

A GENERAL MODEL OF CORPORATE BOARDS

An examination of the theories and a review of the literature on board of directors.

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AGENDA

- Rationale of the paper;
- Define Board of Directors (BOD);
- Theoretical Perspective;
- Literature Review;
- Findings; and
- Conceptual Framework for BOD.

RATIONALE



BOARD OF DIRECTORS

- Group of individual tasked with stimulating the activity of an organization (*Collin, Broberg and Taggeson, 2013*);
- Provide skills and competencies in decision-making, monitoring and managing conflict (*Dalton et al, 1998*);
- A source of counsel, advice and discipline (*Mace, 1971*);



BOARD OF DIRECTORS



- Charged with overseeing firm's strategy and leadership (*Nicholson and Kiel, 2004*); and
- Monitors the financial performance of the company and ensure compliance with regulations (*Ogbechie, 2012*).

THEORIES ON BOARD OF DIRECTORS

- Agency;
- Resource Dependency;
- Stakeholder; and
- Stewardship.

AGENCY THEORY

- The relationship between the principal (shareholders) and the agent (management)- the separation of ownership and control of wealth (*Berle and Means, 1932*);
- Agency Problem (*Dalton et al, 1997*):
 - Management pursued their own interest (*Padilla, 2000*);
- Board of directors would monitor and assess the decisions of management and its impact on shareholders' wealth (*Fama and Jensen, 1983*).

RESOURCE DEPENDENCY THEORY

- The main objective of directors is to connect the firm with external factors (*Pfeffer, 1978*);
- Directors:
 - Help the company secure access to critical resources (*Abdullah and Valentine, 2009*) through their competence and social capital (*Hillman, 2005*);
 - Reduce the uncertainty of acquiring these resources through their linkages (*Hillman et al, 2000*).

STEWARDSHIP THEORY

- Directors and managers coordinate their careers in alignment with the firm (*Fama, 1980*);
- Define the relationship between principals and agents (*Donaldson and Davis, 1989*);
- Suggests that directors and managers are highly motivated by the intrinsic need for accomplishment (*Donaldson and Barney, 1990*).

STAKEHOLDER THEORY

- Centered around the notion that organizations seek to balance the interest of their various stakeholders (*Abrams, 1951*);
- Growing recognition for companies to consider the needs of the entire society (*Gay, 2002*);
- If companies exist within society then they have a due care to society (*Clarkson, 1995*).

THE LITERATURE ON BOARD OF DIRECTORS

- Board Characteristics;
- Board Human Capital;
- Board Processes; and
- Board Effectiveness.

BOARD CHARACTERISTICS

- **Board leadership structure** (*Sharma, 2004; Jensen and Meckling, 1976*) **versus** (*Mintzberg and Waters, 1982; Sonnerfield, 1981*) ;
- **Board size** (*Jensen, 1993*) **versus** (*Karamanou and Vafeas, 2005*);
- **Board composition** (*Vintila and Gherghina, 2012*) **versus** (*Baysinger and Bulter, 1985*) ;and
- **Board committees** (*S.E.C., 2012*) ;

BOARD HUMAN CAPITAL

- Human Capital- the individual skill and knowledge gained through experiences, training and education (*Yusoff and Fauziah, 2010*);
- Combining human capital and social capital can help boards enhance their ability to effectively direct and control (*Hillman and Dalziel, 2003*);
- The composition of individual skills, expertise, knowledge, morals, belief systems (*Hitt et al, 2001*); reputation and experience (*Hillman and Dalziel, 2003*); and information can enhance the effective governance of organizations (*Arthurs et al, 2008*).

BOARD PROCESSES

- How decisions are made inside and outside of the board room; how do members on the board interact with each other and management (*Leblanc and Schwartz, 2007*);
- Three distinct Board Processes:
 - Cohesiveness (*Summers, Coffelt and Horton, 1998*);
 - Decision-making (*Hambrick, 2007*);
 - Operations (*Ogbechie, 2012*).

BOARD EFFECTIVENESS

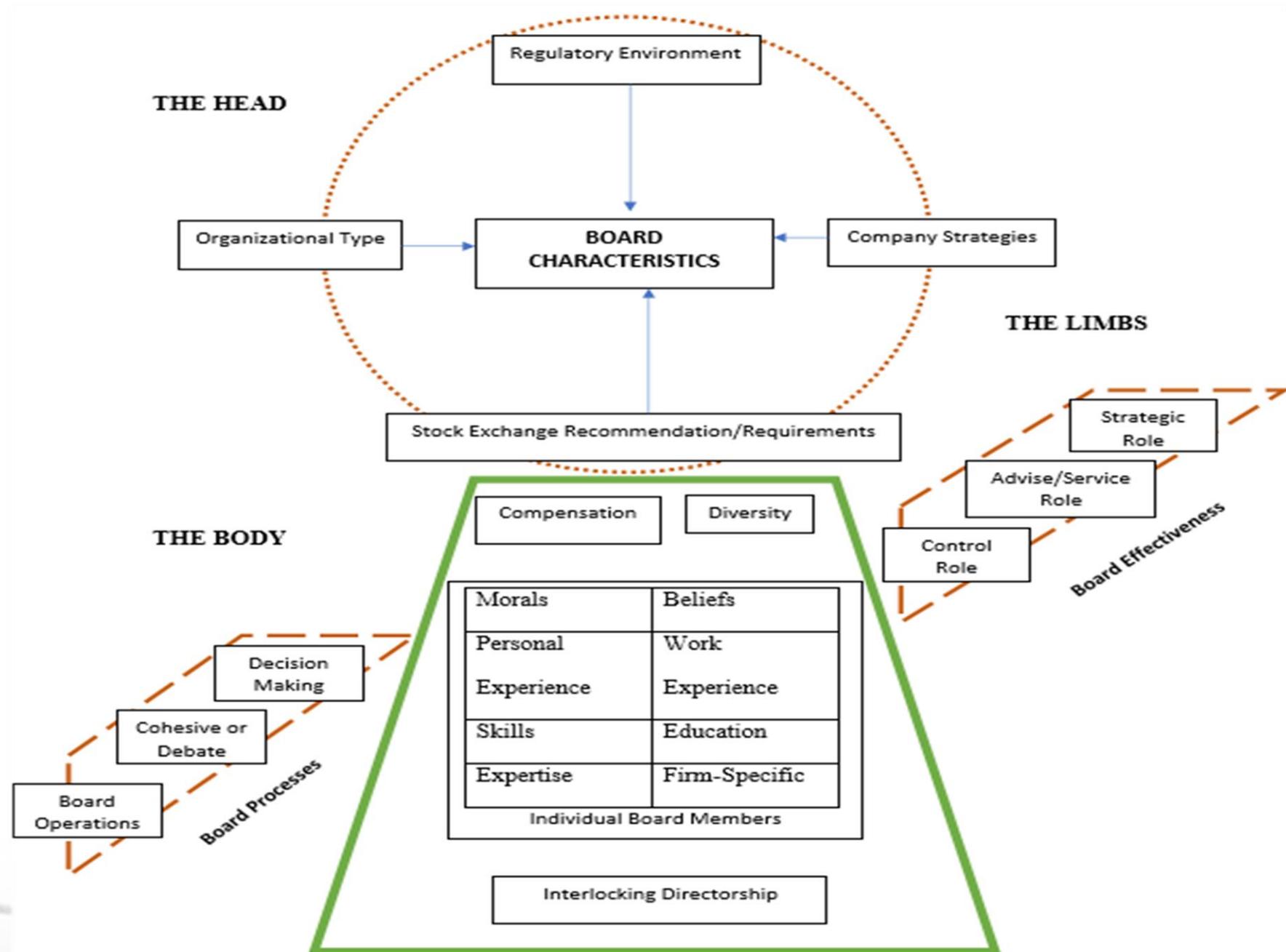
- Concerned with the outcome of tasks and how boards fulfill functions (*Nicholson and Kiel, 2004*);
- Three general roles of boards:
 - **Service** (*Adams and Ferreira, 2007*);
 - **Control** (*Fama and Jensen, 1983*); and
 - **Strategic** (*Hung, 1998*).

FINDINGS

- Mixed views on what constitutes an effective corporate board;
- Boards and their dynamics are not homogenous;
- Prior models on board of directors are either complex or lack depth.

THE MODEL





Looking Forward

- Develop hypotheses; and
- Examine corporate boards across the Caribbean.

