphasis is placed on board processes. In particular, we have identified three intervening variables (cohesiveness, debate and conflict norms) which are suggested to mediate the effects of a board's input factors on a board's output. Third, next to board size and independence, the concept of board diversity is introduced as an additional structural input variable. Furthermore, specific relationships between the various variables have been proposed.

The third study empirically challenges our proposed model of board effectiveness by means of a single case study. Data was collected using multiple sources of evidence: documentation, a written questionnaire and interviews with all directors of the board under study. The results of the case study suggest two important issues. First, the findings show that structural board characteristics are a fundamental but insufficient condition for board effectiveness. In particular, they indicate that competent people and the interaction amongst people are more critical for the effectiveness of boards. Second, the findings show that the effectiveness of a board in performing its roles depends on contingencies which relate to the other actors (management, shareholders) in the corporate governance tripod. Besides, the empirical findings highlight the incompleteness of our predefined board model as well as the difficulties of isolating the effects of separate constructs stemming from theoretical assumptions.

The overall result of our studies is the proposition of a congruence model for board effectiveness. This model conceptualises the board of directors as an open, social system, made up of various components that interact with each other. Of key importance is the overall alignment between the specified components. The latter includes (i) input (board's resources), (ii) processes (interaction and behaviour amongst board members), (iii) output (board task performance), (iv) contingencies (board-management and board-shareholder interactions), and (v) boundaries (a set of external 'givens'). The basic hypothesis of this model is that the greater the total degree of congruence or 'fit' between the components, the more effective the board will be - effectiveness being defined as the degree to which actual board task performance is similar to expected task performance.

This dissertation offers several contributions to management science. A first contribution stems from the study of boards of directors in a non-US context using an

alternative research methodology. So far, mainstream board research has carried out using samples of large US corporations and is inspired by quantitative research traditions using secondary data sources. Second, our research contributes to corporate governance and board literature by documenting an indirect route, including novel research areas, for investigating board-performance links. Mainstream board research has tended to overemphasize the direct link between board characteristics and financial firm performance, resulting in conflicting results. The latter raises doubt on the explanatory power of input-output models for the study of boards. A third contribution provided by our research is the response to calls for board studies using a pluralistic theoretical lens instead of a single (agency) perspective. Finally, our research contributes to other research streams, in particular the literature on organizational demography, by examining the relevance of theory and a limited number of constructs, frequently applied in group and TMT studies, in a board context.

This dissertation also has important implications for practitioners. For companies, the findings on the key determinants of board task performance could serve the purpose of board evaluations. In addition, this research has practical relevance for the selection process of (new) non-executive, independent directors as it highlights the importance of having an appropriate mix of competences on board. For institutional investors and rating agencies, this research highlights the danger of limiting attention to structural board characteristics when assessing the quality of corporate governance at a company level. It stresses the need to refine the scoring criteria and weighting methodology of the screening devices as well as to apply a flexible approach when evaluating boards of directors on a global scale. And finally, this research is also of particular interest to policy makers, concerned about stimulating an appropriate corporate governance environment. The research is a modest attempt to provide some academic evidence for current and future governance reforms. In particular, the findings suggest that a broad (with attention also paid to the ‘soft’ aspects of corporate governance) and flexible (with attention also paid to the board’s strategic role) approach should be used when designing, adapting and monitoring corporate governance codes. In addition, the findings suggest that policy makers should reflect on ways to balance the benefits and costs of governance reforms.