THE ACCUMULATION OF KNOWLEDGE OF BOARDS OF DIRECTORS – CONTRIBUTIONS FROM 100 STUDENT REPORTS

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ABSTRACT

Considerable attention has been directed towards corporate governance issues in recent years. There are however various limitations in the international mainstream research on boards of directors. Few studies address research questions beyond investigating the relationship between board composition and company performance. Most research is moreover based on empirical evidence from large publicly held US corporations. This paper summarises the accumulated knowledge from 100 student reports on boards of directors in Scandinavia. The contributions of the reports show the need to explore the influence of various contingencies, and also to take various stakeholder perspectives into account when researching corporate governance and boards of directors. The reports also show the need to go beyond counting only numbers of directors to gain insight into board working structures and relationships between directors and managers. Several advantages compared to the US mainstream research tradition can in this connection be found in Scandinavian research about boards of directors.

INTRODUCTION

Issues concerning boards of directors and corporate governance are receiving increasing attention world-wide in large as well in small companies, and few research areas in the field of management and strategy have grown as much as the domain of corporate governance and boards of directors (Johnson, Daily and Ellstrand, 1996; Zahra, 1996; Huse, 2000). A reason for this increased attention has, among other things, been the growing importance of outside investors as controllers of significant amounts of company stocks (i.e. institutional owners, venture capitalists). Outside investors for example often take initiatives towards a reconstitution of the boards of directors as to make it more independent of the CEO (both financially and socially) to ensure effective monitoring of managerial and company performance (Monks and Minow, 1995). Another reason for attention toward board practices has also been due to managerial responses to a fast changing environment (Black, 1996; van Wyk, 1996) and the increased internationalisation and global competition (Sanders and Carpenter, 1998). An active board of directors may in this respect be a valuable source of expertise when operating in
an uncertain environment, where directors may provide valuable managerial experience, strategic advice and networking activities.

There are, however, various limitations in present mainstream research on boards of directors. Most research is based on empirical evidence from large publicly-held US corporations, leaving smaller privately-held companies and/or companies outside the US borders largely unexplored (Huse, 2000). Few mainstream studies moreover address research questions beyond investigating the relationship between board composition and company performance (Huse, 1998; Forbes and Milliken, 1999) despite that there is no consensus regarding whether there exist significant relationships or not between demography and performance (i.e. Johnson et al., 1996; Dalton, Daily, Ellstrand and Johnson, 1998; Dalton, Daily, Johnson and Ellstrand, 1999). Most of the reported conceptualisations and empirical research thus seems to be of little relevance for practitioners, and boards of directors have consequently hardly been on the teaching agenda in business schools. The aim of this paper is to address some of these shortcomings, present a summary of research into boards of directors in Scandinavia and to report the accumulated wisdom from 100 student papers on boards of directors. Our hope is to challenge the present state-of-the-art and stimulate future board research in the field of management and strategy.

RESEARCH ON BOARDS OF DIRECTORS

Considerable attention towards corporate governance issues has generated in the recent years, and conceptualisations and empirical research on boards of directors have in this period been among the most frequently published issues in both the business press and in academic journals (Zahra and Pearce, 1989; Johnson, Daily and Ellstrand, 1996; Huse, 2000). There are, however, various limitations in present international mainstream research on boards of directors that limit our present knowledge on boards of directors. Mainstream research into boards of directors has been focused on large publicly held companies, with the aim to find direct linkages between board composition or board leadership structure with company performance. There is also a lack of significant findings and patterns in the empirical research (Johnson, Daily och Ellstrand, 1996; Dalton et al, 1998; Dalton et al, 1999), and the critique that and intervening variables such as stakeholder influences, board working structures, and processes in and around the boardroom has been neglected (Zahra och Pearce, 1989; Pettigrew, 1992; Huse, 1998; Forbes and Milliken, 1999).

The Scandinavian research tradition into boards of directors has in this respect been more focused on working structures and board processes. It has also been more stakeholder-oriented, where the board of directors is seen as an arena where internal and external stakeholders may influence the actual behavior of the board (Huse, 1998). Following the findings and conclusions from the Scandinavian dissertations on boards of directors (Gustavsen, 1972; Lundgren, 1986; Huse, 1994; Kärreman, 1999), more process-oriented models that sees boards as open systems in a stakeholder environment may enable researchers to explain ambiguities and inconsistencies in mainstream research on boards, and also be of more relevance for practitioners.
We can in this respect conclude that despite the large amount of research reported in international management and entrepreneurship outlets during the last decade, research into boards of directors are still in an early stage (Pettigrew, 1992; Huse, 2000). Most conceptualisations and empirical research on boards of directors are focused on large-publicly held US corporations and on the relationship between board composition (input) and financial performance (output), while the substance of input and output, as well as what is happening in between still is under-explored issues. Consequently, there is a need to take internal and external contingencies, boardroom-working structures, and director processes into account when theorising about boards. Without a sufficient understanding of these variables, little progress could be made to understand the influence directors might have on company performance (Pettigrew, 1992; Huse, 1998; Forbes and Milliken, 1999).

CONTRIBUTIONS FROM 100 STUDENT REPORTS

The paper presents the accumulated wisdom from 100 unpublished reports about boards of directors in Scandinavia. To be able to summarise the reports we will use Huses (2000) framework for analysing and researching boards of directors. The framework is a synthesis of board research presented in books (Lorsch and McIver, 1989; Demb and Neubauer, 1992), and leading management, entrepreneurship and small business journals, (e.g. Zahra and Pearce, 1989; Pettigrew, 1992; Johnson, Daily and Ellstrand, 1996; Forbes and Milliken, 1999; Huse and Rindova, 2002). The framework is presented in figure 1 below.

(Insert Figure 1 about here)

The main groups of concepts in the model are contingencies, internal stakeholders, external stakeholders, company performance, board task performance, board members, board working structures, and processes inside and outside the boardroom (Huse, 2000:277). For a more detailed discussion of the various concepts, see Huse (2000).

A full picture of the role of boards will include an exploration of the main concepts involved as well as an understanding of the relationships between them (Huse, 2000). With exceptions of some issues related to board members, Huse (2000) concludes that there hardly exist any consistent understanding, definitions and operationalisations of the concepts in the model. The first step towards an understanding of boards beyond studies on the relationship between board composition and company performance will hence be to investigate and explore the main concepts in the model. The next step would then be to study how the different concepts may relate to each other.

ACCUMULATED WISDOM FROM THE 100 REPORTS

Most student reports are written on boards in small and medium-sized companies, but there are also some student reports dealing with other type of organisations such as non-
profits, banks, municipality-owned companies etc. The reports have moreover been written from various theoretical perspectives and viewpoints, and with various methods. A more detailed overview of the 100 student reports will be given in the full paper. Some main findings is presented here:

- Small companies seem to activate their boards mainly due to satisfy the desires of external owners, but also to some degree to gain access to resources not possessed at the time.

- Companies with active boards of directors were found to be experiencing growth to a higher degree than other companies. There was also found relationships between boards of directors and the degree of innovation in the company, where directors that were actively involved in the strategy process seem to discipline and encourage managers to pursue innovative strategies.

- The role of the board seems to change during different life cycle phases. In the early start-up phase the boards has been found to be more actively involved in concrete management tasks and in legitimating the company, while the directors later on have more of a control role in addition to serving as a sounding board.

- The views and expectations of board roles seem to vary between various stakeholder groups.

- Reasons for recruiting outside directors to smaller companies seem to be to strengthen the competence the competence available, get access to a larger network and to gain legitimacy through the newly recruited director’s reputation.

- The recruitment process of new company directors is not as structured as expressed in literature on boards. The individuals with the most influence were the chairman, the CEO and the shareholders (in that order).

- In the case of reluctance towards recruiting outside directors it is often due to the fear of loosing control over the business and that it would hinder the flexibility and pace of decision making.

- Although outside directors makes the board more involved in monitoring company performance and disciplining management, they are most appreciated for their role as discussion partners and as sounding boards to the CEO and his or her management team.

- The ownership structure of the company is a main determinant of board composition and board activity. Small, young owner-managed companies tended to have only paperboards, in family businesses there was found several types of boards, both active and passive ones, and in companies where ownership was separated from management the boards could be considered as active.
• Small boards, boards in small companies, and boards in family businesses show a rather large degree of involvement in the actual shaping and formulation of company strategies. The larger the company, however, the less involved seem the board be in strategy. And medium sized companies showed a rather low involvement in the strategic decision making process.

• When venture capitalists (VCs) are involved as financiers they seem to take a very active participation on the board. These boards are moreover outsider-dominated and the power resides with the VC directors rather than management. The board is moreover actively involved in initiating and shaping strategies.

• The main driving force for directors is not monetary compensation but rather career opportunities, access to network and the possibility to have challenging working tasks. There was a tendency that women considered the directorship more as a learning process, while men tended to express the help they could give to the companies as a main motive.

• Too close relationship between the CEO and the chairman could reduce the involvement from other members of the board. When CEO and the chairman met before the board meetings to discuss the agenda, this led to that other members of the board felt that they had few possibilities to influence company decisions.

• Companies with boards that lack either the integrity to challenge or question managerial decision, or competence to evaluate and monitor the performance of the organisation seem to be more likely to be involved in crises or bankruptcy. The board seems moreover to get a different role during crisis or radical changes in the organisation where the composition of the board is changed.

• Non-profit boards have less clear divisions of work between the boards’ decisions and the actual implementation of ratified decisions compared with company boards. The implementation of actual decisions is most often delegated among the members of the board. Most of the non-profit boards are highly involved in setting and shaping long-term strategies and in networking and lobbying activities, while the actual control and advisory roles seems to vary depending on context.

CONCLUSIONS

This paper summarises the accumulated knowledge from 100 student reports on boards of directors in Scandinavia. Some main findings were presented above. A more detailed overview of the 100 student reports is given in the full paper. The contributions of the reports summarised in this paper show the need to explore the influence of various contingencies and also to take various stakeholder perspectives into account when researching corporate governance and boards of directors. The role of the board changes during the life cycle of the company, and the ownership structure and company sizes
strongly influence board behavior. Thus, when studying boards contingency and stakeholder perspectives should be used.

Moreover, the reports show the need to go beyond counting only numbers of directors to gain insight into board working structures and relationships between directors and managers. International research about boards of directors has leaned heavily on archival data and often uses samples of large publicly held US firms. This approach may not be fully appropriate for an increased understanding of board behavior in Scandinavia. Research questions beyond the influence of board composition on company performance are however hard to explore by archival data or single respondent questionnaire surveys, and instead data should be collected from various sources (Brannen, 1987; Huse, 1996). Such research attempts may also require longitudinal research designs to track changes in board composition and director roles over time in addition to single cross-sectional surveys. Interviews with multiple directors and direct observation of activities in and around the boardroom should be considered. The reports thus exemplify methodological challenges that should be met in future studies. Future studies may in this respect help explore corporate governance questions about the interactions between external and internal stakeholders and the board of directors in directing an enterprise (Huse, 1998).

Several advantages compared to the US mainstream research tradition can be found in the Scandinavian research about boards of directors and corporate governance (Gustavsen, 1972; Lundgren, 1986; Huse, 1994; Kärreman, 1999). Future studies in this area should find and utilise these opportunities. Relevance and venturesome designs should in this connection be given priority to immediate publication possibilities (Huse, 2000). Research questions and approaches should be designed so that relevant research issues are addressed, and research of boards in Scandinavia should not only be replica of research of large corporations in the USA.

REFERENCES


Figure 1: A framework for analysing and researching boards of directors