Directors' insights from inside the boardroom:
A New Zealand perspective

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning (except where due reference is made in the text of the thesis).

Janine Smith

Ethics Approval

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Abstract

The corporate failures of the last decade have drawn attention to the performance of the boards leading the companies that shape nations' economies. The structural and financial measures previously used to determine board effectiveness and company success are now being questioned, and governance research is shifting towards examining behavioural aspects of boards. This reorientation reflects a growing recognition that the board is a social system that operates as a work group, so its behavioural elements will influence board effectiveness. This view has been supported by research that has sought the views of directors - those inside the boardroom - on board activities and performance. Calls have been made for further studies that draw on the 'insider' perspectives of directors to expand this body of knowledge, but it is recognised that gaining access to those inside the boardroom presents practical challenges.

This study used semi-structured interviews to access the views and experiences of 35 New Zealand boardroom 'insiders' on the characteristics and outcomes of effective and ineffective boards. It therefore adds to the important emerging strand of behavioural research into board performance and, as the first New Zealand study of its type, contributes to international studies on board behaviour. The findings identify insights from the different participant groups inside the boardroom - chairs, directors and CEOs - to identify the varying perspectives they may have based on their different board roles. In addition, comparisons are drawn between the experiences of board members from two company types – public listed companies (PLCs) and state-owned enterprises (SOEs) - which have differing characteristics that influence boardroom dynamics. Further, this study examines the characteristics and outcomes of ineffective boards, a perspective often neglected in prior studies. The findings point to certain board characteristics as having particular significance because of their potential to undermine board effectiveness.

A key contribution of this study is that it has confirmed the importance of understanding behavioural, as opposed to structural, dimensions of board performance, since internal board relationships and board-management relationships in particular are seen as both a cause (characteristic) and effect (outcome) of both effective and ineffective boards. The findings also offer some notable extensions to these behavioural aspects of boards, which have been less apparent in prior research. First, the New Zealand board member participants

identified the extent to which negative director characteristics and poor internal board relationships can negatively impact board effectiveness. Second, boardroom practice - a new concept developed from this study that encompasses boardroom atmosphere, debate, and decision making - was found to be both a driver and outcome of both effective and ineffective boards. In particular, poor boardroom practice was perceived to be the most significant contributor to an ineffective board. Third, the findings point to the potentially negative impact of board diversity (in terms of social and value diversity) on board effectiveness, as well as the positive impact of informational and skills diversity amongst board members. These insights emerged from this study's unique comparison of directors' experiences across two company types (SOEs and PLCs) that have differing approaches to board selection and diversity. Finally, the role of the board chair was seen as having the greatest influence (both positive and negative) on boardroom practice and board effectiveness/ineffectiveness. While the importance of the chair's role is increasingly recognised in the corporate governance literature, the extent of the potential negative influence of the chair is less apparent in prior studies.

In combination, the findings of this study provide insights into the drivers of board effectiveness and ineffectiveness and the sorts of outcome measures that are thought to signal good board performance. They have the potential to help improve board performance and evaluation, and to reduce the likelihood of perpetuating the corporate governance failures of the past.

Chapter One - Introduction

1.0 Background

The challenges of governing corporations where ownership and control are separated was recognised as early as 1776 by Adam Smith and confirmed by Berle and Means (1932) following the 1929 US Stock Market crash. The board of directors was the mechanism established for governing companies on behalf of the owners (shareholders), placing the board at the apex of the corporation (Bainbridge, 2002). Corporate governance is the modern day term now used to describe this practice (The Cadbury Report, 1992). Given this powerful role of the board, research into corporate governance has sought to identify what the appropriate corporate governance practice is that makes the board effective and supports strong corporate performance (Lawler III, Finegold, Benson and Conger 2002; Leblanc and Gillies, 2003).

Prior corporate governance literature has mainly focused on examining the structural aspects of boards in an attempt to identify their impact on board effectiveness. This research has been based on an agency theory view of the role of the board (see for example: Zahra and Pearce, 1989; Bhagat and Black, 1999). Additionally, this research focus has in part reflected the board structure of corporations within particular countries. In the US the focus has been on director independence and CEO power due to the high number of corporations where the CEO is also the board chair (i.e. CEO duality exists). This was less of an issue in the UK following The Cadbury Report (1992), which recommended a separation of these roles and resulted in a significant reduction in CEO duality. Rather, in the UK, the research focus has been on director accountability due to the higher number of executive directors on boards resulting in a more equal weighting of executive and non executive directors on the board.

The results of structural research into board effectiveness have often been inconclusive (Dalton, Daily, Ellstrand and Johnson, 1998). What is more, there have continued to be failures of corporations where accepted corporate governance principles and guidelines have been adhered to. In particular, the series of collapses in the early part of this century led to a further detailed review of corporate governance. At this time there was also a growing recognition that behavioural economics might provide fruitful insights into board performance (Bainbridge, 2002) and both researchers and practitioners were wanting to understand how board effectiveness was impacted by the process and behaviours of the board (Roberts, McNulty and Stiles, 2005). The UK Combined Code of Corporate Governance (2003) gave further credence to the notion that board behaviour was an important factor in corporate governance and board effectiveness. This code shifted the emphasis from board structure and composition to include a greater focus on the behaviour and conduct of boards as important for board effectiveness (Aguilera, 2005). The latest UK corporate governance code moves even further towards accepting this notion via its inclusion of a new section on 'Effectiveness' (Thomas, 2010).

Since the 2003 shift in the UK code, a greater number of studies have examined directors' views from inside the boardroom. Additionally, there has been an increase in international studies that interview directors with a view to identifying those factors that lead to board effectiveness. While New Zealand has produced some studies into corporate governance and some have taken place inside the boardroom, they have tended to rely on in-depth views within individual companies. There is a need for a broader perspective on 'insider' views of boardroom effectiveness in New Zealand, therefore.

1.1 Research topic and approach

This study sets out to gain insights into board effectiveness based on the experiences of a wide range of directors from companies which, by virtue of their size or position, have a significant impact on the New Zealand economy.

As part of the analysis presented, this study explores board effectiveness from two novel perspectives. First, it examines how views on board effectiveness may differ depending on board members' roles (chair, director or CEO). Second, it explores how these views might differ across two company types – public listed companies (PLCs) and state-owned enterprises (SOEs). In New Zealand, SOEs are similar in size to many PLCs, but the key differences are that SOEs are governed by the requirements of the State-Owned Enterprises Act (1986) and the government is their sole shareholder. As a result, SOEs have different characteristics that lead to differences that influence board dynamics. Examining the perceived effects of these differences on board performance provides additional insight in this study. Finally the study explores board members' perceptions on the causes (characteristics) and effects (outcomes) of both effective and ineffective boards. The performance of ineffective boards has been largely neglected in prior research; its examination here is intended to reveal whether particular board characteristics are important mainly because of their potential negative influence.

This study adopted an interpretive methodological perspective. This was considered appropriate due to the emphasis on eliciting 'insider' perspectives. Also, the researcher's experience and current role as an outside (non executive) director and previous roles as an inside (executive) director and CEO provided a unique background to understanding and interpreting the language, contexts and meanings of the participants' responses. The research method used was semi-structured interviewing, since the purpose of the study was to gain a wide representation of companies and to include multiple views from chairs, directors and CEOs about board effectiveness. The interview sample comprised thirty-five experienced chairs, directors and CEOs of New Zealand's largest companies to ensure that board effectiveness of some of the nation's most influential organisations was examined.

A series of themes was identified based on the participants' responses to questions on the characteristics and outcomes of both effective and ineffective boards. The responses were analysed across the three different participant groups (chairs, directors and CEOs) and the two different company types (SOEs and PLCs). These themes were then further refined to form the basis for the interpretive findings presented in chapters 4, 5 and 6 of this thesis.

1.2 Key terms and definitions

The following points provide a clarification of terminology used in this thesis.

- Corporations, companies, organisations and firms (terms used by the participants and in the literature) are used interchangeably to denote 'companies'.
- 'SOEs' indicates state-owned enterprises; 'PLCs' indicates public listed companies.
- The terms 'chairman' and 'chair' are used interchangeably.
- 'CEO' indicates Chief Executive Officer.

- ‘Executive director’ means the same as ‘inside director’, i.e. a director who is also part of the company’s management team. ‘Non-executive director’ means the same as ‘outside director’, i.e. a director who is not part of the company’s management team.
- Although this research focuses on New Zealand boards, three Australian chairs were included as participants. All three had New Zealand experience, either through their current or previous roles. Their inclusion was necessary to access enough participants in the chair/CEO group (i.e. chairs of PLC companies with previous CEO experience in a different PLC) since there were insufficient participants who fulfilled this criteria in the small New Zealand governance community. For simplicity, this thesis nevertheless refers to the New Zealand study, the New Zealand participants and New Zealand companies.
- New Zealand and NZ are used interchangeably.

1.3 Outline of the thesis

The remainder of this thesis is structured as follows.

Chapter Two provides a literature review on corporate governance as background to this study. This chapter includes a review of the underlying theories of corporate governance and the regulatory environment, including the New Zealand context. It also outlines the changing role of the board and the change in research focus to examining practice and gaining directors’ views ‘inside’ the boardroom, citing some international studies as examples. Chapter Two then discusses literature on: board effectiveness; the behavioural characteristics that contribute to board effectiveness; and board ineffectiveness. The chapter closes with an agenda for researching board effectiveness from inside the boardroom.

Chapter Three discusses the methodology and research design used for this study. It explains the criteria for selecting the participant groups and the company types, and details the interview process and interview questions. This chapter also includes a description of how the research evidence was analysed and concludes with a table that shows a brief overview of this process.

Chapters Four, Five and Six present the findings of the study. Chapter Four presents board members' views on the characteristics of both effective and ineffective boards. Chapter Five then presents their views on the functions of an effective board and the outcomes and indicators of both effective and ineffective boards. Chapters Four and Five follow a similar format, each starting with the research question and then presenting the findings. Each identified theme is then discussed in terms of how it relates to the corporate governance literature. The examination of each theme concludes by identifying any differences in responses based on the different roles of the participant groups inside the boardroom.

Chapter Six presents a comparative analysis of responses from board members from the two different company types (SOEs and PLCs). The analysis focuses on different perceptions of board effectiveness, the characteristics of effective/ineffective boards and the outcomes of effective/ineffective boards. Chapter Six concludes with a discussion that relates the insights from this comparative analysis to the governance literature.

Chapter Seven summarises the main findings and contributions from this research. This concluding chapter also includes a section on the limitations of the study and suggested areas of future research.

Chapter Two - Literature review

This chapter starts with a brief review as to why there have been changes in the expectations of boards and governance effectiveness. It then moves on to examine the theories that have influenced governance research including the theory origins, the expectations and measurements of the board role for success, and the limitations of each theory. The chapter then moves on to examine the difference in the regulatory response in the US and UK to company collapses and the influence these approaches had internationally. The New Zealand governance framework is then put in to context.

The next sections of this chapter examine the changing role(s) of the main board tasks and the changes in the research approach over the last decade as continuing company collapses occur and there is recognition that previous measurements of boards and how they related to company success and good governance principles may not be effective. The chapter then examines this change in research focus to directors' views from inside the boardroom and looks briefly at some international studies as examples. The chapter then examines board effectiveness and behavioural aspects of effective boards, with specific reference to the chaiman and CEO, and those behaviour characteristics that contribute to board effectiveness and includes an examination of the ineffective board.

The chapter then closes with a research agenda for researching board effectiveness from the perspective of New Zealand board members, including a framework for how key aspects of this research agenda were operationalised in the current study, and then a summary of the chapter.

2.0 Introduction

The last 30 years have seen a change in stakeholder expectations of the board's role. There have been a number of reasons for this: First, there has been a concentration of ownership in companies with institutional ventures. Pension funds and insurance companies now account for up to 65-75% of the funds in the UK (Mallin, 2003), and in the US, public sector funds such as CalPERS (California Public Employees' Retirement System) has also increased their ownership of companies (Tricker, 2000). These investors have responsibility for gaining returns on their investments and are less inclined to accept underperformance and weak boards (Lawler III et al., 2002; Mallin, 2003). Second, technology advances have resulted in a structural change in the markets where the global markets are more accessible and the corporate investment community want a common view on corporate governance (Mallin, 2003). Third, good corporate governance is of importance to regulators (Lawler III et al., 2002) in order to give both the investors and the public confidence in the stock market (Mallin, 2003). Fourth, the collapses of large, high profile companies in both the US and the UK since the 1980s, the stock market crash of 1987, the technology crash of 2001 and the global meltdown of the financial markets in 2008 has reinforced the significant impact corporations have on society and has brought in to question the role of the board in these events (Lawler III et al., 2002).

The potential negative impact of corporations on society and the challenges in the governance of corporations was recognised over three centuries ago in 1776 by Adam Smith.

> The directors of such [joint-stock] companies, however being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily given themselves a dispensation from having it. Negligence and perversion, profusion, therefore must always prevail, more or less in the management of the affairs of such a company.
> (Adam Smith (1776) quoted by Jensen and Meckling (1976, p. 305))

At the same time Adam Smith also recognised the challenges and implications of companies with joint stock owners and the need for regulation of the managers by a controlling group on behalf of the owners (Garratt, 2003). This observation was identified by Berle and Means (1932) in their work following the US stock market crash of 1929 where they confirmed that the multiple ownership of companies meant that management was effectively in control (Berle and Means, 1932). The increase in the economic power of corporations and their impact on society was also evident after the 1929 crash.

This change in the nature and structure of the companies and in particular the separation of ownership and control, led to the establishment of boards of directors, with the board having an important role to play in ensuring that companies were run efficiently and effectively on behalf of their owners. Corporate governance is the modern day term now used to describe the practice by which companies are directed and controlled and the board of directors is regarded as the body established to govern these companies on behalf of the shareholders (The Cadbury Report, 1992).

2.1 Governance theories

A number of theories have been developed on governance and the relationships between managers, the shareholders and the board of directors. Each theory has led to a description of the board role and, as an extension, has directed research into how board effectiveness can be measured. The key branches of corporate governance theory are outlined next.

2.1.1 Agency theory

The most notable of the governance theories and the lens through much of the research work on corporate governance has been undertaken is agency theory. This theory has its origins in economics and finance and reflects the early observations made by Adam Smith in 1776 and later by Berle and Means in 1932, with particular reference to management's control of companies.

This separation of ownership and management was likened to that of an agency problem where the relationship is in the form of a contract between a principal, who engages an agent to perform a service and delegates authority to that agent, and the agent himself (Jensen and Meckling, 1976). Agency theory was developed out of these agency relationships and looks at resolving the problems that can occur in these relationships (Eisenhardt, 1989). Contracts and property rights are the mechanism used based on the premise that managers act out of self interest (Fama, 1980). The mechanism to control this managerial behaviour on behalf of the shareholders is through the board of directors (Pettigrew and McNulty, 1998; Dulewicz and Herbert, 2004).

Monitoring is regarded as the main role of the board in agency theory and, in particular, as it relates to decision control (through the board of directors) over decision making (through management) (Fama and Jensen, 1983). It is assumed that the board will act in the best interests of the shareholder and use their control over the decision making process to reduce any self interest tendencies of management (Pettigrew and McNulty, 1998). Other board roles include selecting, evaluating and rewarding the CEO, and strategic decision making, particularly as it relates to risk (Zahra and Pearce, 1989). The success of the board in their role is judged by the reduction in agency costs (Stiles and Taylor, 2002), the profitability and performance of the company (Zahra and Pearce, 1989) and the maximisation of shareholder wealth (Stiles and Taylor, 2002).

In agency theory, because the focus is on the separation of ownership and control due to managerial self interest, the governance research that has adopted this lens has been primarily concerned with the structural aspects of the board in performing the monitoring function. The rationale is that the board of directors will fulfil their agent's role and be more effective at monitoring management the greater their independence from management, and the company will perform better as a result. So board composition - measured by the number of independent directors and the effect on firm performance - is one of the areas of focus (Zahra and Pearce, 1989; Bhagat and Black, 1999; Nicholson and Kiel, 2004).

Other measurements include whether there is a separation of the CEO and chairman roles and the amount of power that that the CEO has in relation to the board (Pearce and Zahra, 1991) as it relates to firm performance where studies have suggested that CEO duality (where the chairman and CEO are the one role) reduces firm performance (Rechner and Dalton, 1991; Rhoades, Rechner and Sundaramurthy, 2001). A further reason for the focus on CEO duality is that when the chairman and CEO is one person, the CEO wearing the chairman's hat determines the composition of the board. Because of this powerful position in the appointment of the board, the directors' independence could be compromised and their willingness to monitor the CEO reduced (Lipton and Lorsch, 1992; Hermalin and Weisbach, 2007). So agency theory identifies independent boards as the most important factor (Lynall, Golden and Hillman, 2003).

There are thought to be some shortcomings with agency theory. These are around any documentation to support: the monitoring of management, the process for decision making, and the extent to which directors' are involved in the strategy development for the organisation (Zahra and Pearce, 1989). There is also disagreement with agency theory and the premise that management's motivation is one of self interest and they will not necessarily work for the best interests of the shareholders (Zahra and Pearce, 1989; Davis, Schoorman and Donaldson, 1997). Additionally, there is a questioning as to whether having a number of controls to monitor management results in improved corporate performance or is in the best interests of the shareholder (Muth and Donaldson, 1998).

While agency theory is the main theory through which research in governance has been viewed, alternative theories have been developed in an attempt to address concerns with agency theory (Muth and Donaldson, 1998).

2.1.2 Stewardship theory

Stewardship theory is seen as the main alternative theory to agency theory (Muth and Donaldson, 1998). Its main point of difference to agency theory lies in what is considered the appropriate board structure to deliver shareholder returns. Agency theory identifies independence as the most important factor, while stewardship theory calls for unity between board and management.

Stewardship theory has its origins in psychology and sociology. The view is that managers' behaviours are not necessarily self motivated or self serving. The theory posits that even when the management and principals' objectives are not aligned, management will still seek to maximise shareholder wealth as in so doing they also benefit themselves (Davis et al., 1997) as they gain intrinsic satisfaction from a successful performance (Muth and Donaldson, 1998). In stewardship theory, "people are collective self-actualisers who achieve utility through organisational achievement" (Davis et al., 1997, p. 38) whereas in "agency theory, people are individualistic, utility maximisers" (Davis et al., 1997, p. 38).

The assumption of management's motives and behaviour in stewardship theory means that the structure and extent of the empowerment of the executives is a measure of good corporate performance (Donaldson and Davis, 1991). In particular, this empowerment is reflected in the CEO and chairman roles, where the combining of these roles is seen to give greater unity and control (Muth and Donaldson, 1998; Stiles and Taylor, 2002) and to produce superior shareholders' returns, as measured by return on investment (Donaldson and Davis, 1991).

Board composition, measured by the number of inside directors, is a further measurement in stewardship theory where superior firm performance is related to a larger number of inside directors (Nicholson and Kiel, 2004) and where board independence is seen to have a negative impact on shareholder wealth (Muth and Donaldson, 1998). So the key aspect of board composition under stewardship theory is the ratio of inside to outside directors – effectively management control.

The opposition to stewardship theory is the effect on board independence. The Cadbury Report (1992) recommended the separation of the chairman and CEO roles and a balance of executives and non executives on the board as best practice (Heracleous, 2001). California Public Employees' Retirement System (CalPERS) in the US also sees chairman and director independence as important for the board structure and good governance (Hilmer, 1993; Tricker, 2000).

Other theories have taken a different perspective on the board's role and have looked at the company as it operates in the broader environmental context.

2.1.3 Resource dependency theory

Resource dependency theory has its origins in sociology and organisational research. The board is regarded as a resource, important for company performance (Zahra and Pearce, 1989). In this role, the board offers advice and counsel (Lynall et al., 2003), and provides access to external resources for the corporation which can help enhance the corporation's competitive position (Zahra and Pearce, 1989; Johnson, Daily and Ellstrand, 1996; Daily, Dalton and Cannella Jr, 2003), and reduce environmental uncertainty (Zahra and Pearce, 1989). The board's position is such that they can also enhance the corporation's prestige or legitimacy within society and the community (Pfeffer, 1972; Zahra and Pearce, 1989; Lynall et al., 2003).

In resource dependency theory some of the measurements used to operationalise the theory are first, the size of the board where there is an expectation that a larger organisation will be more diversified and thus require more board resource (Pfeffer, 1972; Kiel and Nicholson, 2003). Second, the number of network connections that directors have. This can either be through links with other stakeholders such as suppliers or customers, or a link between directors and other organisations (Muth and Donaldson, 1998) where a higher number of connections gives greater access to resources (Nicholson and Kiel, 2007). So the role of the board is to provide information and connections to enhance the company's competitive position and reduce uncertainty (Stiles and Taylor, 2002). Company success depends on how well the board meets these environmental requirements (Pfeffer, 1972).

The opposition to resource dependency theory is in part where there are differences with agency theory, where first, the board can be viewed as a provider of resources as opposed to a monitor of management (Hillman and Dalziel, 2003) and second, a high number of network connections does not equate with board independence (Muth and Donaldson, 1998). An additional concern with this theory is that a board providing resource and links with the external environment has not been proven to have a positive firm impact (Stiles and Taylor, 2002; Nicholson and Kiel, 2004).

2.1.4 Stakeholder theory

A further development in governance theory is stakeholder theory, with origins in social science and ethics. In the 1970s the increase in the number and size of corporations and their growing role in society led to a questioning of whether corporate accountability should extend beyond shareholders alone (Tricker, 2000). In the 1990's stakeholder theory became the dominant theme of business ethics and corporate governance ethics (Hendry, 2001).

Stakeholder theory posits that corporations have relationships that impact on a wider group of constituents and that there is intrinsic value and benefit in these relationships to the corporation (Jones and Wicks, 1999). These relationships with stakeholders include, as examples, employees, suppliers, customers, the local community (Hill and Jones, 1992). The research through this theoretical lens has tended to focus on managerial decision making (Donaldson and Preston, 1995) as it relates to the various stakeholders (Sundaram and Inkpen, 2004).

There is however opposition to the stakeholder model with critics concerned that accountability, a key concept in corporate governance, cannot be achieved. This is because an organisation with multiple objectives and no common purpose reduces this accountability (Sternberg, 1997). "An organisation that is accountable to everyone, is actually accountable to no one: accountability that is diffuse, is effectively non-existent" (Sternberg, 1997, p. 5).

There are variations of stakeholder theory that attempt to overcome these objections. For example stakeholder-agency theory (Hill and Jones, 1992) sees the relationships as a form of contracts, as in agency theory, however there are multiple contracts as appropriate to the specific stakeholder. Governance under stakeholder-agency theory is seen to reflect quasi-public organisations where the board still has an economic focus but additionally needs to be aware of the wider social aspects due to the nature of the organisation (Collier, 2008).

A further variation of the theory is the value-maximisation theory called "enlightened stakeholder theory" (Jensen, 2002, p. 235), with origins in economics and finance. The assumption is that there is only one objective, which is to maximise the long-run value for the firm (Jensen, 2002). This single objective is based on the premise that to achieve this objective, decisions will have to be made that will require trade-offs between stakeholders, however, in achieving long-run returns, stakeholders needs are satisfied (Jensen, 2002).

The stakeholder model is increasingly becoming an accepted model. The UK has reference in the Companies Act 1980 that employees need to be considered in decision making (Donaldson and Preston, 1995). In the US, a number of States have statues that boards need to consider the wider stakeholder view such as, for example, employees, customers and local communities (Donaldson and Preston, 1995). The Economic Union includes stakeholders in their corporate governance principles of the OECD (1999) which are endorsed by other recognised international organisations such as the World Bank (Aguilera, 2005).

2.1.5 Theory summary

The main lens through which corporate governance has been researched has been agency theory, where board independence is the main criteria. However, the structural research on factors such as board composition and CEO duality and the impact on firm performance has proved to be both inconsistent and contradictory. For example, a meta-analytic review over a 40 year time frame focusing on board composition (54 empirical studies), and board leadership structure (31 empirical studies), shows that the results are inconclusive with regard to whether these factors are reliable indicators of corporate financial performance (Dalton et al., 1998).

The lack of consistency in findings on positive firm performance to support the theories outlined earlier has led to consideration being given to a pluralistic research approach to governance with contributions from each theory being seen as relevant and important for enhancing corporate governance performance (Daily et al., 2003; Hillman and Dalziel, 2003; Nicholson and Kiel, 2004). The multiple theory approach is also supportive of the changing role of the board where there is an expectation that the board role combines conformance (control) and performance or service (Zahra and Pearce, 1989; Hilmer, 1993; Minichilli, Zattoni and Zona, 2009) or, as Bonn and Pettigrew (2009, p. 2) describe it, a combination of roles: "the monitoring and controlling of top management, involvement in strategic decision making, and providing access to resources and networks".

The continuation of corporate collapses and the impact this has on the total economy reinforces the need for clarification of the board's role in corporate governance, what constitutes board effectiveness, and what the most appropriate measurements for firm performance are.

2.2 Regulatory response to company collapses

National regulators have recognised the growth and influence of corporations on countries economies as they become increasingly global (Dulewicz and Herbert, 1999; Lawler III et al., 2002; Pye, 2002) and respond with increased regulation after the continued company collapses (Clarke, 2004). While the UK has taken a principle-based approach and the US has adopted a rule based approach to regulation, the fundamental definition of corporate governance is consistent in both countries where shareholders are owners of the corporation, the directors are their agents and the board is the main focal point of the corporation (Morrison, 2004).

2.2.1 UK approach

The principle-based approach in the UK is to adopt governance codes of best practice. These codes are set up to increase board accountability and effectiveness (Cadbury, 2000) and while the codes have no legislative basis, listed UK companies are required to explain if they do not comply.

The collapse of large companies such as BCCI and Maxwell in the UK in the early 1990s led to a committee being formed to review the financial reporting and accountability of directors. The report, known as The Cadbury Report (1992), recommended that all listed companies comply with a code of good practice. This report also set the context of the situation and reinforced the impact that companies can have on a country's economy. As well as recommending enhancements to audit procedures, the report placed the board in control of the company with their role being to monitor management. The report also acknowledged the need for a balance of power within the company outlining the importance of a separation of the responsibilities of the chairman and CEO (The Cadbury Report, 1992).

This recommendation for the separation of the chairman and CEO roles has led to a difference in the UK and US board structure. In the UK, only 5 of the top 150 companies by market value have a combined chairman and CEO role (Spencer Stuart UK Board Index, 2009). This compares with the US where 63% of the Standard and Poors Top 500 companies have a combined chairman and CEO role, although this is down from 80% in 1999 (Spencer Stuart US Board Index, 2009). The separation of the chairman and CEO roles is also common practice in both Australia (Nicholson and Kiel, 2004) and New Zealand (Garratt, 1997).

The UK continued its practice of developing codes when a further committee was established under Derek Higgs in response to the collapses of US companies such as Enron and Tyco in 2001 and 2002. There was a desire to identify ways of strengthening the previous combined codes of financial governance with a particular focus on director independence that better reflected theory and practice (Corley, 2005). This was in part due to concerns about the level of accountability and the balance of power between non-executive and executive directors in the boardroom due to the relatively part-time nature of non-executive directors (McNulty and Pettigrew, 1999). In 2003 The Higgs Report was published. The report included recommendations on director independence, non-executive director accountability and board evaluations, with a focus on the behavioural aspects of boards. The report also recommended that at least half of the board, including the chairman, be independent. These recommendations have led to a change in board balance towards non-executive directors in the UK where non-executive directors now account for 67% of the board in the top 150 companies by market value in the UK (Spencer Stuart UK Board Index, 2009), compared with 52% in 2003 (Aguilera, 2005). This compares with the US where 80% of the board have non-executive positions (Spencer Stuart US Board Index, 2009). Composition of boards in New Zealand (Garratt, 1997) and Australia (Nicholson and Kiel 2004) reflect the US structure where it is not common practice to have a large number of executive directors on the board.

The Higgs Report (2003) was then integrated with the previous UK reports in to governance; The Cadbury Report (1992), The Greenbury Report (1995) and The Hampell Report (1998), to become The Combined Code of the London Stock Exchange (2003) (Garratt, 2003) which is a set of guidelines on the principles of good governance. This new updated code moved the emphasis away from just looking at board effectiveness in terms of structure and composition to include a greater focus on the behavioural conduct of boards (Aguilera, 2005).

2.2.2 US approach

The US approach to the high profile company collapses of Worldcom, Enron and Tyco reflected their rule-based, legalistic approach with the Sarbanes-Oxley (SOX) Act being introduced in 2002. The SOX Act was designed to give greater transparency to corporate disclosures, heighten awareness of director independence, and introduce high penalties for key management personnel who did not adhere to its requirements. The SOX Act focuses on regulatory compliance as it relates to financial controls, auditing and accounting (Morrison, 2004). The NYSE and NASDAQ also introduced new governance standards to be consistent with the SOX Act, which included new directives on board membership committee structures, codes of conduct and board performance evaluations (Keenan, 2004).

Notwithstanding these improved mechanisms for corporate governance, what is regarded as good corporate governance has come under scrutiny. An analysis of the high profile US companies following their collapse found that the boards of directors would have been regarded as effective based on the normal tests of board performance that had been the focus of decades of corporate governance research (Sonnenfeld, 2002). This discovery suggested that a different approach to viewing boards and board effectiveness was required.

> It's time for some fundamentally new thinking about how corporate boards should work and we need to consider not only how we structure the work of a board but how we manage the social system a board actually is. We will be fighting the wrong war if we simply tighten procedural rules for boards and ignore their more pressing need – to be strong, high functioning work groups whose members trust and challenge one another and engage directly with senior managers on critical issues facing corporations. (Sonnenfeld, 2002, p. 106)

Consistent with this commentary, there has been a change in corporate governance thinking with increased recognition that the working relationships between boards and managers, board interaction and integrity and the level of involvement of directors all influence board effectiveness (Nadler, 2004).

2.2.3 International regulatory implications and responses

The UK's Cadbury Report (1992) has been influential on governance thinking around the world and has led to a number of other countries and global institutions - such as the Commonwealth Association of Corporate Governance (CACG), the organisation of the Overseas Economic Corporation and Development (OECD), the World Bank, and the International Monetary Fund - establishing their own codes of corporate governance and best practice using a principle-based approach.

The UK combined code in 2003 was also influential in Australia and New Zealand and the adoption of their codes of practice. In 2003, the Australian Securities Exchange (ASX) Corporate Governance Council issued a code similar to the UK combined code, which had a similar requirement to explain if there is any variation from compliance. The Australian code also recommended that the chairman should be an independent director and the majority of the board should be composed of independent directors (ASX, 2003).

The recent global financial crisis (GFC) has led to further developments in corporate governance regulation internationally. The Financial Reporting Council in the UK initiated a review of the UK combined code in 2009 and has released a new updated code in 2010 known as The UK Corporate Governance Code (Tricker, 2010). This new code has increased its emphasis on board behaviours with the introduction of a new section on 'Effectiveness' (Thomas, 2010). The code also includes updated principles on accountability of directors, remuneration, reporting to shareholders and leadership effectiveness, with increasing emphasis on the role of the chairman where the chairman is seen to be responsible for board effectiveness. Additionally there is reference in the code for a need for boards to be well balanced and reflect diversity. The code maintains the UK regulatory approach of comply or explain.

In Australia, following a government request to establish if there was sufficient guidance for directors on their roles and responsibilities, the Corporations and Markets Advisory Committee published a paper on Governance for Directors titled Guidance for Directors, 2010. Consistent with the UK, the report includes reference to board behaviour and its influence on director and board effectiveness. The report also recommended continuing the principle-based approach to governance (as in the UK) where companies are required to comply or explain (ASX, 2010).

The Australian Securities Exchange (ASX) also updated the principles and recommendations for corporate governance and boards in June 2010 to become effective in 2011. In particular, companies are required to establish a policy on diversity with measurable objectives for achieving gender diversity and to report against these annually. Additionally there is a requirement for companies to publish in their annual report the proportion of women in board and senior company positions (ASX, 2010).

This focus on board demography in the UK and Australia is consistent with changes in the US (effective February 2010), where the Securities and Exchange Commission requires public companies to disclose how board diversity is considered (Mayer Brown, 2010). So, social diversity (culture, gender and demography) would now appear to be a feature in international corporate governance codes.

The governance framework in New Zealand is outlined next as context for the current study.

2.3 The New Zealand governance framework

The New Zealand Stock Exchange (NZX) introduced Corporate Governance Best Practice Code (NZX Code) in 2003. The NZX Code includes both mandatory standards and a series of principles. Specifically, the standards require: a minimum of two independent directors or one third of the total number of directors, whichever is the larger; separation of the CEO and chairman roles; establishment of an audit committee; and a rotation of external auditors. As with the UK approach, the principles are required to be disclosed in the annual report and, where they differ materially from the code, an explanation is required (NZX, 2003).

Consistent with the worldwide concern to ensure good corporate governance was practised, the New Zealand Minister of Commerce requested in 2003 that the Securities Commission develop corporate governance principles. There was extensive consultation with the stakeholders in this process who supported the view that a principle-based approach to governance be adopted. The Principles on Corporate Governance was published in 2004 and included principles relating to director characteristics, board structure and stakeholder relationships (Securities Commission, 2004). Unlike the UK and Australia in 2010, New Zealand has not updated these guidelines although there is discussion that it would be timely to do so (Thomas, 2010). Notwithstanding, the new principles outlined for introduction in Australia will have an effect on those companies who have dual New Zealand Stock Exchange/Australian Securities Exchange listings.

The principle-based approach adopted by New Zealand is consistent with the Westminster system which dominates New Zealand law. The evolution of New Zealand company law has followed, relatively closely, the development of English Law governing corporations. Company law in New Zealand followed the reform of company law in England in 1948. The directors' duties and shareholders' rights of today were explicitly set out in The Companies Act 1955. A full review of this Act was completed in the early 1990s with the intention of incorporating and co-defining the case law which has become increasingly relevant to the New Zealand setting rather than simply transplanting English case law. The New Zealand Companies Act 1993 is the current act governing New Zealand companies.

A number of other Parliamentary Acts have also been introduced in to NZ since the 1980s which place further responsibility and liability on directors (Garratt, 1997) and there are now over 100 pieces of legislation that impact corporate directors (Ingley and van der Walt, 2005). There was further change in the 1980s in New Zealand with the privatisation of non-core activities in the public sector and the creation of corporations where in total nearly 200 companies and 1600 director positions were established (Garratt, 1997). The rationale for this corporatisation of the government businesses was to improve the efficiency of these public enterprises through competition and increased accountability, which was not seen to be achievable through the public service department structure (Crown Ownership Monitoring Unit (COMU)).

The most commercial of these corporations became state-owned enterprises (SOEs) of which there are now 35. These SOEs have asset bases that place them in the top 50 companies by market capitalisation as measured on the NZX 50 (COMU). For directors of state-owned enterprises, the SOE Act 1986 creates additional responsibilities. These are not "duties" in the sense of directors' duties under The Companies Act 1993, but rather clear indications as to how a SOE should operate. The purpose of the SOE Act is to express the aspirations of parliament and the shareholding ministers who are the shareholders of SOEs and have a wider stakeholder view. Thus, the SOE Act (1986) calls for boards of directors to operate companies on (inter alia) a commercial basis, seeking performance similar to that of private sector businesses operating similarly risky businesses whilst having regard to The Treaty of Waitangi Act 1975 and to act as "good" corporate citizens. The SOE Act also provides for situations where government wishes to use SOEs to deliver various policies on a contractual basis. This legislation is complemented by the publication of an Owner's Expectation Manual for State-Owned Enterprises (COMU) which sets out the expectations of SOE directors by the shareholding ministers and is updated from time to time.

The corporatisation of these large sector assets to become state-owned enterprises, and the increasing number of parliamentary acts, led to an accelerating change in corporate governance in New Zealand (Garratt, 1997). New Zealand has been regarded for some time as having high standards of corporate governance because in large companies, the majority of the board are non-executive directors, the executive chairman role is rare, and audit committees have been established for many years (Garratt, 1997). In 2007, nearly 97% of NZ listed companies had a separate chairman and CEO and in only just over 50% of the companies the CEO was a member of the board (Teh, 2009). For SOEs in New Zealand, none of the CEOs are board members (COMU).

2.4 The changing role(s) of the board

As outlined in the introduction, internationally there is an increase in both public scrutiny and stakeholder expectations on the role of the board (Dulewicz and Herbert, 1999; McNulty and Pettigrew, 1999; Lawler III et al., 2002), where these expectations of the board's role are influenced by external circumstances (Clarke, 2004). For example, as outlined earlier in this chapter, the US regulatory response to the corporate collapses in 2001/2002 was the introduction of the Sarbanes–Oxley Act 2002. This Act is regarded as causing boards to change the focus of their role to one more heavily weighted towards conformance and risk management (Lawler III et al., 2002; Clarke, 2004).

On the other hand, the developments in technology that has led to an increased speed of change in markets, increased competition and increased uncertainty of the future direction of companies (Lawler III et al., 2002; Pye, 2002) has resulted in an expectation that the board will become more involved in strategic decision making processes (Judge and Zeithaml, 1992; Pye, 2002).

The extent of the board's involvement in strategy is seen as a continuum from ratifying strategy through to shaping the context, content and conduct of strategy (McNulty and Pettigrew, 1999; Nadler, 2004). This debate on the extent to which the board can be effective in corporate strategy is partly due to non-executive directors being regarded as part-time in the UK context (McNulty and Pettigrew, 1999). However, despite this perceived greater corporate knowledge of executive directors, there is an expectation that non-executive directors can test management strategies for credibility and that the strategies proposed meet certain capital return criteria and, ultimately, acceptable shareholder returns (Keenan, 2004). Additionally, for the board to fulfil their fiduciary duty effectively, there is a need to understand the corporate and business strategy of the organisation (Zahra, 1990; Early, 2006) and to monitor the company's performance against its strategic objectives to ensure financial performance targets are met (Lawler III et al., 2002).

So the board's role includes giving advice and counsel, networking, carrying out control and service tasks, as well as strategic involvement (Zahra and Pearce, 1989; Johnson et al., 1996; Forbes and Milliken, 1999; Huse, 2005; Bonn and Pettigrew, 2009; Minichilli et al., 2009) in conjunction with the more established board tasks of appointing and/or dismissing the CEO, establishing policies, and monitoring performance (Cadbury, 2000). These roles can be regarded as the conformance and performance roles of a board; where conformance is oriented towards both the past and present - including monitoring, accountability and supervision - and performance is future oriented - including strategy and policy making (Hilmer, 1993).

Furthermore, boards have become mindful that there are associated risks attached to developing strategies for shareholder wealth creation (Clarke, 2004). This is consistent with the expectation that risk assessment is an area where boards are also expected to have a greater involvement (Garratt, 2003). Directors themselves are also becoming more conscious and concerned about risk management and their role (Parker, 2007) and are expected to be less likely to delegate risk to management in the future (The Korn Ferry Institute, 2009).

Boards are also now recognised as the ultimate decision makers where decision making is seen to be the key board role (Forbes and Milliken, 1999; Leblanc and Gillies, 2003; Leblanc and Gillies, 2005; Nicholson and Kiel, 2004; Harper, 2007; Payne, Benson and Finegold, 2009). These increased roles of the board point to a greater need for directors to take a leadership role in a company (Pye, 2002; Garratt, 2003).

These changes in board role expectations have also been reflected in the approaches to academic research on governance and the measurements attached to board effectiveness where, as outlined earlier in the chapter, there is a move to examining the theoretical implications of board behaviour and process (Corley, 2005; Pye and Pettigrew, 2005).

2.5 The change in research focus

The last decade has seen not only a change in the expectations of the board, but also a rethinking of how the effectiveness of boards can be measured. In particular, corporate governance research is moving towards examining behaviour inside the boardroom using qualitative approaches. There are a number of reasons for this.

First, the inconclusiveness of the structural research into what makes boards effective, as measured in terms of firm performance (Dalton et al., 1998; Larcker, Richardson and Tuna, 2007). Second, there is recognition that the continuing corporate collapses could not be explained through the previous structural research approach (Sonnenfeld, 2002). Third, Forbes and Milliken in 1999 published a seminal work which integrated the literature on boards with group dynamics and work group effectiveness taking a social-psychological approach. This view of the board and its role led to consideration being given to behaviour aspects of the board with group interaction and individual participation being seen as an output measurement of board effectiveness (Forbes and Milliken, 1999):

> ….. board of directors can be characterised as large, elite, and episodic decision making groups that face complex tasks pertaining to strategic decision making processing. Because boards are not involved in implementation, the 'output' that boards produce is entirely cognitive in nature. (Forbes and Milliken, 1999, p. 492)

Fourth, the Higgs Report (2003) identified board behaviours as an influence on board effectiveness and a wider predictor that might lead to strengthening board effectiveness (Roberts et al., 2005). This was consistent with other suggestions of looking at board process as an input in to board effectiveness (Daily et al., 2003).

Zahra and Pearce had already recognised that board behaviour, board composition and the board-CEO relationship may be a better predictor of the outcome of an effective board than a singular measure of firm performance (Zahra and Pearce, 1989). They introduced an integrated model of boards that included board composition, structure, director characteristics and process, which inherently recognised the multi-dimensional factors that impacted on company performance (Zahra and Pearce, 1989). The concern that Zahra and Pearce had with this model lay with gaining empirical evidence that might support any changes in board performance to improve board effectiveness due to the difficulty in securing access to boards (Zahra and Pearce, 1989).

It was not until after publication of the Higgs Report (2003), which included guidelines on behavioural aspects of the board, that using board behaviour as an alternative to an agency theory lens for predicting board effectiveness (Corley, 2005) gained prominence. As Pye and Pettigrew (2005, p. S30) note, "this was an interesting reframing of how to evaluate boards and their effectiveness, drawing away from board structure and composition at the same time, exposing a whole and academic literature on governance".

This recognition that board behaviour influences board effectiveness became the topic of a 2005 special issue of The British Journal of Management, for which international governance scholars were asked to contribute their views on these underlying assumptions. Contributed papers endorsed personal characteristics and behaviour dynamics as influences on effective boards (Pye and Pettigrew, 2005; Dalton and Dalton, 2005), noting that "a board and its effectiveness are defined by the integrity and character of board members" (Dalton and Dalton, 2005, p. S96). There was also recognition that the behavioural nature of boards needed to be understood in order to gain greater accountability (Huse, 2005). Additionally, the contributors to this special issue recognised that board behaviour studies were still under-researched (Pye and Pettigrew, 2005), that the different groups of board members perceive behaviour differently, and that "'board life' stories and interviews with directors may also be important in future research" (Huse, 2005, p. S76).

The integration of the Higgs Report with the other UK Corporate Governance codes in 2003 gave credence to the concept that board behaviour had an influence on board effectiveness. This focus on board behaviour and its importance in corporate governance effectiveness is further recognised by the new updated UK code of governance, now The UK Corporate Governance Code 2010, where a new section on 'Effectiveness' has been introduced which looks at how the board operates effectively (Thomas, 2010). These changes in the code focus have proved influential in opening and examining the theoretical implications for board behaviour and process (Corley, 2005; Pye and Pettigrew, 2005) through the use of qualitative research.

2.6 Research using directors' views

The most notable of studies that asked director's opinions on board effectiveness was that commissioned for the Higgs Review which asked directors' views (McNulty, Roberts and Stiles, 2003). Their research identified that the experience of directors did not reflect the outcomes of the structural research undertaken through the previous agency and stewardship theory lens (McNulty et al., 2003) and that instead board behaviour was a greater influence on board effectiveness. Some other examples of earlier UK research which asked director's and chairmens' views include Parker, (1990); Stewart, (1991); Roberts and Stiles, (1999); Kakabadse et al., (2001); Kakabadse, Kakabadse and Barratt, (2006).

In this decade, research that has involved talking with directors has included a wider international flavour (beyond the US and UK) and has resulted in other countries' perspectives and frameworks being developed to establish an understanding of effective boards and how they work (Van den Berghe and Levrau, 2004; Nicholson and Kiel, 2004). Some examples are as follows.

In Belgium, Van den Berghe and Levrau (2004) conducted in-depth interviews with board members of Belgian listed companies with a view to establishing what constitutes a good board of directors and the key criteria for board effectiveness. The results showed that the quality of board meetings, the composition of the board of directors, and the directors as a decision making group were all regarded as important characteristics of good boards – all relating to the people side of boards. This research also outlined that the mission of the board of directors should be "to be a strategic asset of the company, measured by the contribution we make collectively and individually to the long-term success of the enterprise" (Van den Berghe and Levrau, 2004 p. 468).

In Canada comprehensive research was also carried out inside the boardroom. Leblanc spent five years studying boards in private sector companies, government owned enterprises and not for profit organisations. The study had a multi-method approach including time spent observing inside the boardroom as well as director interviews (Leblanc and Gillies, 2005). The results showed that the behavioural characteristics of directors influenced the board decision making process; which further reflected the importance of the human interaction on boards. Leblanc's work also reinforced the importance of being able to get inside the boardroom and talk to directors in order to be able to understand how boards work.

In New Zealand, Edlin (2007) undertook research inside the boardroom of one of New Zealand's State-Owned Enterprises. The work involved observation and qualitative interviews with directors and the focus was on the decision making aspects of boards. This study also identified the importance of behaviour aspects and relationships in the board room, particularly between the chair and CEO (Edlin, 2007).

Demb and Neubauer (1992) completed a four year study where they conducted in-depth interviews with directors from eight countries. They concluded that there was consistency across countries in the factors that contributed to the strength of the board. These included the personal attributes of the chairman and CEO, the composition of board members and the understanding of their roles and the culture and climate inside the boardroom (Demb and Neubauer, 1992). This study also confirmed the importance of behaviour aspects on boards.

As companies continue to expand globally, the understanding of the factors that influence board effectiveness is important. Establishing the extent that these factors are country specific or international will add to the body of knowledge on what constitutes board effectiveness.

2.7 Board effectiveness

Research conducted through talking to the board (e.g. Finkelstein and Mooney, 2003; Leblanc, 2005) has further led to a greater acceptance of the social system nature of the board (Cascio, 2004) and therefore the importance of behaviour aspects in board effectiveness.

This recognition that boards of directors function as dynamic groups has also led to a different set of criteria being used to determine board effectiveness. Positive group processes and team based characteristics are now seen as indicators of a board functioning effectively (Finkelstein and Mooney, 2003). The importance of the selection of board members has also gained recognition, not only to ensure that the board has an effective skill base (Cascio, 2004), but also to establish that the board has the complementary relationships required for effective team work (Roberts, 2002).

2.7.1 Behavioural aspects of effective boards

Research into board behaviour has identified that boards need to be able to work together effectively to carry out their tasks and interpersonal attraction (Forbes and Milliken, 1999) and the right board chemistry (Finkelstein and Mooney, 2003; Parker, 2007) is important in achieving board cohesiveness, as without the ability to work as a group the board cannot be effective (Charan, 2005). Group homogeneity is thought to benefit group processes and improve group performance (Jehn, Northcraft and Neale, 1999) and group heterogeneity is expected to benefit work group performance (Jehn et al., 1999) as this diversity brings the benefits of a broader skill set and a wider information base (Williams and O'Reilly III, 1998; Jehn et al., 1999). Informational diversity as it relates to the breadth of composition of the directors and their skill diversity is regarded as an important factor in enabling the board to perform their tasks more effectively (Sundaramurthy and Lewis, 2003; van der Walt and Ingley, 2003; Roberts et al., 2005; Conger and Lawler III, 2009). Alternatively social diversity, (differences in race, gender and ethnicity), and value diversity, (differences in the goals of a group), can impact group performance and lead to dissatisfaction and a reduction of commitment (Jehn et al., 1999).

Trust and mutual respect is another important element for enabling group cohesiveness (Sundaramurthy and Lewis, 2003) and this is a common theme from the last decade's research where researchers have gone inside the boardroom and interviewed directors (Van den Berghe and Levrau, 2004; Pye and Pettigrew, 2005; Roberts et al., 2005). Trust helps board members to feel more comfortable in delegating control, in sharing control in decision making (Whitener, Brodt, Korsgaard and Werner, 1998) and in accepting other members' judgements (Forbes and Milliken, 1999). Trust and respect are also important criteria for good board relationships, good boardroom behaviour (Forbes and Milliken, 1999; Charan, 2005; Roberts et al., 2005) and good board process. All are important for gaining the right atmosphere in the boardroom to facilitate good decision making (The Higgs Report, 2003), which is regarded as the main board task (Forbes and Milliken, 1999; Nicholson and Kiel, 2004; Leblanc, 2005; Harper, 2007; Payne et al., 2009).

Positive and open attitudes amongst directors (Cadbury, 2000; Van den Berghe and Levrau, 2004) and openness of communication is another factor that encourages trust (Whitener et al., 1998) and good teamwork, where good communication between board and management is also seen as important for an effective board to carry out its tasks (Charan, 1998; Daily et al., 2003; Leblanc and Gillies, 2005). As Charan (1998, p. 33) has noted, "boards that work well have constructive critical dialogue among board members and senior management. Such open dialogue is the single best indication of board effectiveness".

2.7.2 The chairman and CEO and board effectiveness

Another behavioural influence on board behaviour and board dynamics is the chairman and CEO relationship, where there is separation of these roles. This area has been relatively under-researched in the past due to the dominance of research that emanates from the US where there is a high incidence of CEO duality – i.e. the chairman and CEO are typically the same person (Kakabadse et al., 2006). CEO duality has been less common in the UK since The Cadbury Report 1992 recommended a separation of these roles, which is seen as the report's most effective recommendation (Garratt, 1997). As noted earlier, the separation of the chairman and CEO roles is also common practice in both Australia (Nicholson and Kiel, 2004) and New Zealand (Garratt, 1997).

The chairman and CEO roles are regarded as different but complementary (Harper 2007). The CEO runs the operations of the company and the chairman runs the board (Stiles and Taylor, 2002; Garratt, 2003; Keenan, 2004; Kakabadse et al., 2006). However, while there is this distinction made, the roles at times can overlap (Stiles and Taylor, 2002) so it is important that there is no confusion and both understand their respective roles (Harper, 2007). The chairman-CEO relationship is regarded as quite unique (Hossack, 2006) and trust and respect between the two are important for this relationship to work well (Roberts and Stiles, 1999; Harper, 2007; Parker, 2007), as is a personal chemistry and liking (Roberts and Stiles, 1999; Kakabadse et al., 2006).

The effectiveness of the board can be significantly impacted by the chairman-CEO relationship (Nicholson and Kiel, 2004; Roberts et al., 2005; Kakabadse et al., 2006; Edlin, 2007). A poor relationship not only has a negative impact in the boardroom (Kakabadse et al., 2006), but also impacts the wider board and management relationships (Roberts, 2002). An imbalance of personality characteristics that leads to either a strong chairman/weak CEO or weak chairman/strong CEO combination is also thought to be detrimental to the organisation (Hossack, 2006; Kakabadse et al., 2006).

Additionally, the CEO independently has the ability to impact board effectiveness in a number of ways, but particularly through his or her behavioural characteristics (Leblanc, 2005). For example, the CEO can influence board relationships with management (Finkelstein and Mooney, 2003) as well as control the information to which the board has access (Pettigrew and McNulty, 1998; Nadler, 2004; Charan, 2005; Leblanc and Gillies, 2005). The role of the CEO is important in the effective functioning of a board, therefore.

2.7.3 The chairman and board effectiveness

The chairman in particular, even more so than the CEO, influences board effectiveness. Not only does the chairman have a process role as it relates to board meetings and agenda structure (Roberts, 2002), the chairman also has the role of creating the right atmosphere in the boardroom to encourage discussion and debate (Roberts, 2002; Stiles and Taylor, 2002; Garratt, 2003) and to ensure all directors' views are heard (Cadbury, 1992; Roberts, 2002; Kakabadse et al., 2006). The chairman also sets the 'culture' of the board (Kakabadse et al., 2006; Leblanc, 2005; Parker, 2007) and the organisation as the leader of the board (Cadbury, 2000; Roberts et al., 2005).

Both the Cadbury Report (1992) and the Higgs Report (2003) outlined the important role of the chairman. The Cadbury Report identified the chairman as not only responsible for the working of the board, but also key in ensuring there is a good balance of membership and board participation. The report also identified the chairman as having external responsibilities such as reporting financial results and representing the board to the shareholders (The Cadbury Report, 1992). The Higgs Report (2003) emphasised the chairman's role in ensuring that the right conditions were created for a board to be effective. These included having timely and correct information available and a regular performance evaluation of the board. The Report also focussed on the chairman's role in ensuring the effective contribution of non-executive directors and the effective relationship between executive and non-executive directors (The Higgs Report, 2003). As outlined in Section 2.2.3, the most recent UK

Corporate Governance code (June 2010) continues to place emphasis on the chairman role: "The chairman is responsible for the leadership of the board and ensuring its effectiveness on all aspects of its role" (The UK Governance Code, 2010, p. 10).

Despite the recognition of the importance of the chairman's role to board effectiveness, there have been only a few studies on this role (Roberts, 2002). As outlined in Section 2.7.2, the extent of CEO duality in the US compared with the UK has meant that research on the chairman's role has had a UK focus. In particular, the work of Parker in 1990 is regarded as influential in describing the multiple roles of the chairman (Roberts, 2002). Parker saw the chairman's roles as: creating a strategic vision for the company; creating a board that will help the company achieve this outcome; establishing the values, priorities and policies that will ensure commitment to the vision from throughout the company; setting the standards and measurements that will deliver financial performance; and appointing and monitoring the CEO (Parker, 1990). Based on his experience with boards, Parker identified the qualities of a successful chairman to be "strong basic convictions, clear strategic vision, intellectual capacity, management experience and political skills" (Parker, 1990, p. 39).

Harper (2007) identifies a similar checklist of attributes for chairmen, namely: personal characteristics of integrity; decisiveness and intellectual capacity; and the ability to prioritise based on the company's vision and plan and manage the board's business (Harper, 2007). Kakabadse and Kakabadse (2007) refer to their 2001 research where the characteristics of effective chairman were found to include relational, meeting and coaching skills as well as both social and political competency (Kakabadse et al., 2001 cited in Kakabadse and Kakabadse, 2007, p. 173). Additionally other qualities that effective chairmen needed included the ability to manage the group of board tensions, resolve disagreements and disputes and reach a shared board perspective (Kakabadse et al., 2006). These attributes reflect the importance of gaining results from inside the boardroom by ensuring that the right atmosphere (Higgs, 2003) and board process is in place (Roberts et al., 2005) and that the board dynamics and relationship with management is effective (Kakabadse and Kakabadse, 2007).

While in many cases the chairman role is regarded as secondary and afforded less status than the CEO role (Roberts, 2002), this is likely to change with the changing role of the director where directing is becoming regarded as a profession (Garratt, 2003). Research results from inside the boardroom are also identifying the singular importance of this role, as illustrated by the results from the recent study by Kakabadse and Kakabadse on chairmen in the US, UK and Australia:

> Whoever the leader is, the leader was reported as the critical factor in determining firm success. Irrespective of governance practice and role separation or duality, one person was seen to determine the success or failure of the enterprise… (Kakabadse and Kakabadse, 2007, p. 188)

This leadership, combined with good governance practice, was seen as the key difference in the levels of competency in how the company performed (Kakabadse and Kakabadse, 2007).

All these factors, identified across several (mostly UK) studies, suggest that the effectiveness of the chairman is likely to become one of the most important criteria for measuring company performance. A comprehensive performance evaluation of the chair might, as suggested by Leblanc (2005), include assessing their: integrity and ethical conduct; competency and behaviour; level of independence; relationships with the CEO; board and management; director recruitment and development; external role and shareholder accountability; and overall contribution to board effectiveness.

2.7.4 Board effectiveness summary

There is increasing recognition that the human element of the board and overall board behaviour are the main contributors to an effective board. In particular these include group processes, team dynamics, relationships and the chairman's role. These dynamics have led to a different set of criteria being used as indicators to establish board effectiveness.

These areas of output measurement are still not often studied in the governance research (Nicholson and Kiel, 2004). Furthermore, consideration has less often been given to the influence of board outcomes and characteristics that may not be particularly influential in securing board effectiveness, but through their absence may damage board effectiveness (Northcott and Smith, 2010). The limited literature on ineffective boards is summarised next.

2.8 The ineffective board

There has been very little research conducted in to the characteristics of ineffective boards, yet their negative influence can be an important determinant of board performance (Daily, 1995). These ineffectiveness factors could be seen as having parallels with Herzberg's (1968) notion of 'hygiene factors' – i.e. they are significant or noteworthy only when lacking (Northcott and Smith, 2010). Importantly, it has been suggested that positive and negative effects should not be regarded simply as endpoints of a single continuum, since the negative events may have a greater impact than the positive ones (Taylor, 1991).

The research on ineffective boards tends to be limited to specific circumstances and does not provide a general picture of the factors contributing to board ineffectiveness. For example, there is research relating to hostile takeovers or greenmail activity (when a company privately buys stock from a minority shareholder at a premium above the market price) (Kosnik, 1987; Shivdasani, 1992) and how this relates to board independence. Other research of this type looks at board leadership and board composition in those firms where bankruptcy has occurred (Daily, 1995).

Despite the emerging trend for researchers to examine behaviour inside the boardroom using qualitative approaches, what causes a board to be ineffective, as opposed to effective, remains under-researched. Nicholson and Kiel's (2004) framework for diagnosing board effectiveness does suggest that poor board effectiveness and poor CEO management effectiveness can lead to poor corporate performance. This work also discusses group dynamics as being central to team effectiveness and identifies this as an important output of the board (Nicholson and Kiel, 2004). Hilmer (1993) also mentions board ineffectiveness in relation to the board monitoring and performance roles. However, as far as the writer can establish, no studies have sought directors' views on this topic.

An insight in to the main differences between an effective and ineffective board is revealed through the management games and teaching simulations that were popular in the 1970s. These simulated games were widely adopted in the US business school executive programmes to enhance the learning environment (Wolfe, 1975). In the study outlined by Wolfe, participants 'played' the board, carrying out board tasks such as: selecting executives; determining the company objectives and then monitoring against these objectives and results; approving major decisions; and distributing company resources. The overriding objective was that the board should make decisions that maximised profits (Wolfe, 1975). At the end of the simulation game participants were asked to identify incidents that proved either effective or ineffective in achieving the objective of maximising profits. These incidents were then collated into themes and tabulated according to four main themes identified from the research (Wolfe, 1975). The results were revealing and are outlined briefly.

First, the board decision making environment - defined as the atmosphere 'in the boardroom' for discussion and questioning, the individual 'director' characteristics and the general team 'board' approach - had the greatest influence on how participants regarded their effectiveness and ineffectiveness. Both teams gave the board decision making environment the highest importance rating. The effective board's rating was 45% but the ineffective board's rating was nearly 50% more at 64.6% (Wolfe, 1975). This suggests that a poor decision-making environment is perceived as a strong negative influence on board decision-making effectiveness. Second, effective boards rated preparation as an important element of board effectiveness (16.9%). This compared with 13.6% for ineffective boards (Wolfe, 1975). Third, differing behaviour characteristics were identified, with effective board members rated as more committed and enthusiastic, and displaying openness and trust (Wolfe, 1975).

In summary, the effective boards managed board process well with full participation from the members, and ensured that there was sufficient time to deliberate. Additionally, the effective board had a strong leader who was respected and focussed on the objective of profit maximisation in the long run. On the other hand, the ineffective board was characterised by a lack of preparation, poor attendance and short-term, reactive decision making (Wolfe, 1975). The results overall showed that it was the decision atmosphere that contributed most to effective performance (Wolfe, 1975) – a factor that was commented on in The Higgs Report (2003) as important for effective boards.

While the results outlined above arise from a game simulation, the differences between the effective and ineffective boards' results are interesting and point to the relevance of considering those factors that contribute to board ineffectiveness. These prior studies, though limited in number, suggest that understanding board effectiveness requires that researchers also pay attention to why boards can be ineffective, particularly in regard to characteristics of the board's decision making environment.

2.9 An agenda for researching board effectiveness from the perspective of board members

As noted, in Section 2.6, the last decade has seen a change in approach to measuring board effectiveness with a move towards gaining directors' views from inside the boardroom using qualitative approaches. This has resulted from the following influences:

- the inconclusiveness of the structural research into what makes boards effective, as measured in terms of firm performance (Dalton et al., 1998)
- the recognition that continuing corporate collapses could not be explained through the previous structural research approach (Sonnenfeld, 2002).
- the recognition that the board is a work group and there are certain behaviours required for the group to be effective (Cascio, 2004)
- the recognition that decision making is a key board role and therefore group processes and dynamics influence this outcome (Forbes and Milliken, 1999; Leblanc, 2005; Parker, 2007).
- the publishing of the Higgs Report (2003) identifying board behaviour as an influence on board effectiveness and a wider predictor that might lead to improved board performance (Roberts et al., 2005).
- the recognition that agency theory may not be the only lens through which to view board effectiveness (Corley, 2005; Pye and Pettigrew, 2005).

Despite this growing recognition of the need to understand behaviour inside the boardroom in order to gain further insight into what makes boards effective (Pye and Pettigrew, 2005), it is still seen as difficult to get input from those inside the boardroom to understand what boards actually do (Zahra and Pearce, 1989; Millstein and MacAvoy, 1998; Pye and Pettigrew, 2005). A key contribution of the current study is that it accesses the views and experiences of boardroom 'insiders', thereby overcoming this barrier to researching board effectiveness. This approach opens up a number of areas for research that draws on board members' perspectives, and provides a new lens through which governance research can be viewed.

To sum up, the corporate governance and board performance literature reviewed in this chapter points to a qualitative research agenda for understanding the characteristics and outcomes of effective boards. A framework for how key aspects of this research agenda were operationalised in the current New Zealand study is presented in Table 2.1 below.

Table 2.1 Framework of the key aspects for the research agenda

Research agenda	**Dimensions of the NZ study**
Finding out directors' own perceptions of their role (Zahra and Pearce, 1989; Johnson et al., 1996; Heracleous, 2001).	Board members were asked their views on the most important functions of an effective board
Finding out directors' own views of the characteristics of effective boards (Zahra and Pearce, 1989; Johnson et al., 1996; Leblanc 2004) and how they carry out their roles (Australian Government – Corporations and Markets Advisory Committee, 2010).	Board members were asked their views on the characteristics of an effective board (characteristics = distinguishing qualities). Board members were asked their views on the factors that lead to the creation of an effective board (factors = circumstances, phenomena or influences which produce results).
Establishing the meaning of what is an effective board (Lawler III et al., 2002).	Board members were asked their views on the outcomes that characterise an effective board.
Identifying and understanding the multiple outcomes of effective boards that can influence company performance (Zahra and Pearce, 1989; Nicholson and Kiel, 2004; Pye and Pettigrew, 2005).	Board members were asked to identify indicators or measurements for determining whether a board is working effectively.
Including "board life stories" to improve understanding of board behaviour (Huse, 2005, p. s75).	Directors were asked to relate examples of their experiences as board members. A large number of quotations were obtained.
Gaining views of board behaviour from different group members (Zahra and Pearce, 1991; Huse, 2005).	Three different participant groups (chairs, directors, and CEOs) were researched using 35 semi-structured interviews.
Identifying board attributes and characteristics across countries and regions (Zahra and Pearce, 1989; Johnson et al., 1996; Van den Berghe and Levrau, 2004; Huse, 2005).	The study was the first of its type to be undertaken in New Zealand, so contributes to international comparisons.
Increasing studies into the difference in board practice between different types of firms and ownerships (Zahra and Pearce, 1989; Pye and Pettigrew, 2005; Payne et al., 2009).	The study included two different company types – PLCs and SOEs. Board members were questioned on their perceptions of differences between the two company types in regard to board effectiveness.
Understanding the important role of the chairman, which is seen as under-researched (Roberts, 2002).	The impact of the chair on board effectiveness was examined from the perspectives of all three participant groups. Additionally, board members were asked to relate their experiences of whether a change in Chair impacted board effectiveness.
Examining issues around board ineffectiveness and their potential insights for improving board performance, which are overlooked in prior research (see Section 2.8).	Board members were asked their views and experiences on the characteristics, factors and outcomes associated with ineffective boards.

This research agenda sets out the gaps identified in the extant literature and the contributions expected to arise from this New Zealand study. Chapter Three will outline how these research issues were examined.

2.10 Summary

This review of the literature on corporate governance and the role(s) of the board and board effectiveness/ineffectiveness provides several points of guidance for the current study of New Zealand board performance.

First, the literature reveals that board effectiveness is largely determined by board behaviour (Higgs, 2003) and the process of the board and the ability of this group to make appropriate decisions (Forbes and Milliken, 1999; Leblanc and Gillies 2003; Nicholson and Kiel, 2004; Harper 2007; Payne et al., 2009). This points to the need to consider behavioural aspects of boardroom practice and suggests a need to seek these insights from those working inside the boardroom.

Second, the literature points to the importance of understanding the characteristics of a successful board chairman. A number of factors will make this role even more important for the future of effective boards. Notably, there is growing recognition that the board is a work group with a social system, which means the chairman has the greatest influence on group performance (Cascio, 2004; Kakabadse and Kakabadse, 2007) and the boardroom behaviour that impacts the effectiveness of the group (Millstein and MacAvoy, 1998; Sonnenfeld, 2002; Kakabadse and Kakabadse, 2007). Additionally, with the recent changes to international stock exchange codes that now require disclosure on how diversity is considered on boards (Mayer Brown, 2010), and the establishment of policies for diversity on boards (ASX, 2010), it is inevitable that greater social diversity will be a feature around the boardroom table. Group cohesiveness and group dynamics are important for boards (Forbes and Milliken, 1999) and social diversity can impact this important group dynamic (Jehn et al., 1999). This suggests that the role of the chairman needs further examination in studies of board effectiveness and performance. Additionally, the chairman's role is seen to be under researched (Roberts, 2002).

Third, the literature includes discussion as to whether there are differences in board effectiveness between countries (Demb and Neubauer, 1992; Van den Berghe and Levrau, 2004; Huse, 2005; Kakabadse and Kakabadse, 2007). This points to a need to increase the contribution from international studies to include directors' views from inside the boardroom in order to establish whether there is a universality of factors that lead to an effective board.

Fourth, understanding the negative influence of boards can also be of importance in understanding the determinants of their success (Daily, 1995). While it might appear that factors leading to board effectiveness and ineffectiveness would simply be the converse of each other, this is not necessarily the case. Positive and negative effects should not be regarded simply as endpoints of a single continuum, since the negative events may have a greater impact than the positive ones (Taylor, 1991). This suggests that further studies of the board should include questions that identify the factors that are seen to lead to a board being less effective, in order to concentrate on these to improve board effectiveness. First-hand directors' experiences of what causes a board to be ineffective appear to be absent from the prior literature.

The next chapter outlines the research methodology and methods adopted to apply the theoretical framework outlined in Section 2.9 to the study of effectiveness in New Zealand boards.

Chapter Three - Research Methodology and Method

This chapter examines the research framework and by way of introduction commences with a brief outline of the recent changes in methods for governance research. This is then followed by the methodological approach and the research method and design, including the criteria for both company and participant selection. The chapter then outlines the research interview structure and process and the questions used to guide the interviews. The chapter concludes with details of the approach taken in analysing the research evidence, including a table outlining the coding and analysis process.

3.0 Introduction

As outlined in Chapter Two, the last decade has seen a change in the focus of governance research into board effectiveness. There has been a move from examining board structure from outside the boardroom, to examining behaviour inside the boardroom either through observation or talking with those who sit around the boardroom table. This change has also seen a change in methodological approach. Previously, structural aspects were mainly subjected to quantitative measurement, whereas the behavioural aspects are now being assessed using qualitative approaches with the survey questionnaire being the most common method (Parker, 2007). This change in research focus gained a higher profile following the publication of the 2003 Higgs Report in the UK where one of the studies commissioned focused on the behavioural aspects of boards that might influence board effectiveness. This report was integrated in to UK Combined Code which reflected a change in emphasis from just looking at board effectiveness in terms of structure and composition to one that included a greater focus on the behavioural conduct of boards. This has proved influential in opening and examining the theoretical implications for board behaviour and process (Corley, 2005; Pye and Pettigrew, 2005) through the use of qualitative research.

The focus of this study was also qualitative and was based on the experiences of those who sit around the boardroom table. The aim was to understand the factors that create an effective board by interpreting the experiences of chairs, directors and CEOs when inside the boardroom. The researcher's experience on multiple boards facilitated interview access to those involved. It also created empathy in understanding what happens inside the boardroom and the meaning of the relationships, actions and the language used. These characteristics of the study aligned it to the interpretivist research paradigm, where the goal is ”empathetic understanding of participants’ day-to day experiences and an increased awareness of the multiple meanings given to the routine and problematic events by those in the setting” (Bailey 2007, p. 53). The next sections outline the methodology and method adopted for this study, starting first with the rationale for adopting an interpretive perspective.

3.1 Methodology: An interpretive perspective

The methodological perspective of a study must be consistent with the aims, beliefs and approach of the researcher. The key attributes that underpin the use of an interpretive perspective for this research are considered here in turn.

First, the researcher’s ontological position concerns the consideration of what is, what exists, and what it means for something or somebody to be. Following an interpretive approach, the “ontological belief is that there is no objective reality but instead multiple realities” (Bailey, 2007, p. 53). This research seeks to discover the participants’ own experiences as board members. The sample also includes chairs, directors and CEOs from a wide range of companies and industries. This will give both individual and multiple views on effective boards based on the participant’s particular role and company.

Second, the epistemological position of a study concerns the systematic consideration of knowledge of issues, knowing, truth, meaning and sense. In the interpretive tradition, “what is learned in research does not exist independently of the researcher” (Bailey, 2007, p. 54). Further:

> What researchers learn from the participants depends, in part, on their own status characteristics, values, and behaviours. And taking this into account during all phases of the research can increase the validity or trustworthiness of the research (Bailey, 2007, p. 54).

For this study, the researcher’s experience as a director informed the understanding and interpretation of participants’ perspectives. This helped to ensure meaningful interpretation of the participants' views and so increased the trustworthiness of the research.

The concept of empathetic identification is relevant here also. This relates to the researcher's ability to understand the meanings of participants' answers to questions and their stories. The aim of the interpretive researcher is to understand and be able to interpret the meaning of the participants' answers to the questions outlined. As Schwandt, cited in Denzil and Lincoln (2000, p. 192), notes: "the idea of acquiring an 'inside' understanding – the actor's definition of the situation – is a powerful concept for understanding the purpose for qualitative enquiry". Achieving this requires a sensitivity to and understanding of the style of language used by participants in the boardroom since "each of the [language] games has its own rules or criteria that make the game meaningful to the participants" (Schwandt, 2000, cited in Denzil and Lincoln, 2000, p. 192).

For this study, the researcher's current role as a practising director in both of the company types studied and as a non-executive director for 10 years created a degree of closeness with the people and companies studied (particularly given the small company director community in New Zealand). This is an important epistemological characteristic of the study that assisted the researcher to interpret the answers given and to learn from the participants which, as Pye and Pettigrew (2005) have noted, is important for studies in this field:

> …as the classic case of 'waving not drowning' reminds us, behaviour gains meaning in situations that are also importantly located in time. There is a variety of elements of context with/in which a board operates that have significant bearing on the role and conduct of the board and its directors as well as, importantly, the criteria against which it/they may be judged to be effective, both individually and collectively. (Pye and Pettigrew, 2005, p. S31)

The third issue is axiology, or ethics and values. Bailey (2007, p. 54) notes that interpretive researchers "cannot totally leave behind their understanding of the world…they reject the view that value neutrality is essential to the research process". The interpretive approach requires the researcher to reflect on her own thoughts during the conduct of the research and the interpretation of the findings in order to add value to the information and give context to the research evidence gained from the respondents.

The researcher's accepted expertise as a practising director and her personal knowledge of many of the participants created a level of trust with participants, leading to openness during the interviews. Since governance and board effectiveness are under-researched areas in New Zealand, the participants were interested in discussing their experiences with someone who understood the language and context in which these experiences were shaped. Given this characteristic of the research and the closeness between the researcher and the participants, there was a need for constant reflexivity when analysing the responses to the questions to ensure that the interpretation of the response was not overly narrow or unconsciously shaped by the researcher's own preconceptions (Patton, 2002; Bryman and Bell, 2003; Parker, 2007). This is consistent with an interpretive methodological perspective.

In summary, the researcher's experience and current role as an outside (non executive) director and previous roles as an inside (executive) director and CEO provided a unique background to interpret what the participants meant by their responses to the questions. Based on these defining characteristics of the study, the use of interpretivism was decided upon as the appropriate methodology. Whilst there has been an increased focus on qualitative and behavioural research into board of directors, an interpretive perspective is a relatively novel approach and therefore offers the potential for new insights into issues around board effectiveness.

3.2 Research method and design

The research method and design was influenced by the interpretive methodology and the researcher's unique ability to access the boardroom participants of those companies which have a significant impact on the NZ economy. Gaining information from those who participate around the boardroom table, including an understanding of the influence of board process and board dynamics, is believed to present a valuable opportunity to explore the factors shaping board effectiveness (Hendry, 2005; Huse, 2005; Leblanc and Gillies, 2005; Pye and Pettigrew, 2005). Of particular interest was the influences of the CEO and the chair on board effectiveness, the latter having been identified as an influencer in prior research (e.g. Parker, 1990; Cadbury 1992; Roberts, 2002; Leblanc and Gillies, 2005; Harper, 2007; Kakabadse and Kakabadse, 2007).

The research method was to use semi-structured interviewing, since the purpose of the study was to gain a wide representation of companies and to include multiple views from chairs, directors and CEOs on what they perceived to be the characteristics and outcomes of an effective board. This reflects Dexter's (1985) view (cited in Lincoln and Guba, 1985, p. 268) that "an interview is a conversation with a purpose". This is the main method used for prior research into the behavioural aspects of boards and board practices (Parker, 2007). For example: McNulty, Roberts and Stiles conducted forty in-depth interviews with company directors (commissioned for the Higgs review, 2003); Kakabadse, Ward, Korac-Kakabadse and Bowman (2001) conducted 35 in depth interviews and focus groups; Kakabadse and Kakabadse (2007) conducted in depth interviews with 103 UK, US and Australian chairs; and Van den Berghe and Levrau (2004) interviewed 60 directors of Belgian listed companies. Additionally, since the research had unique access to chairs, directors and CEOs across a wide range of New Zealand companies, this opportunity was best exploited by using an interview-based approach.

A pilot study was undertaken to identify whether the questions were understood and unambiguous (Stiles and Taylor, 2002), and whether the question sequence flowed. The pilot was also used to assess the timing of the interviews and to gain experience with the interview process (Bryman and Bell, 2003). Six interviews: a chair, director and CEO from three state-owned enterprise companies; and a chair, director and CEO from three public listed companies, participated in the pilot. These participants were selected based on the criteria outlined next (see Sections 3.2.1 and 3.2.2). When asked to participate, a number of the pilot participants requested a copy of the question guide prior to the interview so that they had time to consider the questions and make a more effective interview. As a consequence, and in order to ensure consistency in approach, a copy of the question guide was provided prior to all the interviews (Bryman and Bell, 2003).

The analysis of the pilot interview results also led the researcher to consider whether participants who had experience as both a chair and CEO in similar large company types may have a different perspective on the chair and CEO roles in board effectiveness. It was anticipated that participants with this background would be better placed to reflect on their own experiences in both roles and the relationship between, and impact of, the two roles. Consequently an additional group was included in the interview sample, that of current chairs of PLCs who had previously been a CEO of a PLC (but not of the same company). The SOE companies were not included in this group as they could not meet this criterion due to both the relatively small number and the relatively short history of these companies.

3.2.1 Criteria for company selection

This study focused on those companies that, due to their size or position, had a significant impact on the New Zealand economy. In order to give structure and relevance to this economic impact, large New Zealand public companies listed on the NZX 50 and state-owned enterprises were chosen as the sample population. Their inclusion in the study was to ensure that the board effectiveness of some of the nation's most influential organisations was examined. Further, the comparison of public listed companies (PLCs) and government companies, state-owned enterprises (SOEs), was intended to identify how board effectiveness might be influenced by the differentiating characteristics between the two company types. It was believed that the comparison might reveal lessons to be learned by one set from the other as to whether these characteristics influenced board effectiveness. Compared to PLCs, Government boards are: less influenced by market disciplines; are bound by an additional Act (State-Owned Enterprises Act 1986), have a focus on social diversity in their membership; and have a director selection process controlled by the shareholders representative (Crown Ownership Monitoring Unit). The government department where responsibility for performing these functions originally resided was a separate business unit, the Crown Company Monitoring and Advisory Unit (CCMAU) established in 1993. In 2009, this unit changed its name to the Crown Ownership Monitoring Unit (COMU) and has now become part of the treasury function.

Additional sample criteria for company selection was that boards had been in existence for three years or more and for NZX listed companies, the main board (registration) resided in New Zealand. These additional criteria were introduced to reduce any variability in board approach that may occur due to the start up nature of the company (Zahra and Pearce, 1989; Filatotchev, Toms and Wright, 2006), or due to external influences from a parent company in another jurisdiction (e.g. for Australian owned banks also listed in New Zealand). Secondary research using companies' websites was used to identify those companies listed on the NZX50 and the SOEs that met the selection criteria.

The company selection criteria also employed maximum variation (heterogeneity) sampling so that any consistent themes in the findings would be of greater significance:

> ….when selecting a small sample of great diversity, the data collection and analysis will yield two kinds of findings: (1) high-quality, detailed descriptions of each case, which are useful for documenting uniquenesses, and (2) important shared patterns that cut across cases and derive significance from having emerged out of heterogeneity. Both are important findings in qualitative theory. (Patton, 2002, p. 235)

There were a total of 32 companies listed on the NZSX 50 that fulfilled the company criteria. Interviews were conducted with 16 companies. The inclusion of a fourth participant group following the Pilot Study analysis; that of current chairs of PLCs who had previously been a CEO of a PLC (but not of the same company) led to the sample being extended beyond the NZX50 and the New Zealand market in order to meet this selection criterion, since only two people were identified who met this criterion within New Zealand. While this required expanding the company selection criteria, the additional input was expected to be of value to the research. There were a total of 11 SOEs that fulfilled the company criteria and interviews were conducted with board members from all 11 companies. An equal number of participants was interviewed from each company type, since comparing between the two company types was part of the study focus. However, the addition of a fourth participant group following the pilot group analysis resulted in a final total of 20 PLCs and 15 SOEs being included in the study (see Appendix One).

3.2.2 Criteria for participant selection

Stratified purposeful sampling was used to select the interview participants. The sample included three categories of participants - chairs, directors and CEOs, as each of these roles has a unique position inside the boardroom and was selected to identify whether the difference in these roles offered a different perspective on board effectiveness, with a view to identifying both the consistency and variation in their responses, "each of the strata would constitute a fairly homogenous sample" (Patton, 2002, p. 240). The purpose of a stratified purposeful sample is "to capture major variations rather than to identify a common core, although the latter may also emerge in the analysis" (Patton 2002, p. 240). As Myers (2009) notes, it is generally useful to interview a variety of people to obtain a breadth of opinion. Also the inclusion of different categories of participants and a variety of people within each category achieves what Rubin and Rubin (2005, p. 67) refer to as "triangulation of subjects", which helps to avoid bias (Miles and Huberman, 1994).

A total of five people in each of the participant groups was interviewed. Equal participant numbers were sought due to the uniqueness of the roles of chairs, directors and CEOs in the boardroom. Based on the company criteria five SOEs had two people interviewed from that company. For the PLCs there was only one case where participants were from the same company. This occurred when one CEO could not complete the interview and, due to the time frame to close the interview process, another CEO had to be contacted at short notice from a previous participating company. For the additional new group of chairs of PLCs who had previously been CEOs of a PLC (of a different company) five people were also interviewed. Attention was given to their experience where their current role as chair or their previous role as CEO was with a company where there was a New Zealand subsidiary. This was to ensure their familiarity with the New Zealand market and conditions.

Table 3.1 Participants by type

	SOE	**PLC**	**Total**
CEO	5	5	10
Director	5	5	10
Chair	5	5	10
Chair (with previous CEO experience)	5	5	5
Total	15	20	35

Experience, measured by length of time served on boards or in a CEO position, was the main criterion used when recruiting participants from the qualifying companies. Specifically, selected chairs and directors must have been a member of more than one board, and been a director for at least five years. This ensured that those interviewed could draw on their experiences with more than one company and would therefore be in a better position to understand and judge their board experience and its relevance and importance to the research topic.

The criterion for selecting CEOs was that they had held their role in the company for at least three years. This ensured that the CEOs had spent sufficient time in the organisation to have developed an understanding of the board and its governance. A further preferred, but not essential, selection criterion was that in their roles as chairs, directors and CEOs, participants had experienced a change in chair or CEO. This preference was included as some of the research questions specifically examined this area and the participants would have had the opportunity to identify whether a change in the chair and/or CEO had impacted board effectiveness.

The identification of people who fulfilled the sample criteria was based on company website information, the Crown Company Monitoring Advisory Unit, personal knowledge and peer contacts. The criteria were verified by participants who completed a Background Sheet (see Appendix Two) on their experience including whether they had experienced a change in chair or CEO. When the participants were approached they were specifically advised of which role and company they were selected from for the interview because, as noted earlier, one participation criterion was that they were a director of more than one company. Additionally, in a number of cases these companies were also of the other type - for example, a chair of a PLC was also a director of an SOE.

As outlined earlier, the participants for the six pilot interviews were selected based on the company and participant criteria and included a chair, director and CEO from each company type. The timing of the pilot (pre-Christmas) meant that availability was a key criterion for the participants. Details of the final participant list by company and role are provided in Appendix Three.

3.3 The research interviews

This section outlines the approach taken for the participant interviews and includes the structure and process during the interviews, the process surrounding the interviews and the interview questions.

3.3.1 Interview structure

A semi-structured interview approach was used throughout to allow for follow-up questions to be asked (Bailey, 2007) and for dialogue to emerge, which was deemed important and likely given the researcher's position as a director and her acquaintance with many of the participants as part of the small New Zealand governance community.

The semi-structured approach also allowed for the questions to be specified so an interview guide was constructed (Myers, 2009). Additionally, as a result of the pilot study and as an increasingly common approach in published research (Bryman and Bell, 2003), the interview guide was made available to participants prior to the interviews. This meant that a broadly similar question format was followed, as the participants had noted their replies on their copy and were familiar with the order of questions. The pilot study had also tested whether the question sequence flowed and this also meant that the questions tended to be answered in the same order. This approach helped to improve reliability in that any variation in replies could be regarded as a true or real variation and not due to the interview context (Bryman and Bell, 2003). One researcher conducted all the interviews so there was no interviewer variation, further increasing the reliability of research evidence captured. The interviews were tape-recorded and transcribed and the transcriptions were used as a basis for analysis and coding. This ensured there was no misinterpretation of the answers as they captured the participants' own language (Bryman and Bell, 2003). It also facilitated the use of direct quotations of interview evidence (Myers, 2009).

As well as ensuring the reliability of the research evidence (Lincoln and Guba, 1985), tape-recording the interviews meant the researcher could be more alert to participants' responses and, where necessary, could probe their answers (Bryman and Bell, 2003). In contrast to Leblanc's (2004) experience, the participants in this study did not object to being taped and the tape-recording did not interfere with gathering rich evidence. Also, some negative issues that have previously been associated with using interview methods to research boards of directors – for example non-completion of questionnaires; deviation from the questions; defensive responses; or providing limited and positive information only (Stiles and Taylor, 2002) - were not experienced in this study.

Finally, given the researcher's peer relationship with many of the participants, it was necessary to add a degree of formality to the process and reduce the participants' expectation that the researcher would assist in answering the questions posed (Strauss and Schatzam, 1955 cited in McCracken, 1988). Consequently two tactics were employed. First, at the commencement of the interviews, it was re-iterated that the researcher would not be participating and that the focus was on obtaining participants' views. Second, the researcher made notes on her copy of the question guide during the interview. This helped to reinforce the first point as it signalled the researcher's role as interviewer, while at the same time allowing the researcher to highlight any particular points of interest or comments for future analysis (Patton, 2002).

Interview locations were pre-selected. This helped ensure interview quality in terms of taping clarity, freedom from distractions, and convenience for the participants (Patton, 2002; Bailey, 2007). The locations used were the participants' offices, the researcher's office, or a meeting room in a neutral location known to both parties. There was no observable difference in the participants' level of comfort between these locations. The location of each interview is noted in Appendix Four.

3.3.2 Interview process

The participants who fulfilled the sample criteria were personally contacted and the research project was outlined to them. On only three occasions was a referral through a colleague required (Stiles and Taylor, 2002). A total of 39 people were contacted, of which four were unable to complete the interview within the required time frame due to other commitments. Only three people asked for the interview guide prior to committing to participating in the research. Thirty-five interviews were completed in total (see Appendix Three). Gaining consent was easily achieved (Lincoln and Guba, 1985), no doubt assisted by the researcher's prior professional connections with many of the participants.

The meeting time and location was arranged during the initial contact. This was followed up with an email attaching: the question guide; a consent form; a background information form; a University covering letter with details of the project; and a personal letter to the participants. The time and location, their consent to the interview being taped, and the expected duration of the interview was also reconfirmed in an email a week before the interview.

Following the interview a thank-you email was sent to participants, which also confirmed the next part of the process. This included an estimate of when the interview transcript would be received by them and the process for review and return of the transcript should they wish to note any changes. The subsequent changes requested by the participants were minor: some identified no changes; some made grammatical changes; and in two cases participants deleted sensitive information not entirely relevant to the enquiry (mainly the names of people or companies). Others did not return the transcripts, but instead gave verbal confirmation of them. A large amount of information was gathered with each transcript over 20 pages in length, possibly because "respondents are more likely to be both candid and forthcoming if they respect the enquirer and believe in his or her integrity" (Lincoln and Guba, 1985, p. 256). The ability to build and maintain trust resulted in rich and relevant research evidence being generated and added to the credibility and validity of the outcomes.

From an ethics perspective, the participants had a full understanding of the risks involved and all agreed to be named as participants' in the study (see Appendix Three). They were aware that they may be quoted, but that such quotations would not be attributed to them personally, but to their function (chair, director, CEO, chair/CEO) and company type (SOE or PLC). This was specifically outlined in the initial letter to the participants. The participants' were also aware that the researcher also fully understood these risks.

3.3.3 Interview questions

The focus of the interviews was to capture the chairs', directors' and CEOs' personal experiences of, and insights into, effective boards. This led to the following questions being used to guide the interviews:

- What are the characteristics and factors that lead to effective boards?
- What are the outcomes and outputs of effective boards – what might an effective board look like? What would an outsider see?
- How might board effectiveness be measured?
- What impact do the chair and/or CEO have on board effectiveness?
- Can you give an example of a situation that demonstrated an effective board?

The last question – asking participants to recall a specific example – was intended to encourage fuller, more detailed answers (deMarrais, 2004).

Participants were also asked the same questions but in relation to their experience of ineffective boards. This served to increase the rigour of the information gathered and enhance data quality as by understanding the negative influence of boards one can gain a better understanding of the determinants of their success (Daily, 1995). These additional questions were also used to triangulate the results.

The detailed question guide is provided in Appendix Five.

3.4 Analysing the research evidence

This section outlines the approach taken to analysing the research evidence, including: the initial analysis of, and response to, the pilot study outcomes; the use of triangulation strategies; and the coding and analysis of the interview evidence.

3.4.1 Pilot study

Some valuable insights were gained from the pilot study, which informed modifications to the subsequent main set of interviews.

First, the pilot study identified areas where interview questions required clarification. Some of the participants were combining their answers to questions relating to 'characteristics' and 'factors' of an effective or ineffective board and were uncertain how to differentiate the two. In order to overcome this issue, the definition of 'characteristics' and the definition of 'factors' was added and emphasised after each of these questions for the main body of research. Both of these questions were retained in the question guide in order to gain richness of evidence.

The pilot study also revealed the need to emphasise that participants' actual experiences were required; this was subsequently highlighted in the interview guide. Finally, the question relating to the impact of a change to the chair and/or CEO on board effectiveness was also clarified, with a change in wording at the start of these questions. Whilst these changes were minor in nature, this information confirmed the importance of the pilot study in identifying any unclear phrasing of questions (Bryman and Bell, 2003). The order of the questions and all other aspects of the question guide were the same for the main set of interviews as for the pilot (see Appendix Five).

As noted in Section 3.2 above, the analysis of the pilot interview results also pointed to the opportunity to add a further set of interviews with people who were currently a chair of a PLC but who had previously been a CEO of a different PLC. The responses to the specific question on the impact of a change in chair or CEO on board effectiveness led the researcher to reflect on the benefits the experience of being a CEO might bring in responding to this question. This was appropriate given a particular focus of the research was the influence of the chair and CEO on board effectiveness.

The research evidence from the pilot study, as well as being analysed initially to inform the design of the remaining interviews, was combined with the main interview findings for analysis purposes. This was due to not only the relatively small overall sample population for this research, but also the fact that a comparison of the pilot study results to those of the main interviews revealed no substantive differences in responses.

It has been noted that the inclusion of pilot study results in the final analysis is not ideal where those involved in the pilot study have been used as a pre-test or focus group for a wider research study and may therefore be predisposed (Gilbert, 2001), or where probability sampling is used and the inclusion of a pilot study may affect the representativeness of the sample (Bryman and Bell, 2003). Neither of these issues was relevant for this study.

3.4.2 Triangulation of the research evidence

In qualitative research, triangulation is an important aspect of assuring data quality. According to Bryman and Bell (2003) the most common forms of triangulation is based on the methods used and where the data is sourced from. Data collection from participants who have different views or have different positions is regarded as important in triangulation (Bailey, 2007). This data collected from different participants also allows for "subject triangulation" to help avoid bias (Rubin and Rubin, 2005). Patton (2002) also discusses the ability to triangulate using the comparison of different groups' perspectives, as one of the four ways that can be used to contribute to the validity of qualitative analysis.

This study draws on the interview data arising from interviews with three different participant groups (chairs, directors, and CEOs) and across two different organisational types (SOEs and PLCs). Triangulation was achieved within this data set by virtue of comparisons drawn between these groups and companies. In addition, adopting the dual perspective of effective versus ineffective board characteristics and factors and outcomes and outputs, allows some triangulation across these analytical categories.

3.4.3 Coding and analysis

A multi step process was used to code and analyse the research evidence from the interviews. First, to gain an overall sense of the data, each of the interview transcripts was read through and a summary of first impressions noted (Strauss and Corbin, 1998). In conjunction with this, any interesting remarks that could be used as possible quotations were noted in the margin (Miles and Huberman, 1994). The researcher also started a separate exercise book to record further notes or thoughts that arose when reading the transcripts that could be referred to when analysing the data and developing the themes. This is consistent with Strauss and Corbin's (1998) memo process. During this time notes were also made on additional themes that were emerging from the data (Bailey, 2007). A broad outline of likely themes had initially been identified from the prior literature on studies of boards (Lawler III et al., 2002; Stiles and Taylor, 2002; Leblanc and Gillies, 2003; Nicholson and Kiel, 2004; Van den Berghe and Levrau, 2004; Charan, 2005).

Next, the interviews were analysed by words, paragraphs and general concepts to generate first level coding based on the themes identified (Miles and Huberman, 1994). A series of templates were created to aid further analysis. The first template was created to help identify the responses by group and company type. The template consisted of five columns based on the 5 participants in each group. A total of seven pages were set up in order to isolate the different participant groups: CEO (SOE), director (SOE), chair (SOE), CEO (PLC), director (PLC), CEO (PLC) and chair/CEO (PLC). A separate page was used to analyse each question by each of the groups. So in total each question had seven pages for analysis and each participant's mentions from the mark up on the transcript from the first level coding were then transferred onto this template.

For the next stage of coding, different coloured markers were used to mark the participants' mentions based on the first long list of themes that had been created from the first level coding. The same colour coding was used for each identified theme as it related to each of the interview questions. Where points mentioned did not fit any of the identified themes, they were circled for later analysis. In some cases, whilst there were common themes, some additional themes emerged and these were added to the list of themes. It was at this stage of the analysis that the researcher first recognised that the same answers were being given in relation to different questions, for example the question on characteristics and the question on factors contributing to board effectiveness.

For the second stage analysis it was important to establish the extent of the participants' responses based on the different themes. Another template was created by interview question. For this template the various themes and their colour coding were noted in the rows and the seven participant groups were set up in columns. The information from the first level coding was then transferred in to this format. The theme data was then counted and those themes that rated fewer than 10 mentions were reviewed and combined with other, related themes. This process resulted in more focussed coding which revealed some themes to be subsets of wider themes (Bailey, 2007).

A review of the analysis was then undertaken. At this stage it was confirmed that there were similar participant responses being given to different questions when participants described their experiences. This was particularly the case for the questions regarding characteristics and factors associated with effective boards (questions 2 and 3), outcomes and outputs and measurements of effective boards (questions 4 and 5) and characteristics and factors associated with ineffective boards (questions 7 and 8).

A further template was created to establish the extent of this interchangability. The template was similar to the second stage analysis template in that the themes were noted in the rows and the seven participant groups were noted in the columns. However for this template there were additional columns so that under each participant group the number of mentions of that theme based on the related questions identified (and noted above) could be compared to confirm the initial visual review (Bailey, 2007).

This review confirmed that there was a high level of similarity in responses to the two different question types on (i) characteristics of effective and ineffective boards and factors associated with effective and ineffective boards and (ii) the outcomes and outputs of an effective board and the measurement of an effective board. For example, in regard to the characteristics and factors of an effective board, there were 27 mentions of informational diversity as a characteristic and 21 mentions of this theme as a factor. Another theme, director characteristics, received 18 mentions as a characteristic and 17 mentions as a factor. Similarly, board and management relationships received equal mentions as both a characteristic and a factor (21 for each). In regard to the characteristics and factors of an ineffective board, one theme (the Chair) received 28 mentions as a characteristic and 24 mentions as a factor. In regard to the outcomes, outputs and measurements for effective boards there were 27 mentions of the theme company performance as an outcome and output and 34 mentions of it as a measurement. Another theme (board and management relationships) received 29 mentions as an outcome and output and 27 as a measurement.

As an additional stage in the process, all the comments that had been colour coded were re-read to check on consistency in capturing and interpreting the information and coding it into themes (Silverman, 2005). This was also useful in ensuring reliability. There were five instances where, on reflecting on the meaning and context of the interview responses, re-coding was undertaken. This also provided the opportunity to check on any of the participants' remarks that had been circled and not included in the original theme analysis and to interpret the identified theme where they could appropriately be categorised (Bailey, 2007). An example of the coding procedure can be seen from the transcript of one interview where a director of an SOE is answering Question 2:

> *Researcher: "From your experiences what are the characteristics of an effective board?"*
>
> *SOE Director: "I think a commitment to a common strategy and vision for the organisation. Respect for each other in terms of being committed to trying to work together; that's certainly not saying that everybody should be the same - you do want diversity of thought of skills and background, but you want a respect there within the board and the commitment to work together. You certainly want effective working relationships with the Chief Executive in particular and with the management team but I think certainly an effective board needs to have a real clarity around what its role is and what its responsibilities are, particularly vis-à-vis those of management."*

The answer to this question was initially coded to the following themes: common purpose; internal board relationships; skill diversity; board and CEO relationships; board and management relationships; governance versus management. On further analysis these themes were later refined to: strategic clarity; internal board relationships; informational diversity; board and CEO relationships; board and management relationships; the chair.

To further ensure that the information analysed was understood and interpreted correctly, the transcripts were re-read and additional text (specific commonly used words and phrases) was noted against each of the themes. The notes taken by the researcher during the interview process were also re-read. A separate word document was created by theme and this text was included when writing up the data. Quotations previously noted and now further reviewed in the context of the identified themes were also transferred to this document by theme. Participant group and company type were added to the quotations for potential inclusion in the final narrative (Bailey, 2007). This word document also recorded the examples participants gave as examples of both effective and ineffective boards.

The final stage of the analysis was to review the themes again to establish whether there was any overlap and whether there was an opportunity to combine any of them (Bailey, 2007).

The researcher then created another two templates where the columns were set up by company type (PLC and SOE) and by wider participant group (chairs, directors and CEOs) and the detailed analysis was transferred into this format. This last template then allowed for triangulation to be achieved by comparing data by both the participant group and by company (SOE versus PLC) (Patton, 2002).

Finally a series of summary tables was created that showed both the number of participants mentioning the theme and the total mentions for both the characteristics and outcomes of effective and ineffective boards, and the functions of an effective board. This dual perspective of board effectiveness/ineffectiveness allowed for triangulation through a comparison of the responses to both. Additionally, tables were created to show the responses by company type and participant group. Also, due to the unequal sample size of both the participant groups and the company types, tables were created that included the average response, to more easily identify the importance of each theme by participant group.

The next stage was to develop the narrative. The narrative was written up by theme and included the previously noted text and relevant quotations. The researcher was mindful to include quotations that not only illustrated the point, but that also reflected the particular participant group and/or company entity that had responded on this particular theme. See Table 3.2 for a summary of the coding and analysis process.

Table 3.2 Coding and analysis process

First stage analysis	Read transcripts and summarised first impressions ▼ Marked interesting remarks and quotations in the margins ▼ Created separate exercise book to record thoughts and noted potential themes
	▼
First level coding	Analysed transcripts by words, paragraphs and general concept and marked up transcripts ▼ Developed template for identification of responses by group and company type ▼ Transferred mark up on transcripts to templates ▼ Colour coded information on template by theme, used same colour coding across questions for each theme
	▼
Second stage analysis	Created template by interview question ▼ Transferred colour coded information by theme by participant group ▼ Reduced theme numbers and created sub themes ▼ Created template to establish level of changeability
	▼
Validity	Rechecked colour code comments and reviewed for consistency of implementation ▼ Re-read transcripts
	▼
Second level coding	Created separate word documents by theme and transferred commonly used words, relevant quotations and participant examples
	▼
Final analysis	Further reviewed themes ▼ Created additional templates for final analysis by participant group and company type ▼ Created summary tables by question and included number of participants mentioning themes and total mentions ▼ Created additional tables by participant group and by averages of participant group and by different company type

The coding and analysis process outlined above (and shown in Table 3.2) was systematic and is therefore easily replicated, which improves its reliability (Bryman and Bell, 2003). The key findings from this analysis are outlined in the next chapter.

Chapter Four – Data Analysis

4.0 Introduction

The research set out to gain an understanding of participants' experiences inside New Zealand boardrooms. An understanding of these views reflects the relatively recent focus in international governance literature where the pursuit of board member's views is being recognised as offering an insight in to board effectiveness.

This chapter presents the findings from the question on the characteristics and factors of both effective and ineffective boards. The questions were:

- Question 2
  In your opinion, from your experiences, what are the characteristics of an effective board? (Characteristic = distinguishing quality)
- Question 3
  From your experience, what are the factors that create an effective board? (Factors = circumstances, facts or influences which produce a result)
- Question 7
  In your opinion, from your experiences, what are the characteristics of an ineffective board? (Characteristic = distinguishing quality)
- Question 8
  From your experience what are the factors that create an ineffective board? (Factors = circumstances, facts or influences which produce a result)

Due to the key role of the chair as leader of the board and the CEO as leader of management, an additional two further questions were also asked about these two roles and their impact on board effectiveness and ineffectiveness. These specific questions are also outlined in this section and include the analysis thereof.

The chapter also includes a discussion of the findings as they relate to the governance literature at the conclusion of each section. Any significant difference in responses between the participant groups is also outlined at the end of the discussion section. Further detail on the differences in participant group responses is in Appendix Six. The final section summarises the chapter.

4.1 Characteristics and factors of effective and ineffective boards

The findings from the participants' comments on characteristics and factors of both effective and ineffective boards revealed participants saw 'characteristics' and 'factors' as largely one and the same, so the two have been combined for the purposes of this analysis and in future will be referred to as 'characteristics'.

The inclusion of questions on both effectiveness and ineffectiveness served a number of purposes. First, the literature review identified that there has been little research in to what participants' inside the boardroom regard as causing a board to be ineffective. Second, negative events can have a greater impact than positive events so the questioning on board ineffectiveness can identify whether there are any particular characteristics that are more influential from a negative perspective based on the participants' experiences. Third, by including both effectiveness and the ineffectiveness in the questioning it increases the rigor of the data.

Table 4.1 summarises the themes and their definitions. There are nine broad themes identified as a result of the analysis of participants' experiences inside the boardroom. These are: board diversity; director ability; board selection process; board and management relationships; board and CEO relationships; internal board relationships; director characteristics; boardroom practice; and the chair.

These themes have been combined into four main areas for discussion in this chapter. First, *board structure* relates to the makeup of the governing body- the board, and the process in building the board. This includes board diversity, director ability and the board selection process. Second, *relationships* include board and management relationships, the board and CEO relationship, internal board relationships and director characteristics. The latter is included as a sub theme of relationships because director character and attitude – the person – is regarded by participants as having an impact on relationships, both inside and outside the boardroom. Third, *boardroom practice* is defined here as the inter-relationship between the atmosphere in the boardroom, the quality of debate and effective decision making. Participants see these as inter-related concepts. Finally, there is *the chair*, as the leader of the board, who is regarded as having the greatest influence on both board effectiveness and ineffectiveness.

Note that the figures in brackets in Table 4.1 indicate the number of participants mentioning this issue i.e. the breadth of concern for this issue across participants; and the figures without brackets indicate the total number of mentions across all participants where multiple mentions by some participants can be seen to reflect a stronger degree of concern.

Table 4.1 Characteristics of effective and ineffective boards

Theme	Definition	Frequency			
		Effectiveness		Ineffectiveness	
		No.	%	No.	%
The Chair	The leader of the board.	**(30) 73**	**23%**	**(30) 52**	**21%**
Boardroom practice	The inter-relationship between the atmosphere in the boardroom, the quality of debate and the effectiveness of decision making.	**(28) 38**	**12%**	**(9) 10**	**4%**
Relationships					
Internal board relationships	Relationships between fellow directors.	(23) 35	11%	(22) 31	13%
Director characteristics	Character and attitude of directors.	(22) 35	11%	(25) 42	17%
Board and management relationships	Relationships between the board and management team.	(23) 42	13%	(22) 35	14%
Board and CEO relationship	Relationship between the board and CEO.	(7) 7	2%	(11) 12	5%
Total Relationships		**119**	**37%**	**120**	**49%**
Board structure					
Board diversity	Informational diversity	(28) 48	15%	(19) 34	13%
Director ability	Individual director skills.	(15) 25	8%	(15) 15	7%
Selection process	The process used to build a board.	(13) 15	5%	(13) 13	6%
Total Board structure		**88**	**28%**	**62**	**26%**
Total mentions		**318**	**100%**	**244**	**100%**

Source: Interviews (n=35) Multiple responses given

There are a couple of notable points in Table 4.1. First, relationships as the total theme were seen to have a greater impact on board ineffectiveness (49%) than board effectiveness (37%). Of interest is the degree of concern that was attributed to the negative affect of director characteristics with 25 participants mentioning this a total of 42 times. Second, good boardroom practice was seen to be more important for board effectiveness (28 participants accounting for 12% of mentions). Third, board diversity was also seen as important for board effectiveness with 28 participants also mentioning this (15% of mentions).

The only higher number of individual participant ratings on both board effectiveness and ineffectiveness was the chair where there were 30 individual ratings for both contributing to board effectiveness (23% of mentions) and board ineffectiveness (22% of mentions).

The following sections analyse these themes in more detail.

4.2 Board structure

Board structure is defined here as board diversity, director ability and the process used to build the board structure – i.e. the make up of the board of directors. Board structure is seen to impact both board effectiveness and ineffectiveness.

Board diversity relates to informational diversity, seen as the different range of experience and skills of the directors so that the board as a whole has a broad understanding of the company and can deliver better quality decisions. The following quotations illustrate these points:

> *I think you must have a range of skills, expertise and industry experience and knowledge. If you are stacked with a board of lawyers and accountants, you can have a CEO who runs wild because you don't understand the business. I think you need a range of ages, having been on a board where everyone was very old, it was just a nightmare. There is a tendency as you get older, you get more conservative.*
> *Director PLC*

> *Effective boards are balanced. They've got people with a range of skills around the table so there are no obvious gaps.*
> *Chair/CEO PLC*

We need clear thinking people that are prepared to enunciate their views and recognise that a decision would have to be made which will be an amalgam of those views. You get the best decisions if you do have that diversity.
Chair PLC

Directors' ability is different to board diversity in that it relates to the level of skill that an individual brings as a director. A high skill level is seen as important for effective boards, and the combination of both director experience and ability is considered important so that the board can effectively question management, as is illustrated in the following quotation:

You need high level skills and high energy levels around the board table, you can't escape that, if you don't have significant skills in the people sitting around the board table, you are never going to be able to get to the heart of issues because management will always be a step ahead, you hope that management are a step ahead but you need to understand why they are a step ahead, if you can't correctly interpret the information and interrogate it for yourself … then you are not likely to be effective.
Chair PLC

Some of the factors that help ensure the appropriate informational diversity around the board table is a good selection process. This includes building a matrix that outlines the current director skills and identifies the future skills that the company might require. Succession planning, to ensure a good mixture of tenure and continuity around the board table is also seen to be important so that the board has sufficient corporate knowledge relative to management.

You have to have a good selection process for directors.
Chair/CEO PLC

I think what you first need is a proper skills matrix of the skills you need on the board. Then you need to get a group of people that meet those skill needs that have been identified.
Chair SOE

Preferably you need at least a couple of people on the board who are in the six to nine [years of service] category otherwise the learning and knowledge of management goes back well before anyone on the board, and that is really dangerous.
CEO SOE

On the other hand not having the appropriate skill diversity and experience on the board, inadequate succession planning and large board size are all factors that are seen to contribute to a board being ineffective.

> *[Problems include] Board choosing people that are just like themselves. No robust process around selection of directors and assessing skills and skill gaps. No succession planning generally.*
> *Director SOE*

> *[A problem] is inadequate succession planning, I think if you are going to have a vibrant board you are going to have to manage that … you have to continually look at ways of making sure that you keep your board fresh.*
> *CEO PLC*

> *Size is one of the very important ones. I think big boards are far less effective.*
> *Chair/CEO PLC*

Discussion

The individual themes of board informational diversity, director ability and succession planning are consistent with the literature. Informational diversity as it relates to skills, knowledge and information is recognised as an important positive factor in group composition that can enhance problem solving (Williams and O'Reilly III, 1998) and can increase group effectiveness (Jehn et al., 1999). Skill diversity on a board is also seen as important to be able to monitor and challenge management more effectively (Sundaramurthy et al., 2003; van der Walt and Ingley, 2003) and is regarded as an important precondition for board effectiveness (Leblanc and Gillies, 2005; Roberts et al., 2005). On the other hand boards that are too large have the potential to negatively impact board performance (Harris, 2001; Van den Berghe and Levrau, 2004). Using a skills matrix (a review of the current skills of the board) to understand the current board capability and assess future board requirements is seen as important for both board performance and board succession planning (Conger, Finegold and Lawler III, 1998; Conger and Lawler III, 2009).

Where the findings of the NZ study differ is that many of the participants have a more holistic view of board structure in that informational diversity, director ability and succession planning were seen as being inter-related and could not be looked at in isolation in terms of their influence on either an effective or ineffective board.

The main differences in the participant groups' responses are that directors in particular see lack of board diversity and director ability as causing a board to be ineffective. Directors also perceive a good selection process to help board effectiveness; as opposed to chairs who see a poor selection process as causing the board to be ineffective (see Appendix Six).

4.3 Relationships

There are four main subthemes that relate to relationships. First, there is internal board relationships, defined as relationships around the board table between fellow directors. Second, there is relationships between the board and the management team. Third, there is the separate relationship that the board has with the CEO, as opposed to the chair-CEO relationship. Finally, there is the individual director characteristics defined as character and attitudinal characteristics that make up the person, which are regarded as having an impact on both internal and external board relationships.

Board and management relationships are also seen to be an outcome of both effective and ineffective boards (see Chapter Five), reflecting the importance of this group dynamic. Internal board relations is also regarded as an outcome, but of an ineffective board only (see Chapter Five), also reflecting the importance of this internal board dynamic.

Each of these sub themes is discussed in more depth in the following sub-sections.

4.3.1 Internal board relationships

Internal board relationships are defined here as relationships between directors only. Trust and respect amongst board members and the board being prepared to work together as a team are important ingredients in these relationships.

Mutual respect I think is really important. Openness. Members saying what they think. Honesty and integrity should be a given.
Director PLC

Something that is important is working as a team with all the individuals contributing. You can't afford to carry grandstanders or personality problems. Wanting to work as a team is very important.
Director PLC

Board chemistry and collegiality in the boardroom is also seen as important, not only for team work, but also for directors to be able to challenge each other without impacting the board internal relationships, as illustrated in the following quotations:

If you don't have some sort of personal chemistry that works … I mean that in a sense of being able to respect each other, and, being quite open and aware of strengths and weaknesses and styles ... then it is just not going to work.
CEO SOE

Getting a member on the team is important to ensure that you have someone who can work in a collegial manner with the others around the board table. That doesn't mean to say it has to be a "yes person". I still like the quote "a team" and it doesn't mean to say you can't speak your mind and agree to differ.
Director PLC

The ability to have constructive disagreement, by which I mean ability to disagree in a way that is actually constructive for the company, rather than just create tension.
Chair SOE

On the other hand, poor internal board relationships are a key factor in a board being ineffective for the opposite reasons - lack of respect, no teamwork and personality clashes among members.

A lack of respect and trust between board members which means that you can't get that effective team work.
Director SOE

I have worked on ineffective and effective boards and I guess the word that says it is team.
Chair PLC

People who can't work together continually drill down to insignificant management issues, nickel and dime on every issue, have to speak on every issue, continually re-litigate issues.
Chair PLC

Finally, the chair has an important role in recognising the importance of board chemistry in both forming and managing the board, as illustrated in the following quotation:

What makes some boards really effective is [having] the right chemistry around the board table. You get more effective discussions so you've got enough diversity, you've got enough people listening to the other point of view and saying "well I haven't thought of that, but maybe that alters my point of view" without any ego or prima donnas or people just always wanting to be right or wanting to be dogmatic or wanting to hold the floor. So understanding the importance of chemistry in the formation of the board and in how the board is managed, I think that is really the thing that allows some boards to be more successful than others.
Chair PLC

Discussion

The participants' responses and experiences of the importance of internal board relationships are consistent with the literature, particularly as it relates to group dynamics. The recognition of the importance of internal board relationships and the link between trust, board chemistry and teamwork is consistent with Forbes and Milliken work in 1999 where group dynamics and workgroup effectiveness as it relates to boards was introduced. This work also includes the social-psychological factors that influence cohesiveness and in particular, identifies cohesiveness as the board's ability to work together, and interpersonal attraction as a factor which influences individuals' trust for each other. "Board members must trust each others' judgement and expertise, and trust will be difficult to sustain on boards with very low interpersonal attraction" (Forbes and Milliken, 1999, p. 496).

Trust and mutual respect is also a common theme from this last decade's qualitative research where researchers have gone inside the boardroom and interviewed directors (Van den Berghe and Levrau, 2004; Pye and Pettigrew 2005; Roberts et al., 2005). Social diversity, the demographic differences in a group, can create relationship conflicts in the group (Jehn et al., 1999). Interpersonal relationships are also seen to impact the board's behaviour which in turn influences the boards' effectiveness (Harper, 2007) and board chemistry (Finkelstein and Mooney, 2003). Cohesiveness is seen as important to achieve higher levels of output and commitment from the group (Forbes and Milliken, 1999).

Alternatively low cohesiveness can cause a board to be ineffective. Charan (2005, p. 29) comments that "unless individual directors can gel as a working group, they simply cannot be effective". The chair is also seen to play an important role in the boardroom relationships and dynamics (Cadbury, 1992; Kakabadse et al., 2001; Harper, 2007; The UK Corporate Governance Code, 2010).

Where the findings of the New Zealand study differ is the extent to which participant groups see good/poor internal board relationships as having a relatively equal positive/negative impact on the board. The extent of this negative impact is further confirmed by participants' identification of poor internal board relationships as an outcome of an ineffective board (see Chapter Five), which is less apparent in the literature but points to the importance of this human dynamic.

The main differences in the participant groups' responses are that the chairman group (chair and chair/CEO), likely due to the chair's board leadership role, is more aware of the effect that internal board relationships can have on both board effectiveness and ineffectiveness (see Appendix Six).

4.3.2 Director characteristics

Participants see director characteristics as a contributing factor to internal board relationships, board and management relationships, and board and CEO relationships, which can cause either board effectiveness or ineffectiveness. Director characteristics are referred to as first, directors' character and good moral values and independence, and second, directors' attitude which includes enthusiasm, energy, passion and commitment to the company.

> *I believe good moral and human values, emotional intelligence, fully self actualised people, in other words people who are rounded human beings who don't have a sort of character flaw that distorts their attitudes and behaviour.*
> *Chair SOE*

[A director needs to] be conscious of the need to manage risks and be committed to the company, have passion for the company, be committed to adding value, and be committed to continuous, improving innovation.
Director PLC

Participants are also particularly aware of the negative impact of directors' characteristics as they relate to their attitudes, reflected in their behaviour, commenting on lack of preparation for board meetings and lack of commitment to the company. Having 'special interests' is also considered part of a director's character. This refers to board members who represent a specific shareholder or interest group, or a director with a single interest. The following quotations illustrate these points:

…. Directors not preparing, turning up and they haven't read their darn papers. They haven't analysed the issues.
CEO SOE

Internal sniping. Failure to take responsibility for outcomes. Imbalance of work loads. Imbalance of contributions between directors.
Director SOE

Other examples that characterise an ineffective board are internal conflicts of interests. Fundamental conflicts of interests. It could be a director and a major supplier and so you get conflicts there.
Director PLC

The first time a director raises a personal crusade around the board table, that's fine, you get it on the table, you talk it through, you address the issue and get rid of it. It's [a problem] when they turn up in the next five meetings in a row and raise it again when the board has already dealt with it.
CEO SOE

Discussion

Participants' recognition that director identified characteristics impact relationships and board effectiveness reflects the notion of boards as groups (Leblanc and Gillies, 2003). The specific characteristics are consistent with the results of prior research over the last decade where researchers have been able to gain access to board members and obtain their views. The characteristics include director independence (Roberts et al., 2005), a positive attitude (Van den Berghe and Levrau, 2004) and director commitment (Dalton and Dalton, 2005), and the behaviour characteristics of directors (Letendre, 2004). Additionally, preparation and commitment is recognised as an important board attribute (Forbes and Milliken, 1999; Lawler III and Finegold, 2006; Minichilli et al., 2009). On the negative side, directors with strong views are recognised as potentially disruptive on a board (Finkelstein and Mooney, 2003).

Where the findings of the NZ study differ is in the significance participants place on directors' characteristics as a negative influence on a board. This is seen by them as the second highest influence on a board being ineffective. The extent of this negative impact is less apparent in the literature and is an important finding of the NZ study.

The main differences in the participant group's responses is that the director and CEO group are more aware of the negative impact that director characteristics can have on the board. This may be possibly due to their perceived incapacity in their board member position to effect a change, as opposed to the chair who has greater authority over board behaviour (see Appendix Six).

4.3.3 Board and management relationships

Another form of relationship that causes a board to be both effective and ineffective is the relationship between the board and management. This is defined as the two groups working as a team. Trust and respect, an open culture and communication are again seen as important criteria for these relationships as illustrated in the following quotations:

> *An effective board has trust between the board and management, faith, but not blind faith. In other words the management team respects the board and the board trusts the management team. That underpins the relationship but still the board doesn't have blind faith, they are testing the team and thinking all the time.*
> *CEO SOE*

> *The other important essential is management trust between board and management, particularly the chair and CEO and senior management. If you don't have that trust, soon, of course, both will retreat to their respective corners.*
> *Chair SOE*

> *The ability to communicate amongst each other and also communicate openly with the CEO and senior management team would be number one [in importance].*

Number two is then to apply their various skills and experience in a constructive way with management.
Chair PLC

Good relationships between board and management are also thought to lead to good debate and discussion around the board table, without management feeling threatened. The board being exposed to management through presentations to the board and on informal occasions is a further way of developing these relationships. Good relationships also helps reduce any surprises at board level as management are more likely to have the confidence to bring both good and bad news to the board. These points are illustrated in the following quotations:

[You need] a motivated management team that are comfortable, in fact somewhat enthusiastic, to bring their key and perhaps challenging issues to the board so that they can engage in robust discussion. The comfort to say that 'this is where we are going, have you got any input?' I think that this is an effective board. They are not asked to be managers but they are asked to be contributors.
Chair SOE

The board should have good exposure to management at the second level. This helps generate confidence and knowledge and empathy.
CEO PLC

Informal contact between the board and management – sitting down over a meal. It also builds up relationships.
Director PLC

On the other hand, it is felt that poor board and management relationships can lead to operational functions being compromised. This is through the board becoming involved in management issues leading to a loss of confidence and trust between the two parties.

…an ineffective board starts to get into areas of management and/or micro questioning which could undermine the management confidence, you say, 'well here are the keys, you may as well drive the car, because … you probably don't have enough trust in the management team to allow us to run the business.
CEO SOE

Ineffective boards have dysfunctional relationships with CEO and management. Ineffective boards have directors riding into management territory without telling the chair, without any good reason, they just ring someone up.
Chair/CEO PLC

Discussion

The participants' views on board and management relationships as they relate to board effectiveness are broadly consistent with the literature. Trust is recognised as important for collaboration and for allowing the board to carry out its monitoring role constructively (Sundaramurthy et al., 2003). A lack of trust can impact these relationships and lead to increased monitoring by the board resulting in management becoming frustrated (Sundaramurthy et al., 2003). So a delicate balance in relationships between board and management is required for the board to effectively carry out its tasks (Daily et al., 2003).

The participants also recognised that board and management working as a team (Leblanc and Gillies, 2005), good listening and communication skills (Finkelstein and Mooney, 2003), and good communication and dialogue between board and management (Charan, 1998; Daily et al., 2003; Letendre, 2004; Leblanc and Gillies, 2005) are important factors in securing board effectiveness. Exposure to management in the boardroom as a means of improving communications (Lawler III and Finegold, 2006) and recognition that the board needs to have confidence in management (Harper, 2007) is also consistent with the literature.

Where the New Zealand study differs is in the extent to which participant groups saw good/poor board and management relationships as having an equivalent positive/negative impacts on the board. The extent of the negative impact in particular is less apparent in the literature.

The main differences in the participant group's responses is the extent the CEO and chair/CEO participants (both previous CEOs) see good board and management relationships as important for a board to be effective. Interestingly the chairs commented less on the importance of good board and management relationships for a board to be effective, although they most often mentioned poor board and management relationships as an outcome of an ineffective board (see Appendix Six).

4.3.4 Board and CEO

The CEO relationship with the board is seen by many participants as a key relationship that can impact board effectiveness. This relationship did not elicit a high percentage level of response when participants responded to the question on the characteristics and factors of both effective and ineffective boards, (2% and 5% respectively). However, in response to the additional specific CEO questions:

- Is it true to say that the CEO affects board performance/ effectiveness? If so, to what extent and how?
- Have you observed a change in board effectiveness or ineffectiveness when there has been a change in CEO?

Thirty four of the 35 participants answered both questions in the affirmative and explained their response, as illustrated in Table 4.2. The response by participant group is also included in this table.

Table 4.2 CEO impact on board effectiveness (by participant group)

			Total responses			
	Totals	**%**	**Director (n=10)**	**Chair (n=10)**	**Chair/ CEO (n=5)**	**CEO (n=10)**
Information provision	20	26%	9	4	3	4
Board and management relationships	23	30%	10	4	5	4
CEO style	34	44%	11	6	8	9
Total	**77**	**100%**	**30**	**14**	**16**	**17**

Source: Interviews (n=35) Multiple responses given

The participants' experience of the CEO influence on board effectiveness is in a number of ways.

The first issue is the CEO and the control this position has on the level and quality of information the board receives. The second issue is the CEO's influence on board and management relationships. This includes the boards' access to senior management as well as the willingness of the CEO to use the board as a resource. Third, the CEO's style and personality is also seen to impact the board and its effectiveness. These points are illustrated in the following quotations:

The CEO has the capacity to affect board performance because all he has to do is choke off information or tell the board lies.
Chair SOE

The CEO can make a significant difference to a board's effectiveness because I think, along with but independent of the chair, the CEO can set the tone for the level of openness and actually determines what kind of a relationship the board is going to have with management, so that person is pretty fundamental.
CEO PLC

I think the CEO does affect board performance. Particularly positively, if they are open and encourage board input.
Chair SOE

The CEO also has the ability to make the board ineffective for the opposite reasons:

First of all the CEO is critical to the board working properly because the board tends to get most of the information from the CEO. So if the CEO is no good, is secretive or whatever, in some cases just tells lies, then the board is going to be hopeless.
Chair/CEO PLC

If the CEO is a very strong personality and can be a bit of a bully and the chair is weak or lacks sufficient knowledge or expertise, the board will effectively lose control. It will lose the ability to monitor the CEO and the CEO will control the board agenda.
Director PLC

Finally, the importance of the CEO role and how it can impact board effectiveness is further illustrated in this participant's answer to the question on whether a change in CEO has led to a change in board effectiveness:

Everything changed when the new CEO came in because he just had a totally different style. He built a different team around him. It was just chalk and cheese. The board had a lot more information, the opportunity to interact with the people that held the knowledge. We had a different culture in the place and he was very good.
Chair/CEO PLC

Discussion

The participants' recognition of the role and influence of the CEO on the board is consistent with the literature. The CEO is seen to impact board effectiveness in a number of ways. First, the CEO controls information that goes to the board (Pettigrew and McNulty, 1998; Nadler, 2004; Charan, 2005; Leblanc and Gillies, 2005). Second, the CEO influences management's relationship with the board which is an important factor in management accepting the challenging of the board (Finkelstein and Mooney, 2003). Third, the CEO's character and behaviour are important (Kakabadse et al., 2006) and CEOs who are too dominant are seen to reduce board effectiveness (Leblanc and Gillies, 2005).

As shown in Table 4.2, in this NZ study directors' were most aware of the control that the CEO had on the provision of information whereas chairs who had previously been CEOs were most aware of the impact the CEO style can have on board effectiveness, possibly due to their previous CEO positions and understanding the extent of this influence.

4.4 Boardroom practice

When analysing the participants' responses it became apparent that effectiveness or ineffectiveness inside the boardroom involved decision making and debate and the board atmosphere; and that participants identified these as inter-related concepts and an important characteristic of an effective board. These concepts are combined into one theme - boardroom practice. Boardroom practice is defined here as the inter-relationship between the atmosphere in the boardroom, the quality of debate and the effectiveness of decision making. For our analysis, relevant responses are categorised under this heading and we employ the term 'boardroom practice' for the remainder of this paper to reflect this New Zealand directors' perspective.

Effective discussion and debate and decision making is regarded as a key board role and in particular lack of decision making is seen by participants as the main outcome of an ineffective board (see Chapter Five). This reflects the cause and effect that boardroom practice has on both effective and ineffective boards. Finally the chair is seen as responsible for ensuring good boardroom practice occurs. The following quotations illustrate these points:

The single overall statement that I would make is effective boards are characterised by consensus decision making but with strong healthy debate, democratic right for every board member in the room to contribute and respectful contrary and individual views, and in that context it is the responsibility of the chair to guide the board to ensure that the atmosphere in the board room allows all that to operate.
Chair SOE

I think most importantly, being willing to challenge and debate and discuss strategic direction, everything that is going on in the organisation and what comes through to the board, and the right atmosphere (in the boardroom) is important for this to happen to reach the right decision.
Director SOE

Everyone is encouraged to participate even if they are not, or don't consider themselves, an expert in that area, they should express an opinion based on high level view of the issues on the table, so you know. I think that the chair, having the ability to ensure people prepare and participate at a board meeting, is absolutely critical to reach a decision. The chair will either ensure that can occur or it will not occur, it is not something that just happens, it has to be made to happen.
CEO SOE

Discussion

The literature establishes different definitions relating to practices and processes inside the boardroom. However, none of these definitions addresses the totality of the 'boardroom practice' concept outlined above.

For example Leblanc and Gillies (2005) refer to board process as the mechanics associated with a board meeting including decision making. Zahra and Pearce (1989) description of board process includes also the mechanics associated with board meetings with the inclusion of the CEO board relationship. Relationships, including both internal board and board and management relationships, are called board dynamics by Stiles and Taylor (2002). And board culture is referred to as the culture, environment and decision making by Van den Berghe and Levrau (2004). On the other hand a combination of both board culture and process is called structural capital by Nicholson and Kiel (2004).

The concept of boardroom practice that emerged from this New Zealand study is the combination of board process, board dynamics, and board culture and decision making. Decision making is a key board function (Forbes and Milliken, 1999; Leblanc, 2004; Nicholson and Kiel, 2004; Harper, 2007; Payne et al., 2009) and the board is characterised as a decision making body "…board of directors can be characterised as large, elite decision-making groups that face complex tasks relating to strategic-issue processing" (Forbes and Milliken, 1999, p. 492). The right atmosphere in the boardroom to aid decision making and board effectiveness is also recognised as an important factor (Higgs, 2003). The current complex environment also requires the expertise of the whole board as opposed to a single individual to aid decision making (Harper, 2007), reflecting once again the importance of good boardroom practice for board effectiveness. The chair's role is also seen as important in this dynamic (Kakabadse et al., 2001; Stiles and Taylor, 2002; The UK Corporate Governance Code, 2010).

The concept of boardroom practice provides a useful new concept from the New Zealand study in that it encapsulates many common and overlapping themes that have emerged from the literature and makes the measurement of board effectiveness easier to achieve.

The main differences in the participant groups' responses are that both chairs and CEOs are more aware of the influence of good boardroom practice effecting board effectiveness (see Appendix Six). This same group also sees poor boardroom practice as the most significant outcome of an ineffective board. This may be because, in their roles as leader of the board and leader of management, they see their responsibility as effecting good board decisions (chairman) and implementing these decisions (CEO).

4.5 The chair

The chair is seen as the single most important influence causing a board to be effective and ineffective. The chair, as leader of the board, influences board structure, board internal and external relationships, boardroom practice and the CEO's relationship with the board.

First, the chair has to take a diverse group of individuals and mould them into a team to work effectively together. Second, the chair has to get the best out of the board members and ensure that all members participate and that the skills and knowledge each board member brings to the board table is heard. Third, the chair has to establish the right boardroom atmosphere to allow for open discussion, debate and questioning, leading to decision making, which is defined as boardroom practice in this research.

> *The chair is ultimately the most important success factor for the board because I have seen many good boards, full of good individuals, fail through lack of good chairmanship. On the other hand I have seen boards that have people that might have otherwise not looked like stellar individuals work really well and effectively because the chair has pulled them together and got the best out of them. Just as a good sports coach would do.*
> *CEO SOE*

> *An effective chair will ensure that they do get the best out of the individual directors around the table, that they will set the right tone to encourage, challenge, discussion and debate.*
> *Director SOE*

> *One, good chairs draw out people with the expertise on the issues and allow them to share that with the board. Two, they don't allow that expertise to dominate that thinking of the board.*
> *Director SOE*

Finally the chair is also the person who establishes the boardroom culture, ensures that the board meetings are effective and the board focuses on the areas of governance, and ensures that the board has a common purpose.

> *The chair is pivotal to the properly functioning board. He should dictate and reflect the culture.*
> *Director PLC*

> *An experienced chair who can run an effective meeting. Running a meeting is the ability to prioritise, to make sure the board focuses on the key issues, not the day to day stuff, to make sure that focus from a governance perspective does not get into micro management, to make sure that they listen to the views of the entire board.*
> *CEO SOE*

> *Of course, the chair provides the leadership on the governance, the nature of the governance and the ethics. A good chair doesn't tolerate any diversion from good behaviour and of course the chair attends to the clear vision.*
> *Chair SOE*

The chair is also perceived as the person most likely to cause a board to be ineffective. A chair being weak, ineffective, or lacking in leadership leads to board members dominating the meeting. Lack of effective leadership also means that the chair is unable to gain the best input from the board, or to reach board consensus.

> *At the root of ineffective boards is poor chairmanship. And what happens then is you either get people who have aspirations to take over because they see weak chairmanship or you get politicised because groups of directors' start running the board meeting long before the board meeting takes place.*
> *Director SOE*

> *I would put on the front of that the lack of effective leadership. In other words, if the chair for whatever reason hasn't got the leadership characteristics that enable him or her to get the input from the board, or if a board has a set of wrong mix of skills.*
> *Chair SOE*

> *When people start re litigating previously agreed decisions of the board. That's a bad sign that things weren't done property in the first place.*
> *CEO SOE*

The final and critical area where the chair influences both board effectiveness and ineffectiveness is through the chair-CEO relationship, which participants see as different to the other relationships. This is because the chair has the prime relationship role with the CEO, as illustrated in the following quotations:

> *A board can't work effectively if the interchange between the chair and the CEO is ineffective. Therefore a key role of the chair is to ensure that the relationship exists with the CEO.*
> *Chair/CEO PLC*

> *The chair certainly does affect the board performance effectiveness. He coordinates the team and he or she is the link with the CEO and has to be the link.*
> *Director PLC*

> *If the chair doesn't have an effective relationship with the CEO, the board will not be told the full story and weaknesses can be covered up. The CEO will normally drive strategy, initially at least, and he can exercise undue control if it is not properly controlled.*
> *Director PLC*

The main differences in the participant groups' responses are that non-chairs have a greater awareness of the positive and negative impact that the chair had on the board, possibly because of their board role (as participants) in the boardroom. Additionally the chairs (who have previously been CEOs) group in particular have the greatest awareness of the negative influence of the chair on the board (see Appendix Six).

4.5.1 Further examination of the role of the chair

As outlined earlier, the chair was seen to play a critical role as leader of the board. In order to explore the extent to which this role influences board effectiveness, further questions were added to the interviews. The questions were:

- Is it true to say that the chair affects board performance/ effectiveness? If so, to what extent and how?
- Have you observed a change in board effectiveness or ineffectiveness when there has been a change in chair?

The dominance of the chair on board effectiveness and the areas of influence are further reinforced by the participants' responses. All 35 participants answered in the affirmative and explained their responses, as illustrated in Table 4.3. The response by participant group is also included in this table.

Table 4.3 Chair impact on board effectiveness (by participant group)

			Total responses			
	Totals	%	Director (n=10)	Chair (n=10)	Chair/ CEO (n=5)	CEO (n=10)
Leadership style/culture	32	35%	11	10	5	6
Boardroom practice	24	26%	9	5	2	8
Relationship with the CEO	21	23%	6	5	6	4
Board's role	15	16%	6	2	0	7
Total	**92**	**100%**	**32**	**22**	**13**	**25**

Source: Interviews (n=35) Multiple responses given

The four themes relate to the chair's leadership style and influence on culture; boardroom practice (as defined in this research); the relationship with the CEO; and the board governance role.

The following participant quotation reflects these four themes:

> *The chair can ensure board cohesion and cohesion between board and management. The chair can ensure there is a focus on the issues and open debate and the right strategies, the right plans, the right decisions are taken. The chair can ensure a high level of participation and can nudge the quieter ones and the more thoughtful ones into expressing their views. And the chair can insist on bold and hard decisions. The chair, of course, can also ensure that it is the right relationship between board and management. That the board isn't getting involved in management which is a trap a lot of people fall into and which leads to tremendous frustration for management.*
> *Director PLC*

Finally, in response to the question on whether a change in chair had led participants to experience a change in board effectiveness, the same themes outlined above are also mentioned, as illustrated in the following quotation:

> *There was much better summarising, much better consensus, much better participation and I think as a consequence the relationships between all parties around the board table, including that of the chair and CEO improved.*
> *CEO SOE*

Discussion

The importance participants placed on the chair's impact on board effectiveness is consistent with the UK literature of the last two decades. This is mainly due to UK listed companies having separate CEO and chair roles, as is usually the case in New Zealand. The movement to separate CEO and chair roles in the UK is an outcome of The Cadbury Report (1992), where recommendations on board structure were a part of the code of practice. The US still has a predominance of combined chair/CEO positions, as noted in the Spencer Stuart 2009 US Board Index (63% of S&P companies).

The chair has the position of power in the boardroom (Cadbury, 1992; Pettigrew and McNulty, 1998), and this position is seen as central to board effectiveness (Kakabadse et al., 2006; Harper, 2007; Kakabadse and Kakabadse, 2007). The chair role involves a variety of tasks including the process of board meetings and agenda structure (Higgs, 2003), creating the right atmosphere in the boardroom for open discussion and debate (Garratt, 1999; Stiles and Taylor, 2002), and ensuring there is boardroom participation and all directors' views are heard (Cadbury, 1992; Roberts, 2002; Kakabadse et al., 2006). This focus inside the boardroom is important for enhancing board effectiveness (Kakabadse et al., 2006). The chair and CEO relationship is also important and it is recognised that the effectiveness of the board is improved by this relationship (Nicholson and Kiel, 2004; Roberts et al., 2005, Kakabadse et al., 2006; Leblanc and Gillies, 2005; Edlin, 2007) particularly as it can impact the wider board relationships (Roberts, 2002; Finkelstein and Mooney, 2003). Trust and respect between the two are important for a good working relationship (Kakabadse et al., 2006; Harper, 2007; Parker, 2007).

The chair is also recognised as negatively impacting board effectiveness through poor leadership (Kakabadse and Kakabadse, 2007), or a poor chair and CEO relationship which has the ability to influence the failure or success of a company (Kakabadse et al., 2006).

The prior literature focuses on what a good chair can add to board effectiveness. One point of difference in the findings of this NZ study, however, is the extent to which participants see the chair as having a negative influence on board effectiveness. The NZ study identifies the destructive effect that a poor chair can have on the board, which can undermine board effectiveness. This finding further highlights the significance of the chair role. Few studies in the prior literature have explored this issue.

As shown in Table 4.3, the main differences in the participant groups' responses in this NZ study are that directors are more aware of the positive impact a chair can make around the board table, no doubt because of their role as participants in the boardroom. On the other hand, chairs who have also been CEOs have a greater awareness of the importance and impact the chair-CEO relationship can have on board effectiveness, possibly due to their current chair and prior CEO experience (see Appendix Six).

4.6 Summary

This chapter presents the analysis of New Zealand board members' experiences of the characteristics of both effective and ineffective boards. The responses reflected a number of themes which were then grouped into four main themes for discussion.

The first theme, *board structure*, incorporates informational diversity, director ability and the selection process in building a board. The New Zealand participant responses have an holistic view of these three characteristics and see board structure as having a similar impact on both board effectiveness and ineffectiveness, and in totality is a pre-condition for an effective board. This holistic view is less apparent in the literature, so is a new contribution from this New Zealand study.

The second theme, *relationships*, includes internal board relationships, board and management relationships, the board and CEO relationship and director characteristics. The latter point, which concerns the directors' character and attitudinal characteristics, is regarded as having an impact on both internal and external board relationships. In particular, the responses show that negative director characteristics are perceived to be a key factor in causing the board to be ineffective. This experience is less apparent in the literature, so is a new contribution from this New Zealand study.

Trust, respect and working as a team were the common set of conditions NZ board members saw as necessary for good inter-board and intra-board relationships. This is consistent with the prior literature on the social-psychological factors that effect work group dynamics. The CEO was also seen as key to board relationships, because of his or her position and ability to not only control the level and quality of information the board receives, but also to influence board and management relationships. Relationships and their impact on board effectiveness has been a theme to emerge from more recent UK research in particular. This is mainly due to a change in approach where more attention is being given to board members' views from inside the boardroom.

NZ board members' awareness of the importance of relationships is also made clear in the findings, since board and management relationships are seen as both a cause (characteristic) and effect (outcome) of effective and ineffective boards, and internal board relationships as a cause of effective/ineffective boards and an outcome of an ineffective board in particular. The effect of relationships is discussed further in the next chapter. The impact of poor relationships between board members and board and management and the impact that this negative influence has on board effectiveness is less apparent in the literature and the extent of this dynamic is a contribution from the NZ study.

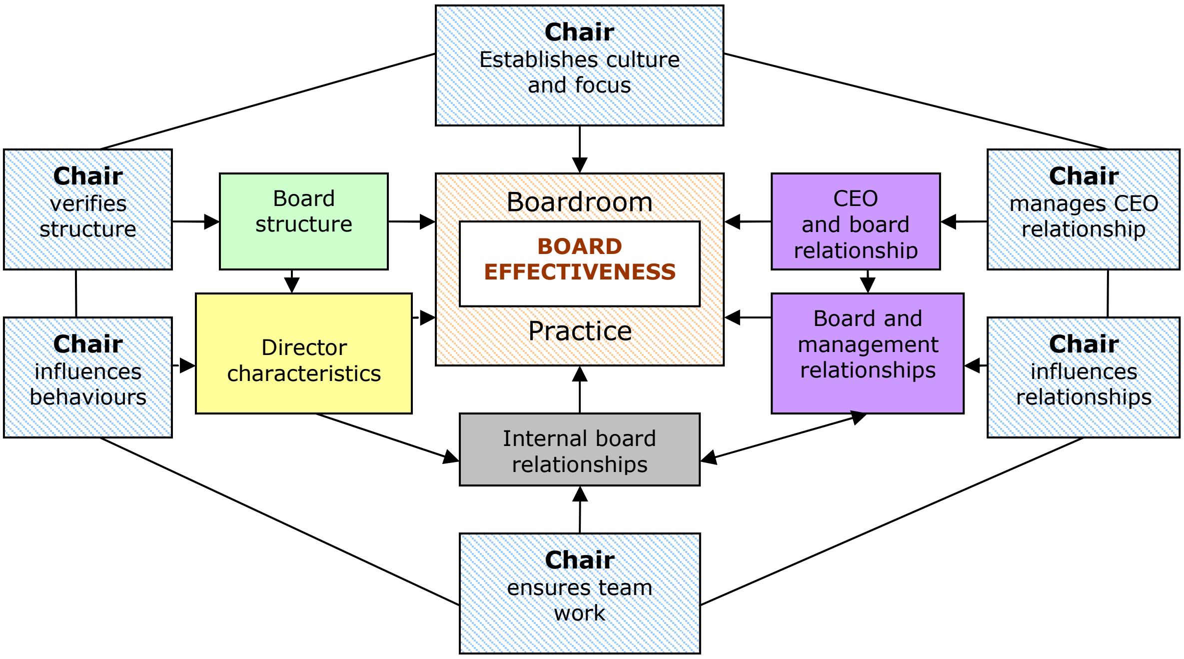
The third theme, *boardroom practice*, is a new concept identified in the research. This is defined as the inter-relationship of the atmosphere in the boardroom, the quality of debate and the effectiveness of decision making. Decision making is regarded by the interviewed board members as an important board task, consistent with the prior literature. While board process, board dynamics, and board culture have been identified as important in the prior literature, none have reflected the totality of the concept that has emerged from this research. The importance of the boardroom practice theme is also made clear in the findings where it is regarded as both a cause (characteristic) and effect (output) of both effective and ineffective boards. The effect of boardroom practice is discussed further in the next chapter.

Finally, the *chair's* role emerged in the New Zealand study as having the greatest perceived influence on both board effectiveness and ineffectiveness. The international literature is less consistent on the chair influence due to the large number of US companies where CEO duality remains predominant. There are also only a few authors in the UK that have extensively researched the chair and identified the important role this position has in board effectiveness.

The difference in the participant group responses to the characteristics of both effective and ineffective boards revealed that while there were differences these were not extensive. The chairman group (chair and chair/CEO) were more aware of the effect that good/poor internal board relationships could have on both board effectiveness/ ineffectiveness. The director and CEO group were more aware of the negative impact that director characteristics could have on the board. The CEO and chair/CEO participants (both previous CEOs) saw good board and management relationships as important for a board to be effective and finally, those other than chairs had a greater awareness of the positive and negative impact that the chair had on the board.

In the NZ study, the chair as leader of the board was seen to impact all elements of the board, not only in relation to boardroom practice but also in regard to both the intra (board members) and inter (board and management) relationships, with the CEO-chair relationship being regarded as a key relationship. The literature is also less clear on the negative impact the chair can have on board effectiveness, so this finding from the NZ study provides a new insight into both the positive and negative influences the chair can have on board effectiveness. This central and important role of the chair outlined in Figure 4.1 shows the many ways in which the chair influences aspects of the board that ultimately shape boardroom practice and, in turn, board effectiveness.

Figure 4.1 The central role of the chair in influencing board effectiveness



The next chapter continues to analyse participants' experiences but in the context of outcomes, outputs and indicators of board effectiveness. It also presents participants' opinions on the functions of effective boards to identify whether they were consistent with the international literature.

Chapter Five – Data Analysis

5.0 Introduction

This chapter presents the findings from the study from two separate but related areas. The first section presents participants' opinions on the functions of an effective board. This question was designed to gain an understanding of participants' opinions in order to identify whether they were consistent with those reported in the international literature. This question is included in this chapter as the board role has greater relevance to the outcomes and outputs and measurements of the board.

The second section presents participants' experiences on the outcome and outputs, and indicators and measurements of both effective and ineffective boards and is a continuation of the questioning on the characteristics of effective and ineffective boards. As outlined in the previous chapter there are some consistent themes between these responses and the participant's responses on the characteristics of effective and ineffective boards, reflecting both the cause and effect of this dynamic. The specific questions asked are outlined at the start of each section.

The chapter is structured like Chapter Four. It includes a discussion of the findings as they relate to the governance literature at the conclusion of each section. Any significant difference in responses between participant groups on the outcomes of boards is outlined at the end of each discussion section. Further detail on the differences in participant group responses appears in Appendix Seven. The final section then summarises the chapter.

5.1 Functions of an effective board

The question on the function of an effective board was:

- Question 1
  What, in your opinion, are the most important functions of an effective board?

Table 5.1 outlines the participants' responses. Note that the figures in brackets indicate the number of participants with this opinion, i.e. the importance of this function across participants; and the figures without brackets indicate the total number of mentions across all participants where multiple mentions by some respondents can be seen to reflect the intensity of their views on the board function.

Table 5.1 Functions of an effective board

Interview responses	Frequency	%
CEO - appointing and mentoring	(28) 36	30
Directing and developing strategy	(27) 27	23
Governance (monitoring and compliance)	(21) 21	18
Serving Shareholders (adding value and communication)	(15) 15	13
Leadership - ethics and values	(7) 7	6
Good boardroom practice	(7) 7	6
Director ability through adding skills and knowledge from the business environment	(5) 5	4
Total	**118**	**100%**

Source: Interviews (n=35) Multiple responses given

There are multiple responses given to this question and a total of 118 responses were coded to seven functions. Within this 84% of the responses related to four key functions – the CEO, strategy, governance and shareholders.

The appointment (or removal) and the mentoring and monitoring of the CEO is seen as a key board function. In total, responses relating to the CEO received 30% of the total mentions from 28 of the participants reflecting the importance of choosing the right CEO and the critical nature of this person to the organisation.

> *Appointment of the CEO and the monitoring and mentoring of the CEO for an effective board are significant functions.*
> *Chair PLC*

The next most important function relates to the board's role in strategy. There are two different aspects to participants' views on the board's function in this area. One relates to the board giving general direction and then approving strategy while the other sees the board's function as being interactive with management in developing strategy. These views are illustrated in the following quotations:

> *I think the most important function is to establish the goals and strategy for the business, included in that are the performance parameters.*
> *CEO SOE*

> *The development of strategy in association with the management team is the development and refinement of the strategy and is absolutely fundamental function of boards, in my opinion.*
> *Chair PLC*

A further important function of an effective board is described as governance. Governance includes the oversight and monitoring of management as well as ensuring that regulatory and compliance issues are adhered to, as the following quotations indicate.

> *The standard required for an effective board is about monitoring the company and monitoring management performance, it's a given, it's a function and for a board to be effective it has got to be capable of doing that.*
> *Chair PLC*

> *There are three functions of boards. One goes to the CEO, the second goes to strategy and performance assessment and the third goes to compliance.*
> *Chair/CEO PLC*

The final main area seen as an effective board function is in their relation with shareholders. This includes shareholder communication and delivering value to shareholders, as illustrated in the following quotations:

> *Reporting to shareholders and liaising with shareholders is a fundamental requirement of the board and how well that is done sets apart effective boards from average ones.*
> *Chair PLC*

> *…ensuring that the business strategy and its development are going to protect gross shareholder value.*
> *CEO PLC*

Three other functions of a board were also identified. One is the leadership role of the board in ensuring correct ethics and values. The second is to achieve good boardroom practice, which is defined here as the achievement of the right atmosphere in the boardroom leading to quality discussion and debate and decision making including the questioning and challenging of management. The third point was the board's ability (via the directors' abilities) to provide an understanding of the business environment, particularly in relation to the organisation's role within that environment. These functions are illustrated in the following quotations:

> *An effective board has a key responsibility for setting the tone of the business. The way it operates, the way it behaves, the standards and ethics, energy and values of the organisation start at the board table.*
> *Chair PLC*

> *It is very important that the board questions and challenges management in a positive way.*
> *Chair/CEO PLC*

> *One, boards have got to understand the board economic in which they are operating. Two, they have then got to understand the entity's position in that environment and they have got to be able to set, and I use that in a very broad sense, successful strategies for the organisation.*
> *Director SOE*

Discussion

The NZ board members placed more emphasis on the board's role in appointing and mentoring the CEO than has been the case in other international studies. The two concepts were regarded as interlinked by the participants, who were aware of the significant influence the CEO had on the organisation and his or her ability to impact the board (as outlined in Chapter Four). A NZ study by Ingley and van der Walt (2005) saw strategy followed closely by hiring the CEO as the main board task, with mentoring the CEO commented on separately. The high level of CEO duality in the US may account for why this is not seen as a main board task in much of the literature.

Notwithstanding, these key functions identified by participants are broadly consistent with the international literature (e.g. Zahra and Pearce, 1989; Johnson et al., 1996; Conger et al., 1998), suggesting that NZ board members see their key roles as consistent with international perceptions on board functions. One further difference, however, is the NZ participants' notion of good 'boardroom practice' as an important function of an effective board. As outlined in Chapter Four, this concept was referred to by several participants to encapsulate the achievement of the right atmosphere in the boardroom leading to quality discussion and debate and good decision making.

5.2 Outcomes of effective and ineffective boards

This section covers the analysis of the responses to three questions asked during the interviews. These questions were designed to elicit the participants' actual experiences of the outcomes/outputs of both effective and ineffective boards and the indicators or measurements that they thought determines whether a board is working effectively. The questions were:

- Question 4
  How would you describe the outcomes / outputs that characterise an effective board?
- Question 5
  Overall, what are the indicators or measurements you would use to determine that a board is working effectively?
- Question 9
  How would you describe the outcomes / outputs that characterise an ineffective board?

The findings relating to board effectiveness revealed that participants saw outcomes/outputs, indicators and measurement as largely one and the same, so they have been combined for the purposes of this analysis and will be referred to as 'outcomes'.

The inclusion of questions on both effectiveness and ineffectiveness serves the same purpose as with characteristics. First, the literature review identified that there has been little research in to what participants' inside the boardroom regard as an output of an ineffective board. Second, negative events can have a greater impact than positive events so the questioning on board ineffectiveness can identify whether there are any particular outputs that are more influential from a negative perspective based on the participants' experiences. Third, by including both effectiveness and the ineffectiveness in the questioning it increases the rigor of the data.

Table 5.2 summarises the themes and their definitions. There are seven broad themes identified as a result of the analysis of participants' experiences inside the boardroom. These are: company performance; boardroom practice; board and management relationships; internal board relationships; other stakeholder relationships; and strategic clarity.

These themes have been combined into four main areas for discussion in this chapter: first, *company performance;,* second *boardroom practice*, defined in Chapter Four as achieving the right atmosphere in the boardroom leading to quality discussion and debate and decision making; third, *relationships* which include board and management relationships, internal board relationships and stakeholder relationships; fourth, *strategic clarity,* the clarity of objectives for the organisation.

Note that the figures in brackets in Table 5.2 indicate the number of participants mentioning this issue i.e. the breadth of concern for this issue across participants; and the figures without brackets indicate the total number of mentions across all participants where multiple mentions by some respondents can be seen to reflect a stronger degree of concern.

Table 5.2 Outcomes of effective and ineffective boards

Theme	Description	Frequency			
		Effectiveness No.	%	Ineffectiveness No.	%
Company performance	The performance of the company	(31) 61	36	(19) 21	24
Boardroom practice	The inter-relationship between the atmosphere in the boardroom, the quality of debate and the effectiveness of decision making.	(11) 12	7	(19) 31	35
Relationships					
Board and management relationships	Relationships between the board and management team.	(20) 56	33	(19) 23	26
Internal board relationships	Relationships between fellow directors.			(12) 13	15
Stakeholder relationships	Shareholders and the wider stakeholders relations	(10) 15	9		
Strategic clarity	Clarity of objectives for the organisation	(17) 24	15		
Total mentions		**168**	**100%**	**88**	**100%**

Source: Interviews (n=35) Multiple responses given

There are a couple of notable points in Table 5.2. First, the similar importance participants place on company performance; and board and management relationships; as outcomes of both board effectiveness (36% and 33% respectively) and ineffectiveness (24% and 26% respectively) reflecting the board and management dynamic as an important predictor of board effectiveness as is company performance.

Second, poor boardroom practice (and lack of decision making) is seen to be the main outcome of board ineffectiveness (35% of responses). Of interest is the degree of concern and importance that is placed on this output with 19 participants mentioning this a total of 31 times. As outlined in Chapter Four, boardroom practice is also seen as a characteristic (input) of effective boards. However the extent to which boardroom practice is seen to cause a board to be ineffective reflects the importance of having the right environment to effect good decision making, a key board task.

Third, board and management relationships are seen as outcomes of both effective and ineffective board and they were also seen as characteristics of both effective and ineffective boards, reflecting the importance of this interaction between the board and management as both a cause and effect of effective boards.

Fourth, internal board relationships are also seen as characteristic of both effective and ineffective boards. Of note, however, is the extent to which internal board relationships are seen to cause a board (an outcome) to be ineffective, reflecting the importance of the intra-board dynamic.

The following sections analyse these themes in more detail.

5.3 Company performance

Company performance, as measured by both sustainable value creation and shareholder wealth, is seen by the participants as a common outcome of an effective board. Comparing with related industries is also seen as a more relevant measurement. A wider stakeholder focus that includes both customer and staff outcomes is also seen as important for the long term success of the company. This is illustrated in the following comments.

> *Well, first of all an effective board generates profitability and shareholder wealth. An effective board runs an operation that's got sustainability. So successful outcomes comes from an operation which is profitable, which has got sustainability and is generating genuine shareholder wealth.*
> *Chair PLC*

> *Obviously the financial, I put that down more compared with the market as a whole and the industry*
> *Director PLC*

> *I think outcomes of effectiveness ultimately are demonstrated by market value and/or markets value. Success in the customer sense as well and I think also success in organisational people. The ability of organisations to actually attract, grow, retain people. I think that ultimately they are the primary outcomes.*
> *CEO SOE*

Poor company performance is also an outcome of an ineffective board, where companies not delivering sufficient returns, or value, lead to shareholder and stakeholder dissatisfaction. Poor performance also has wider implications on the companies' relative market position and the ability to attract and maintain staff.

Profit, direction failing, shareholder's wealth failing, stakeholders dissatisfaction. Chair PLC

Weak financial performance, poor staff attraction and retention. Low morale. Director SOE

Discussion

While the NZ study identified company performance as an outcome of an effective board, this was only one of a number of outcomes that was associated with board effectiveness. This supports the notion that company performance alone as a measurement may not be an accurate reflection of an effective board.

The findings also reflect the stakeholder view that corporations have a wide number of relationships with stakeholders such as employees, suppliers and customers (Hill and Jones, 1992) and that there is intrinsic value and benefit to the corporation in these relationships (Jones and Wicks, 1999). Using firm performance only as an indicator of board effectiveness has led to contrasting results as evidenced by the Dalton et al., (1998) meta-analytic review of 54 empirical studies using board composition and CEO duality in comparison with company performance determines which established that there is no link between these characteristics and firm performance. A further meta-analytic review of 31 empirical studies on board size and company performance by Dalton et al., (1999) also shows no clear outcome for this relationship dynamic here. So using company performance alone is not seen as the only way to measure a boards' effectiveness (Zahra and Pearce, 1989; Lawler III et al., 2002; Leblanc and Gillies, 2003).

The main differences in the participant groups' responses were that directors in particular defined good/weak company performance as an outcome of both an effective and ineffective board (see Appendix Seven).

5.4 Relationships

There are three main sub themes that relate to relationships. First there is the relationship between the board and the management team. Second, there is internal board relationships, defined as relationships around the board table between fellow directors which is seen as an outcome of an ineffective board only. Third, there is the board's relationship with stakeholders, which is shareholders and the wider stakeholders and is only seen as a positive outcome of an effective board. Both board and management relationships and internal relationships are also described as characteristics of both effective and ineffective boards and reflect the causality and importance of such relationships.

5.4.1 Board and management relationships

Good board and management relationships are seen as an outcome of an effective board as it relates to the extent of the interaction and respect between the two groups, and their team approach, as illustrated in the following quotations:

> *A board that is in harmony with management, not dominating management or being dominated by management, a team approach and a focus on issues.*
> *Director PLC*

> *I think that if there is mutual respect. One would hope there is mutual respect between the board and management teams, that's one of the outcomes you would hope, would work if the board is being effective.*
> *Chair/CEO PLC*

> *Honest board and management interaction. And interactive dialogue.*
> *Chair/CEO PLC*

On the other hand, poor board and management relationships are seen as an outcome of an ineffective board. This is seen to be due to a lack of understanding of the needs of the two groups which can manifest itself in management spending significant time preparing reports or board papers.

> *Yes, well that comes in financial and non financial performance. It comes in the form of a divided board or a division between board and management. It's manifested in poor morale, not only in the board but the company generally and the strained relationships. They are the sort of outcomes/outputs that I would put into that category.*
> *Director PLC*

> *Board papers that aren't fit for purpose, which means that things are constantly being resent back and you know the board is not clear on what management is*

wanting from the board and management is not clear on what it should be putting to the board.
Director SOE

Discussion

These findings are broadly consistent with prior literature on the outcomes of boards. Charan (1998) links board effectiveness with the extent of the openness amongst the two groups. Nadler (2004) similarly associates better board governance with good working relationships between the two groups, while Nicholson and Kiel (2004) recognise that a well functioning, effective board is influenced by group dynamics and the social capital associated with this relationship.

However, a new insight arises from the findings of this NZ study. As noted in Chapter Four, the extent to which poor board and management relationships are seen as causing a board to be ineffective board is largely absent from the prior literature, which tends to focus only on the positive effects of good relationships and overlook the extent to which bad relationships can undermine board effectiveness. The findings of this NZ study demonstrate that relationships are important as both potentially positive and negative drivers and outcomes of board effectiveness.

The main differences in the participant groups' responses are that directors and chairs in particular saw both good and poor board and management relationships as outcomes of effective or ineffective boards respectively (see Appendix Seven). Interestingly though, the other participants - the chair/CEO and the CEO groups (both groups having held management roles) - see board and management relationships as characteristics of board effectiveness (see Chapter Four). This suggests that those with 'management' experience see good relationships contributing to the board being effective as opposed to causing them to be ineffective.

5.4.2 Internal board relationships

Poor internal board relationships are seen as an outcome of an ineffective board only. This is either due to the lack of chemistry between directors and divisive behaviour inside the boardroom and/or directors' behaviour outside the boardroom which can sometimes undermine overall board relationships, as illustrated in the following quotations:

> *Any personality clash that occurs across the board table and allows that personality clash to reduce the concentration or application of the board to their deliberations.*
> *CEO SOE*

> *I had divisiveness in the board. Management's confused, don't get a clear understanding of the company's directions.*
> *Director SOE*

> *The other outcome of an ineffective board is the discussions that take place beyond the board table which regularly poison the organisation and maybe it happens even on boards I chair but I don't think it does… but directors whispering to each other, saying well you know, not having the courage to saying at the board table, that's what usually divides a board in half, or side shooting to management and undermining either the board or the CEO.*
> *Chair PLC*

Discussion

There has been a shift in focus in the more recent literature research to measure the board group dynamics and the relationships. This is due to increasing recognition that relationships are important for board effectiveness (Forbes and Milliken, 1999; Sonnenfeld, 2002; Leblanc and Gilllies, 2003; Payne et al., 2009) as relationships impact board chemistry (Finkelstein and Mooney, 2003) and board behaviour (Harper, 2007).

Where the findings of this NZ study differ is in the fact that weak board relationships are seen to undermine board effectiveness and are seen to represent an outcome of an ineffective board only. The extent of this negative impact is less apparent in the literature and is an important finding of the NZ study.

The main differences in the participant groups' responses were that directors in particular see poor internal board relationships as an outcome of an ineffective board, probably due to their closer peer relationship compared to the other participant groups (see Appendix Seven).

5.4.3 Stakeholder relationships

Outcomes of an effective board are seen to include good company relationships with stakeholders and stakeholders' recognition that the CEO is of value to the organisation. Additionally, delivering against the shareholders' requirements is also seen as an outcome of an effective board as illustrated in the following quotations:

> *Obviously, a good relationship with the shareholders and the investment community and delivering to them.*
> *Director PLC*

> *Recognition by all stakeholders that you've got the right CEO. Those stakeholders obviously include the shareholders, the staff of your business, the customer base, you know your key customers clearly, some of your suppliers, all the people in the community with whom you relate. So all of those relationships that a company has with experienced stakeholders are very, very positive. That is the key to performance.*
> *Chair/CEO PLC*

Discussion

This study's findings that building good relationships with stakeholders and delivering the outcomes that shareholders are expecting, as outcomes of an effective board, is consistent with the literature. The need for the board to look after shareholders' interests is the traditional board perspective discussed in the literature (Letza, Sun and Kirkbride, 2004). Taking a broader view of stakeholder welfare including awareness for the corporation as it relates to the environment (Korac-Kakabadse, Kakabadse and Kouzmin, 2001) is seen as important for the longer term value of the business (Letza et al., 2004). Additionally there is a change in attitude where boards are expected to have a wider perspective beyond strictly adhering to the Companies Act (Garratt, 1996) because of the significant influence companies have on society at large (Brennan and Solomon, 2008). The findings of this New Zealand study are of interest because participants saw stakeholders' recognition of the CEO as being an outcome of an effective board of value to the company.

The main differences in the participant group's responses are that directors in particular see good stakeholder relationships as an outcome of an effective board (see Appendix Seven).

5.5 Boardroom practice

Boardroom practice, i.e. the inter-relationship between the atmosphere in the boardroom, the quality of debate and the effectiveness of decision making, is seen as another outcome of an effective board:

> *Firstly, unity, consensus, decision making, and effectiveness underpinned by things that will drive that. Now what I mean by that is robust debate where necessary and not wasting time when it is not necessary. Everyone having a chance to contribute in a way in which they are comfortable, in other words democracy in the boardroom. Rational, logical behaviour and a non-adversarial, non-intimidating, welcoming, collegiate environment.*
> *Chair SOE*

On the other hand, poor boardroom practice is seen as the most significant outcome of an ineffective board. This is seen in three ways. First, management may lack clear direction through poor summation by the chair; second, the board may not effectively question management; and third the board may not make decisions. These points are illustrated in the following quotations:

> *I think having a chair that doesn't close, that leaves things hanging, an ineffective outcome. That happens a fair bit, you know you often get management sitting there and different directors are expressing different views and then you move onto the next item and management are left thinking "what's the guidance here?*
> *Chair/CEO PLC*

> *Management actually rely on the board to ask the tough questions if management are honest. When management have an incoherent or weak or non supportive board, they are actually in enormous danger and their true potential is stultified.*
> *Chair SOE*

The board effectively was making no decisions so what had happened was the company was left, the management ended up unconstrained, managing the business and you know, when you have an ineffective board basically you are relying on management to do the right thing.
Director, SOE

Discussion

As outlined in Chapter Four, the boardroom practice concept is a new concept that has emerged from this research. It extends and integrates related concepts in the prior literature. The concept of boardroom practice which combines board process, culture and behaviour leading to good decision making is an holistic concept for measuring board effectiveness. The inclusion of decision making as an outcome in this concept in an important addition to the literature since to achieve good boardroom practice the board needs to fulfil its decision making role, which is regarded as the core of the board's role (Forbes and Milliken, 1999; Leblanc and Gillies, 2003; Nicholson and Kiel, 2004; Harper, 2007; Payne et al., 2009).

The main differences in the participant groups' responses are that chairs and CEOs in particular see both the positive and negative impact of boardroom practice as an outcome of both effective and ineffective boards. This may be because in their roles as leader of the board and leader of management each see their responsibility as effecting good board decisions (chairman) and implementing these decisions (CEO) (see Appendix Seven). As outlined in Chapter Four, this group also see good boardroom practice as driving board effectiveness.

5.6 Strategic clarity

Strategic clarity is seen by the research participants as a further outcome of an effective board. It has two components: first, clarity on the objectives and company direction and second, alignment between board and management on their role in the development of company strategy, as is illustrated in the following quotations:

Clarity of company strategy and direction is clearly a key outcome or output for me. I think clarity for management regarding the board's role and the direction that the

board is wanting to take the company in, because if management doesn't have clarity and certainty, then they are confused and that is not helpful.
Director SOE

I think clear articulation of strategy and goals is really important so it's got to be clear.
CEO SOE

I think that an effective board working well with management team, being clear on strategy.
Director SOE

Discussion

A number of studies identify that directors see participation in strategy as their main board role (Lawler III et al., 2002; Stiles and Taylor, 2002; Ingley and van der Walt, 2005). Other studies have also recognised that multiple objectives can reduce the singular focus and accountability of a company (Sternberg, 1997) and create ambiguity which can lead to less effective outcomes (Nicholson and Kiel, 2004). However, the importance of clarity and alignment between the board and executives on the strategic outcome is not apparent in the literature, so this is a contribution from the NZ study.

The main differences in the participant groups' responses are that directors and CEOs have the greatest awareness of the importance of strategic clarity; the latter possibly because of the consequential affect on management and their effectiveness (see Appendix Seven).

5.7 Summary

This chapter presents the analysis of New Zealand board members' opinions of the functions of an effective board as well as their experiences on the outcomes of effective and ineffective boards.

The participants' opinions of the main functions of the board are broadly consistent with the international literature, suggesting that NZ board members see their key roles as consistent with international perceptions on board functions.

Participants' experiences of the outcomes of both effective and ineffective boards reflected a number of themes. The first - the perception that *company performance* is a key indicator of board effectiveness - is consistent with the literature, but is seen as only one of several outcomes of an effective board.

Second, the findings of this study also revealed that *relationships* are seen as a key outcome (and indicator) of board performance. Good stakeholder relationships are seen as an outcome of an effective board, while good/poor board and management relationships are seen as both a characteristic and a significant outcome of effective/ ineffective boards. The recognition of these important group dynamics, and in particular the negative impact that poor inter-board and intra-board relationships has on board effectiveness, is less apparent in the prior literature. The findings of this study offer a useful contribution to recognising the significance of relationships, therefore.

Third*, boardroom practice,* as defined and outlined in Chapter Four, is a new concept. Boardroom practice is defined as the inter-relationship between the atmosphere in the boardroom, the quality of debate and the effectiveness of decision making. The participants' responses indicate that poor boardroom practice is an outcome of an ineffective board and, in turn, has a negative impact on a board's ability to achieve future effectiveness. This 'circular', reinforcing effect of good or bad boardroom practice is a notable finding of this study and draws attention to the crucial importance of the totality of this boardroom dynamic.

Fourth, *strategic clarity* between the board and management and in particular the importance of there being clarity and alignment between the board and executives on the strategic outcome for the company is not apparent in the literature and this is a contribution from the NZ study.

The analysis of the participant group responses to the outcomes of both effective and ineffective boards revealed that while there were differences, these were not extensive. Directors saw company performance as an outcome of both effective and ineffective boards, poor internal board relationships as an outcome of an ineffective board only and good stakeholder relationships and gaining strategic clarity (along with CEOs) as an outcome of an effective board only. CEOs also saw poor boardroom practice as the outcome of an ineffective board only. On the other hand chairs in particular saw both good and poor boardroom practice and good and poor board and management relationships as outcomes of effective and ineffective boards.

The next chapter continues with a further analysis of the research findings. It focuses on comparing the two different company types that the participants represented in the research (PLCs and SOEs). The aim of this comparison is to establish whether the different company characteristics influence participants' experiences of how board effectiveness is achieved.

Chapter Six – Data Analysis

6.0 Introduction

This chapter presents a comparative analysis of participants' answers from the two different company types – public listed companies (PLCs) and state-owned enterprises (SOEs). The reason for choosing these two different company types was to identify how board effectiveness might be influenced by their different characteristics that result from the government being the shareholder of SOEs.

First, government boards are less influenced by market disciplines and are bound by an additional Act (the State-Owned Enterprises Act 1986), which requires that SOEs show a sense of social responsibility to the community. This means that SOEs must take the Act's requirements into account when setting their strategic goals. Second, SOEs have a greater focus on diversity in their membership and the director selection process is controlled by the shareholders' representatives (government employees), who manage this process on behalf of government (Crown Ownership Monitoring Unit (COMU)). This means that the composition of SOE boards tends to be different to that of PLC boards. For example, as outlined in Chapter Two, in 2008 34.07% of directors in SOEs were female compared with 8.65% of NZSX top 100 companies (Human Rights Commission, 2008). Additionally, the latest official review of SOE boards and cultural diversity showed an increase in Maori board members from 10% in 2001 to 14% in 2003 of (Wheeler, 2003). In contrast, PLCs control their own director selection process and then seek ratification from the shareholders at the following Annual General Meeting of the company. Additionally, PLCs have a broader shareholder base, are bound by the Stock Exchange Rules, and their share price and other key company metrics are reported daily in the main NZ newspapers.

Notwithstanding the additional requirements that the SOE Act places on board members, the Act calls for SOE boards to operate these companies (inter alia) on a commercial basis, seeking performance similar to that of both private and public listed companies. This makes the New Zealand context for this study relatively unique because there is the opportunity to compare between these two company types, both of which have a significant impact on the New Zealand economy. SOE boards have a greater cultural, gender and demographic diversity in their boards - described as social diversity - as well as multiple strategic objectives, but are comparable to PLCs because they are expected to operate commercially. This chapter's comparison between SOEs and PLCs is therefore expected to reveal insights into whether these characteristics of strategic complexity and social diversity influence board effectiveness.

Additionally, given the small overall size of the New Zealand business community, a number of the research participants either have experience as members of both SOE and PLC boards, or have business relationships with SOE/PLC companies and boards. They therefore understand, and have opinions on, both models.

There are two parts to the analysis presented in this chapter. The first part analyses responses to a question asked in relation to participants' perceptions of the board effectiveness for the two company types, specifically:

- Given your experience with both PLCs and SOEs, do you think there is a difference in the outcomes of an SOE (as opposed to a PLC) that would indicate an effective board?

The second part focuses on, the difference in SOE and PLC participants' responses, based on their experiences, to the questions outlined in Chapter Four on the characteristics of effective/ineffective boards and Chapter Five on the outcomes of effective/ineffective boards.

A discussion on the responses is included at the end of each section and the chapter concludes with a summary of the findings.

6.1 A Comparison between SOEs and PLCs

This section outlines participants' responses to the question on whether the two company types lead to different board outcomes. The section also includes an analysis of the themes that emerged.

This question was not posed to three of the chair/CEO participant group due to these participants not residing in New Zealand and therefore not having exposure to the SOE model. Of the remaining sample of 30 chairs, directors and

CEOs, four CEO participants (from PLCs) did not respond as they did not have experience with the SOE model. Table 6.1 outlines the responses received.

Table 6.1 Differences in outcomes between SOE & PLC company types

	SOE	%	PLC	%	Total
Yes	6	40	9	69	15
No	9	60	4	31	13
Total	**15**	**100**	**13**	**100**	**28**

Source: Interviews (n=28)

There is a mixed response from the participants as to whether there is a difference in outcomes between the two company types. In particular 69% of PLC participants think there is a difference compared with only 40% of SOE participants.

The participants also gave reasons supporting their responses, from which three themes emerged to explain the differences between SOE and PLC participants. These are: board selection processes; wider company objectives; and government ownership (see Table 6.2). These three themes reflect the differentiating characteristics, outlined earlier in the chapter, between these two company types due to the government as a shareholder of SOEs.

Table 6.2 Reasons for differences in outcomes between SOE & PLC company types

	SOE	%	PLC	%	Total	%
	N=15		**N=13**			
Board selection	2	7%	7	32%	9	18%
Wider objectives	8	29%	2	9%	10	18%
Government ownership	9	32%	9	41%	18	38%
No differences	9	32%	4	18%	13	26%
Total	**28**	**100%**	**22**	**100%**	**50**	**100%**

Source: Interviews (n=28) Multiple responses given

There are some points to note from Table 6.2. PLC participants see board selection - defined here as the board's control over the selection of board members and the chair - as one of the key differences leading to different outcomes for the two company types (32% of PLC participants cited this reason, compared to 7% of SOE participants). The following interview quotations illustrate this point of difference:

The key difference is major in the sense that the [SOE] board has no influence on tenure of board membership. That is the biggest difference. So assuming that you have got everything the same, everything running the same, the succession and tenure at board level, you've got absolutely no influence over. I think that is a real problem.
Chair PLC

The SOE board and the chair in particular needs the ability to have a much greater input into what (type of skills) is needed (around the board table).
Director SOE

In comparison, the SOE participants see the wider objectives defined as those encompassed in the State-Owned Enterprise Act, which requires that SOEs show a sense of social responsibility to the community, as the main difference affecting the outcomes between the two company types (29% versus 9% of PLC participants).

You don't have the same clarity of objectives in the SOE environment. There is just not the same clarity there. I think it just means that, as a board, you have to always be alert for the signals you are getting and you do need to manage that balance between ensuring that you are very focused on the commercial returns and the commercial performance of the company, but at the same time you are alert to issues that for a variety of reasons might be a lot of concern to the shareholder.
Director SOE

Additionally, both SOEs and PLCs recognise that the government as owners can make a difference to the outcome (32% and 41% respectively). This is seen in two ways. First there is perceived to be a political agenda with SOE companies which may not be in the best interests of the company, and second, there is a need for political awareness amongst the board and more particularly by the chair. These points are illustrated in the following quotations:

Yes there is a difference because the SOE has to follow the government's agenda in certain instances and they are not allowed to run, as they are supposed to, as a free market company.
Chair PLC

The one difference is in the leadership of the board, you need to be more politically aware and more politically astute to lead an SOE. Apart from that there is not a lot of difference I don't think. But you do have to understand that you've got political shareholders and therefore you've got to be able to be aware of the political environment and manage it.
Chair PLC

Finally, SOE participants in particular perceive that there should not be any difference in the outcomes of PLCs and SOEs (32% SOEs and 18% PLCs). This relates to both the management and the board of these two different entities. First, participants did not think the motivation of management is any different. Second, participants did not think that PLC and SOE boards have a different view in that both boards will wish to drive value, as illustrated in the following quotations:

Well there absolutely shouldn't be [any difference]. You've got to expect that the management teams of those SOEs perform in exactly the same way as a PLC would perform.
Chair PLC

No, absolutely not because the focus is on the shareholder mandate. The shareholder mandate and objectives may be different, which will drive different types of outcomes, but at the end of the day the effectiveness of the board is in actually achieving those outcomes.
Director SOE

In summary, the participants' responses to the question on whether there is a difference in outcomes between SOE and PLC companies did reflect the different company characteristics due to the government being the SOE shareholder.

The next section further explores these outcomes by comparing the responses by company type to the questions outlined in Chapters Four and Five. The aim is to identify how these experiences might affect the participants' views of board effectiveness and whether this will offer further insights into the determinants of board effectiveness.

6.2 Company comparison: the characteristics of effective and ineffective boards

As outlined in Chapter Four, participants' responses were sought regarding their experiences of the characteristics of both an effective and ineffective board. The responses by company type – SOEs and PLCs - are shown in Table 6.3. Note that the figures in brackets in Table 6.3 indicate the number of participants mentioning this issue i.e. the breadth of concern for this issue across participants; and the figures without brackets indicate the total number of mentions across all participants where multiple mentions by some respondents can be seen to reflect a stronger degree of concern.

Table 6.3 Characteristics of effective and ineffective boards (by company type)

Board effectiveness						Theme	Board ineffectiveness					
Total	**%**	**SOE N=15**	**%**	**PLC N=20**	**%**		**%**	**PLC N=20**	**%**	**SOE N=15**	**%**	**Total**
73	23%	(15) 35	**26%**	(15) 38	**21%**	**The Chair**	**21%**	(15) 29	**22%**	(15) 23	21%	52
38	12%	(13) 22	**16%**	(16) 16	**9%**	**Boardroom practice**	**2%**	(3) 3	**6.5 %**	(5) 7	4%	10
						Relationships						
35	11%	(11) 14	10%	(12) 21	12%	Internal board relationships	9%	(9) 13	17%	(13) 18	13%	31
35	11%	(8) 11	8%	(14) 24	13%	Director characteristics	12%	(13) 17	24%	(12) 25	17%	42
42	13%	(8) 17	12%	(15) 25	14%	Board and management relationships	20%	(14) 28	6.5 %	(7) 7	14%	35
7	2%	(1) 1	1%	(6) 6	3%	Board and CEO relationships	4%	(6) 6	6%	(5) 6	5%	12
			31%		**42%**	**Total Relationships**	**45%**		**53.5 %**			
						Board structure						
48	15%	(13) 20	15%	(15) 28	15%	Board diversity	19%	(10) 27	6%	(7) 7	13%	34
25	8%	(5) 9	7%	(10) 16	9%	Director ability	5%	(7) 7	8%	(8) 8	7%	15
15	5%	(5) 7	5%	(8) 8	4%	Selection process	6%	(8) 9	4%	(4) 4	6%	13
			27%		**28%**	**Total board structure**	**30%**		**18%**			
318	100 %	136	100 %	182	100 %	**Total mentions**	100 %	139	100 %	105	100 %	244
		9.1		9.1		**Average mentions**		7.0		7.0		

Source: Interviews (n=35) Multiple responses given

There are some notable points in Table 6.3. First, there is no difference in the total average number of responses given by either the SOE or PLC participants to questions on board effectiveness/ineffectiveness. Second, there is consistency between both groups on seeing the chair as having the greatest impact on both board effectiveness and ineffectiveness. Third, both groups also view board structure (i.e. board [informational] diversity, director ability and the board selection process) as important for board effectiveness.

Of surprise is that SOE participants did not see a poor director selection process as causing a board to be ineffective any more than PLC participants, yet director characteristics and internal board relationships are seen as having a significant influence on board effectiveness by 41% of SOEs compared with 21% of PLCs. This suggests that the SOE participants' do not see the selection process (which is controlled by the shareholder representative) as being the cause of these poor relationships. The other factor that may be contributing to this SOE response is the greater cultural, gender and demographic diversity composition - or 'social diversity' - which the government endeavours to have on SOE boards:

> *SOE directors are put there by government. You are basically given people who represent all facets of New Zealanders, albeit someone from regional countries at the end of the country, to people who have different ethnicities and all sorts of other issues.*
> *Chair PLC*

Such social diversity has the potential to increase relationship conflict (Jehn et al., 1999).

Interestingly, these SOE participant responses are consistent with the question asked in Section 6.1. There, SOE participants did not see the selection process as effecting a difference in outcomes between the two company types due to the inability to choose board membership. On the other hand the PLC participants did see this process as influencing the outcome of the companies which is consistent with their (the PLC participants) seeing insufficient informational diversity – the differences in experience and skills around the board table, as having a negative impact on board effectiveness (19% of PLCs, compared to 6% of SOEs).

A further difference between the two groups' involved relationships where the PLC participants' see poor board and management relationships as a stronger driver of board ineffectiveness (20%) compared to 6.5% for SOE participants'.

Discussion

Cohesiveness on boards is seen as important (Forbes and Milliken, 1999). In the literature on diversity and demography in organisations, the similarity/attraction theory posits that the more similar people are in attitudes and behaviour, the greater chance that they will like each other (Williams and O'Reilly III, 1998). Greater attraction is then thought to lead to greater board cohesiveness, which is regarded as an important criterion for board decision-making and effectiveness (Forbes and Milliken, 1999), whereas greater diversity can lead to less cohesiveness, less trust (Hooijberg and DiTomaso, 1996) and conflict and factions (Williams and O'Reilly III, 1998). Social diversity, where there are differences in culture, gender and demography; and value diversity, where there are differences in the goals of a group, are both thought to lead to ineffectiveness in a team (Jehn et al., 1999). On the other hand, informational diversity, i.e. the right skill mix and experience in the boardroom, is seen as an important precondition for effective boards (Forbes and Milliken, 1999; Sundaramurthy and Lewis, 2003; van der Walt and Ingley, 2003; Roberts, et al., 2005).

SOE boards tend to be characterised by greater social diversity. The difference in responses between the SOE and PLC groups, and the extent to which SOE boards see director characteristics and internal board relationships as causing a board to be ineffective, would appear to be due to this social diversity and are important findings of this NZ study.

6.3 Company comparison: the outcomes of effective and ineffective boards

As outlined in Chapter Five, participants were asked to describe, based on their experience, what they saw as outcomes associated with effective and ineffective boards. The responses by company type – SOEs and PLCs - are shown in Table 6.4.

Table 6.4 Outcomes of effective and ineffective boards (by company type)

Board effectiveness						Theme	Board ineffectiveness					
Total	**%**	**SOE N=15**	**%**	**PLC N=20**	**%**		**%**	**PLC N=20**	**%**	**SOE N=15**	**%**	**Total**
61	36%	21 (11)	29%	40 (20)	42%	**Company performance**	31%	17 (15)	12%	4 (4)	24%	21
12	7%	7 (6)	10%	5 (5)	5%	**Boardroom practice**	26%	14 (10)	50%	17 (11)	35%	31
						Relationships						
56	34%	26 (11)	35%	30 (11)	32%	Board and management relationships	28%	15 (11)	23%	8 (8)	26%	23
						Internal board relationships	15%	8 (6)	15%	5 (5)	15%	13
15	9%	3 (3)	4%	12 (7)	13%	Other stakeholder relationships						
			38%		40%	**Total relationships**	43%		38%			
24	14%	16 (9)	22%	8 (8)	8%	**Strategic clarity**						
168	100%	73	100%	95	100%	**Total mentions**	100%	54	100%	34	100%	88
		5.1		5.1		**Average mentions**		2.7		2.3		

Source: Interviews (n=35) Multiple responses given

Table 6.4 shows that, consistent with the responses on characteristics of boards, there is no apparent difference in the total number of responses given by the SOE and PLC participants to questions on board effectiveness/ineffectiveness. Second, there is consistency between both groups in their responses on the significance of board and management relationships as outcomes of both effective and ineffective boards and internal board relationships as an outcome of an ineffective board only.

Three notable differences are evident between the two groups' responses in Table 6.4. First, PLC participants are more likely to identify strong/weak company performance as the main outcome of both effective (42% PLCs versus 29% SOEs) and ineffective (31% PLCs versus 12% SOEs) boards. Second, PLC participants are more likely to see stakeholder relationships as an outcome of effective boards (13% versus 4% for SOE participants). These divergent responses may be a result of the differences between the two company types. PLCs are bound by the Stock Exchange Rules and the share price and other key company metrics that are reported daily in the main NZ newspapers. PLCs also have a broader shareholder base and the performance of these companies is reviewed publicly by analysts. Both of these represent a different market dynamic compared with SOE boards, as the following quotations illustrate:

> *There is a stronger focus on financials and share price, and [PLC] shareholders will look to the board for that, so [there is] definitely a stronger focus in shareholder relations for PLCs and I do think there are some correlations between effective boards and financial performance.*
> *Director SOE*

> *Well I always think in terms of publicly listed companies that there is obviously a very strong bias towards share value. In an SOE it would be good if it was totally about share value but there is often in SOEs a political view that may dominate.*
> *CEO SOE*

On the other hand, SOE participants see strategic clarity as a more important outcome of an effective board (22% compared to 8% for PLC participants). This divergence in response may be due to a wider set of objectives and the potential for increased ambiguity on SOE boards because they are bound by an additional Act (the State-Owned Enterprises Act, 1986) which requires that SOE companies show a sense of social responsibility to the community. As outlined in Section 6.1, the SOE participants, more so than PLC participants, also see this requirement of the Act as one of the reasons for the difference in outcomes between the two company types. The multiple objectives of SOEs can lead to value diversity (differences in the goals of a group), that can have a negative impact on group effectiveness (Jehn et al., 1999). It is also recognised that companies motivated by goals other than profit maximisation tend to have less clarity in their objectives (Jensen, 2002; Nicholson and Kiel, 2004). The following quotations illustrate this issue:

> *I think the focus for PLCs is much more on the financials and in an SOE they are much more on the soft social and environmental and people related issues. I think that is driven by the SOE Act which states you have to be a good employer that you have got to accept the social responsibility. You have the SOE Act because you have a different shareholder so you can't separate the two.*
> *CEO SOE*

> *I think the other difference is that government entities have very explicit policies and measures on a wider range of things than private entities do. It is not only about compliance, it's about charity.*
> *Director SOE*

SOE participants also see poor boardroom practice as having a significant negative outcome on a board; this outcome accounts for 50% of SOE participant responses compared with 26% of PLC participant responses. Also, as outlined earlier, the SOE boards are more socially and value diverse, which can impact group performance and lead to dissatisfaction and a reduction of commitment (Jehn et al., 1999). The extent to which this is seen in SOE boards is reflected in the high number of mentions (11 of the 15 participants) and the extent that is was seen to have a negative effect on board effectiveness:

> *With SOEs I think the biggest single issue is trying to maintain coherency of the commercial agenda and value creation agenda despite numerous levels of intervention, particularly by the bureaucracy and occasionally as an incident of government policy at ministerial level.*
> *Chair SOE*

SOE boards have multiple objectives and therefore greater value diversity. The difference in responses between the SOE and PLC groups, and the extent to which SOE boards see strategic clarity as an outcome of an effective board and poor boardroom practice as causing a board to be ineffective, would appear to be due to this diversity and is an important finding of this NZ study.

Discussion

As outlined earlier, the literature suggests that diversity can have a negative impact on group dynamics. Specifically, where diversity targets are focused on gender, culture and other demographic factors rather than on securing an appropriately diverse range of skills and knowledge, this can have a negative effect on problem solving (Williams and O'Reilly III, 1998) and group performance (Jehn et al., 1999). Additionally, multiple objectives are thought to reduce the singular focus and accountability of a company (Sternberg, 1997) and to create ambiguity which can lead to less effective outcomes (Nicholson and Kiel, 2004). Both of these suggestions in the literature were borne out in this comparison between PLCs and SOEs, where board diversity and strategic imperatives can be seen to differ.

6.4 Summary

This chapter presents a comparative analysis of SOE and PLC participants' perceptions of the characteristics and outcomes of boardroom effectiveness and ineffectiveness. The government, as the owner and shareholder of the state-owned enterprises, imposes different requirements that could influence behaviour inside the boardroom. There were a number of differences in responses between the two company types which suggests that this was indeed the case. These are outlined below.

First, the government has a focus on social diversity in board membership and has a representative who controls the director selection process. Social diversity, where there are differences in culture, gender and demography is thought to lead to ineffectiveness in a team (Jehn et al., 1999). The SOE participants' saw negative director characteristics - the director's character and attitude, and weak board relationships - as having a negative influence on the board. This experience is less apparent in the literature, so is a new contribution from this New Zealand study.

Second, the government controls the SOE director selection process. PLC board members see this process as influencing the different outcomes between the two groups due to the inability to choose the board membership. This PLC group see insufficient informational diversity – the differences in experience and skills around the board table, causes a board to ineffective.

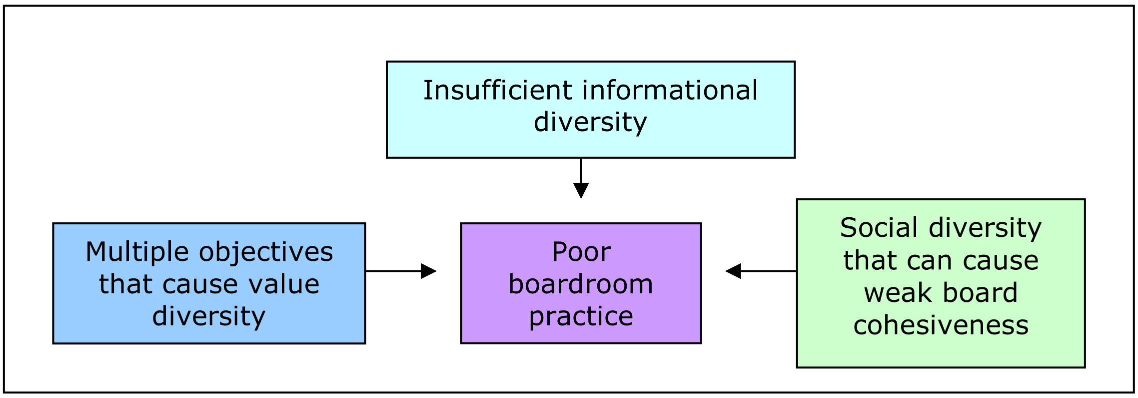
Third, SOE boards are bound by the State-Owned Enterprise Act (1986), which requires that SOEs show a sense of social responsibility to the community. As a consequence, SOE boards have multiple objectives. This increased ambiguity of objectives (Nicholson and Kiel, 2004) can cause value diversity, where there are differences in goals, which can impact group performance and lead to dissatisfaction and a reduction of commitment which is thought to lead to ineffectiveness in a team (Jehn et al., 1999). It is also recognised that companies motivated by goals other than profit maximisation tend to have less clarity in their objectives (Jensen, 2002; Nicholson and Kiel, 2004).

Fourth, there are a number of market conditions that significantly influence PLC boards such as the public reporting rules of the New Zealand Stock Exchange, the share price and other key company metrics being reported daily in the main

NZ newspapers, and the performance of these companies being reviewed publicly by analysts. The PLC participants saw company performance as the main outcome of both effective and ineffective boards. Additionally, this group also saw positive stakeholder relationships as an outcome of effective boards.

Finally, the SOE participants also identified poor boardroom practice, (i.e. failing to achieve the right atmosphere in the boardroom that will foster quality debate and effective decision making) as having a significant negative impact on the outcomes of a board. This was perceived to be due to a lack of board cohesiveness influenced by social diversity (Forbes and Milliken, 1999) and multiple objectives (that can cause value diversity) which leads to greater difficulty in reaching a commitment (Jehn et al., 1999), the latter being important as decision making is recognised as a key board task (Forbes and Milliken, 1999; Leblanc and Gillies, 2005). This is illustrated in Figure 6.1 below.

Figure 6.1 Poor boardroom practice



In summary, this comparative analysis between New Zealand SOEs and PLCs participating in this New Zealand study has revealed insights as to the different characteristics (causes) of a board that influence the outcomes (effects) of a board. More importantly, the differences in responses for the two company types placed greater emphasis on the negative influences on board effectiveness, particularly as they relate to both social, value and insufficient informational diversity.

This chapter completes the data analysis on the characteristics and outcomes of effective and ineffective boards. The next chapter concludes this thesis and provides some reflections on areas for future research.

Chapter Seven - Conclusions

7.0 Conclusions

Corporate failures, which have occurred despite adherence to previously accepted governance principles, have led researchers to focus on the human side of governance in an attempt to understand the nature of effective board functioning. In 1999 Forbes and Milliken proposed the need to understand boards in the context of decision making groups and group dynamics. In 2002 Sonnenfeld suggested that boards should be viewed as social systems that operate as work groups. In 2003 The Higgs Report identified board behaviour as an influence on board effectiveness, and when adopted in to the UK combined code in 2003, changed the code emphasis from a structural to behavioural guide to board effectiveness. The behavioural aspect of boards has been further recognised as important in corporate governance with the addition of a new section called 'Effectiveness' in the recently revised UK Corporate Governance Code (2010).

This study set out to gain insights into how board members of New Zealand companies see board effectiveness based on their experiences. The study also aimed to explore two other areas of board effectiveness. First, it examined how views on board effectiveness might differ depending on which role participants had around the board table. Second, the study investigated how these experiences might differ between two different company types of similar size and impact on the New Zealand economy where one, whilst mandated to operate on a commercial basis, is government owned and thus has different characteristics that influence boardroom dynamics. Finally, the study set out to understand the extent to which different views exist on the characteristics and outcomes of ineffective boards, in order to understand whether particular board characteristics are important mainly because of their potential negative influence.

Thirty-five experienced chairs, directors and CEOs of New Zealand's largest companies were questioned about their experiences as board members. The findings from this study not only offer a unique insight from the perspective of those who work inside the boardrooms of New Zealand's largest companies, they also identify the perceived characteristics that cause boards to be ineffective as well as outcomes that were seen as indicators of ineffective boards. This contributes to the limited extant research on the causes of board ineffectiveness, and responds to previous claims that understanding the negative influence of boards is important in understanding the determinants of their success (Daily, 1995).

The approach taken in this research is consistent with the changes in governance research over the last decade, which has moved in emphasis from looking 'from the outside' at the structural aspects of boards, to looking 'inside' at board processes and dynamics through observing or talking with directors. Notwithstanding this change in research approach, there are still relatively few studies reported in the corporate governance literature that take an 'inside' perspective, even though this approach is seen as an important focus for future research (Australian Government – Corporations and Markets Advisory Committee, 2010). Additionally, gaining directors' views from inside the boardroom in New Zealand is of benefit in identifying whether there is a commonality of views internationally.

7.1 Key themes: characteristics and outcomes of effective boards

Four main themes emerged from this research as important characteristics of an effective board:

- *board structure*: - i.e. the make up of the board, the level of board informational diversity, director ability, and the board selection process - was seen as an holistic concept by the NZ participants in this study which is less apparent in the literature;
- *relationships*: including internal board relationships, board and management relationships, board and CEO relationships, and director characteristics (i.e. the character and attitudes of directors). Negative director characteristics were perceived to be key factors in causing a board to be ineffective, which is less apparent in the prior literature;
- *boardroom practice*: defined as 'the inter-relationship between the atmosphere in the boardroom, the quality of debate and the effectiveness of decision making'. This is newly developed concept, designed to represent the combined effect of key, intangible board characteristics that were identified as important in the results of this research, and

- *the chair's role*, which emerged in this New Zealand study as having the greatest perceived influence on both board effectiveness and ineffectiveness.

A further four main themes emerged from the research on the outcomes of an effective board. These were:

- *company performance*: as identified in much of the prior literature on board performance;
- *boardroom practice*: as outlined above (this theme emerged as both a 'characteristic' and an 'outcome' of effective boards);
- *relationships*: including board and management relationships, internal board relationships and stakeholder relationships; and
- *strategic clarity*: the clarity of objectives for the organisation.

The findings of this study confirm that human relationship factors are both causes (characteristics) and effects (outcomes) of board effectiveness and ineffectiveness, thus supporting the view that a board is best conceived of as a social system operating as a work group (Sonnenfeld, 2002). What emerged from the research of particular note was the extent to which poor board-management and internal board relationships can cause a board to be ineffective. Individual director characteristics (i.e. the personal characters and attitudes of directors) were also perceived as significant influences on board ineffectiveness. The negative effect of weak relationships was perceived to impede the ability of a board to effectively complete its main tasks of critically and constructively questioning and debating, a precursor to making good decisions. Additionally the concept of boardroom practice as both a cause and effect of board effectiveness and ineffectiveness and as an outcome of an ineffective board which, in turn, has a negative impact on a board's ability to achieve future effectiveness is 'circular', and is a notable finding of this study and draws attention to the crucial importance of the totality of this boardroom dynamic.

This study also set out to identify the effects of differences in the SOE and PLC boards, which result from the government being the shareholder of SOE boards and demanding different board characteristics. These differences were: greater social diversity, a board selection process controlled by the shareholder, multiple objectives imposed by the SOE Act (1986), and fewer market influences due to

SOEs not having multiple shareholders or being listed on the stock exchange. What emerged from the study, based on the differences in responses from participants from the two company types, was the extent to which the SOE participants saw negative director characteristics and weak board relationships as having a negative influence on the board. The SOE boards, as required by their government owners, have greater social diversity than PLC boards. This greater diversity can lead to poor internal relationships and affect board cohesiveness (Forbes and Milliken, 1999). A further difference between the responses of SOE and PLC participants was the importance that SOE participants placed on achieving strategic alignment and goal clarity as an outcome of an effective board. SOE boards have multiple objectives and a wider stakeholder view, which includes a sense of responsibility to the community. These multiple objectives have the potential to cause value diversity (differences in goals within the group), which can make a board ineffective (Jehn et al., 1999).

The SOE participants also identified poor boardroom practice as having a significant negative impact on the outcome of a board. This combination of weak board cohesiveness (through greater social diversity) and high value diversity (through having multiple objectives) presents a challenge to effective decision making, which is recognised as a key board task (Forbes and Milliken, 1999; Leblanc and Gillies, 2003; Nicholson and Kiel, 2004; Harper, 2007; Payne et al., 2009). As noted earlier, the findings of this study also suggest that New Zealand board members see poor boardroom practice as central to board performance outcomes and that the chairman had the greatest influence on this.

The findings also reveal that the single greatest perceived influence on both board effectiveness and board ineffectiveness is the chairman. While the prior literature on board effectiveness identifies board behaviour as important for board effectiveness (Kakabadse and Kakabadse, 2007), the role of the chairman in effecting this behaviour has received relatively less attention. While some researchers have recognised the importance of the chairman's role (e.g. Harper, 2007; Kakabadse and Kakabadse, 2007) and it was commented on in The Cadbury Report (1992), it is only in the latest UK Corporate Governance Code (2010) that the chairman's role is particularly outlined along with principles of leadership and board effectiveness.

Board structure - i.e. the make up of the board, the level of board informational diversity, director ability, and the board selection process - was seen as an holistic concept by the NZ participants in this study. The fact that board structure was perceived to be an important determinant of boardroom effectiveness supports prior research from inside the boardroom (Roberts et al., 2005). However, the different finding from the NZ participants (the PLC participants in particular) was that insufficient informational diversity around the board table was seen to cause a board to be ineffective. The PLC participants also saw different board selection processes as one of the main factors driving the differing outcomes of SOE and PLC companies.

A further outcome from the study was that board members themselves do not see company performance as the only measurement to indicate whether a board was working effectively or ineffectively. This suggests that measures of company performance alone may not accurately reflect board effectiveness. The accuracy of this measurement as the only indicator of an effective board has been questioned in previous governance literature, as has the identification of what is an effective board (Conger et al., 1998; Minichilli et al., 2009). The findings of this NZ study reveal that additional outcome measurements such as relationship measures, boardroom practice measures, and measures of strategic clarity may be of additional value. This is of particular relevance due to the recent updated international corporate governance codes that are requiring the board to include social diversity information and to take a wider stakeholder approach. These new requirements of boards have the potential to cause a board to be ineffective if not managed appropriately.

This research also set out to identify whether there were differences between the different board members' responses based on their different roles in the boardroom. The results did reveal differences, but these were not extensive. First, the chairman group (chair and chair/CEO), perhaps due to their leadership role, were more aware of the effect that internal board relationships could have on both board effectiveness and ineffectiveness. Second, the director and CEO groups were more aware of the negative impact that director characteristics could have on the board, possibly due to their perceived incapacity in their position as board members to effect a change, as opposed to the chair who has greater authority over board behaviour. Third, the CEO and chair/CEO participants (both previous CEOs) saw good board and management relationships as important for a board to be effective. Fourth, non-chairs had a greater awareness of the positive and negative impact that the chair had on the board, possibly because of their board role (as participants) in the boardroom.

Finally, what also emerged from the research was the extent to which the chair and CEO groups were more aware of the importance of good/poor boardroom practice in causing a board to be effective or ineffective. This may be because of their respective positions, the chairman as leader of the board and the CEO as leader of management, since their respective roles are to effect good decision making and implement these decisions.

In summary, the findings from this New Zealand study have revealed insights as to the different characteristics (causes) of a board that influence the outcomes (effects) of a board. Additional insights have come from examining the differences in SOE and PLC participants' responses, which revealed the strong emphasis placed on potential negative influences on boardroom practice and board effectiveness, particularly as they relate to high social diversity, high value diversity, and insufficient informational diversity. As outlined above and in previous chapters, regulators see an increase in social diversity on boards to be of benefit; and request for disclosure (US) and establishing policies (Australia) on board diversity is being sought from boards in the most recent corporate governance codes. Additionally the need for boards to take a wider stakeholder approach is also being included in updated corporate governance codes. These findings have significance for the chairman role (and skills), whose role is seen as having the greatest influence on both board effectiveness and ineffectiveness.

The main findings from this New Zealand study, as outlined above, are summarised in Table 7.1 below.

Table 7.1 Characteristics and outcomes – causes and effects

Characteristics (causes) more strongly associated with Board EFFECTIVENESS	Characteristics (causes) equally associated with Board EFFECTIVENESS and INEFFECTIVENESS	Characteristics (causes) more strongly associated with Board INEFFECTIVENESS
• Good boardroom practice	• The role of the Chair • Board and management relationships • Internal board relationships • Board structure	• Negative director characteristics • Insufficient informational diversity
Outcome (effects) more strongly associated with Board EFFECTIVENESS	**Outcomes (effects) equally associated with Board EFFECTIVENESS and INEFFECTIVENESS**	**Outcomes (effects) more strongly associated with Board INEFFECTIVENESS**
• Company performance • Good stakeholder relationships • Strategic clarity	• The role of the Chair • Board and management relationships • Board structure	• Poor boardroom practice • Weak internal board relationships

7.2 Limitations to the study

This study has a number of limitations that should be acknowledged.

First, the study was located in New Zealand where the board structure is different to board structures in the US (New Zealand boards do not have CEO duality) and the UK (where generally the only executive director on the board is the CEO). However, as the first 'insider' study of its kind in the New Zealand context, it does add to the international body of research.

Second, the smallness and closeness of the New Zealand governance community may have led to some homogeneity in the responses received. However, the comparison between the two different company types (SOEs and PLCs) did identify differences in responses regarding the participants' experiences of an effective board, suggesting that undue response homogeneity is not a strong feature of this study.

Third, the inclusion of three Australian chairs in the study was necessary to access enough participants in the chair/CEO group (i.e. chairs of PLC companies that had previous CEO experience in a different PLC) since there were insufficient participants who fulfilled these criteria in the small New Zealand governance community (see Section 3.2.1). However these three Australian chairs had experience in the New Zealand marketplace, either through their current or previous roles.

Fourth, there was an unequal number of participants in the PLC and SOE company groups. SOE companies did not have any participants who fulfilled the chair/CEO criteria due to the smaller number of companies and their relatively short time in existence. However, the chair/CEO PLC participant responses were analysed as a separate group, and the participant and company responses were analysed as an average response to help overcome the problem of comparing between unequal sized groups.

Finally, the researcher was known to a number of the participants as a board member of both company types. However, this benefited the interpretation of the interview, because the researcher was familiar with the board context and jargon. The researcher's 'peer status' was also a key factor in securing access to so many busy board members for this study. In order to limit the potential challenges of her status as a director peer, the researcher was constantly reflective in an effort to ensure that the interpretation was not biased by her own views and experiences.

7.3 Areas for future research

Four areas can be identified as having potential for future research aimed at understanding the causes and effects of board effectiveness. These relate to the outcomes of boards, diversity on boards, the role of the chair, and the factors that lead to ineffective boards.

First, future research could identify improved measures for the outcome of boards. Further research that extends the notions of board outcomes beyond financial performance alone could prove fruitful in understanding board effectiveness. Appropriate measures of board outcomes could include relationship measures, boardroom practice measures and strategic clarity measures. Additionally, conducting research on companies that have fully embraced stakeholder theory to identify how these companies effectively manage multiple objectives may also be a fruitful area for further research.

Second, there is the potential for further research into diversity on boards. It would be useful to carry out further research into the influence of social diversity on boards with a view to understanding both the positive and negative effects this has on group process and performance. Diversity is seen to impact group cohesiveness, group trust and respect, and group dynamics (Forbes and Milliken, 1999), all regarded as essential elements for board members to effectively challenge each other in the boardroom and carry out their main board task of decision making (Forbes and Milliken, 1999; Nicholson and Kiel, 2004; Leblanc and Gillies, 2005; Harper, 2007; Payne et al., 2009). As outlined in the earlier chapters, with the changes in international codes to require disclosure on how diversity is considered on boards (US) and establishing policies on diversity (Australia), it is inevitable that greater social diversity will be a feature around the boardroom table.

Third, comparative research into the chairman leadership of both homogeneous and heterogeneous boards could help to identify the differing leadership skills required to develop board cohesiveness and effectiveness within these two different board types. Cohesiveness is an essential prerequisite for good boardroom practice and effective board functioning (Forbes and Milliken, 1999).

Finally, further research into the impact of factors that lead a board to be ineffective would provide a valuable comparison to the New Zealand study. Such research has the potential to identify those factors which, while also relevant to securing board effectiveness, are of even greater importance due to their potential negative influence.

7.4 Concluding comments

The influence and impact of corporations on society will continue and their success will remain of importance to all stakeholders. Due to the board's position at the top of the corporate hierarchy (Bainbridge, 2002), where more effective boards are likely to be associated with more successful companies (Lawler III et al., 2002; Leblanc and Gillies, 2003; Nicholson and Kiel, 2004), research on governance to establish what factors effect board effectiveness will continue to be a focus. Governance research is likely to continue to examine behaviour inside the boardroom as the board is by its nature "a board of directors" required to function as a group that works mainly by consensus (Bainbridge, 2002, p. 2). This research sought to offer insights into the workings of New Zealand boards as work groups and to examine what causes them to be both effective and ineffective, with a view to improving the future health of corporations and society at large.

An important strength of this study is that it was informed by the views of experienced New Zealand board members. The New Zealand context adds to the international studies on board behaviour and the 'insider' views offered by the research participants adds to an important emerging strand of behavioural research into board performance. Also, the research identified insights from different participant groups inside the boardroom – chairs, directors and CEOs - to identify the different perspectives they may have based on their different roles in the boardroom. In addition, the research included board members from two different company types with differing characteristics that influence boardroom dynamics. Further, the participants were questioned on their experiences of both characteristics that cause boards to be effective or ineffective and the observable outcomes of both effective and ineffective boards. The important role of the chairman was also explored and the significance of this role identified in both positive and negative ways. Finally, the researcher had the benefit of being a board 'insider' herself. She was, therefore, in a unique position to be able to access a wide range of board members and to contextualise and interpret the views of the research participants.

This research study has confirmed the importance of the human, as opposed to structural, dimensions of boards and the influence that relationships can have on the outcomes achieved by boards. The potentially negative impact of board diversity (both social and value) and positive effects of informational diversity have emerged from the findings, as has the key role of the chairman as the greatest influence on boardroom practice and board effectiveness. These findings along with insights gained on appropriate outcome measures for effective boards, and the factors that lead to a board becoming ineffective, have the potential to help improve board performance and evaluation and reduce the likelihood of the failures of the past.

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Appendices

Appendix One Company selection

New Zealand public listed companies

Met company selection criteria	Company	Market Capitalisation December 2007	Persons interviewed
✓	Auckland International Airport Limited Ordinary Shares	$1,801,342,242	✓
✓	Air New Zealand Limited (NS) Ordinary Shares	$572,453,511	✓
	AMP Limited Ordinary Shares	$508,685,099	
	Australia and New Zealand Banking Group Limited Ord Shares	$672,666,118	
	APN News & Media Limited Ordinary Shares	$898,831,651	
	AMP NZ Office Trust Ordinary Units	$665,904,063	
	Cavalier Corporation Limited Ordinary Shares	$119,393,398	
	Contact Energy Limited Ordinary Shares	$1,851,038,680	
✓	Ebos Group Limited Ordinary Shares	$223,007,808	✓
✓	Fletcher Building Limited Ordinary Shares	$1,841,773,280	✓
✓	Fisher & Paykel Appliances Holdings Limited Ordinary Shares	$1,035,974,237	✓
✓	Fisher & Paykel Healthcare Corporation Limited Ord Shares	$1,441,035,807	

✓	Freightways Limited Ordinary Shares	$488,763,353	
	Goodman Fielder Limited Ordinary Shares	$1,208,434,980	
	GuocoLeisure Limited Ordinary Shares	$50,492,131	
✓	Goodman Property Trust Ordinary Units	$782,775,057	
✓	Guinness Peat Group Plc Ordinary Shares	$1,810,439,408	
✓	Hellaby Holdings Limited Ordinary Shares	$60,046,885	✓
✓	Hallenstein Glasson Holdings Limited Ordinary Shares	$212,258,205	
✓	Infratil Limited Ordinary Shares	$1,289,313,775	
	ING Medical Properties Trust Ordinary Units	$130,130,757	
	ING Property Trust Ordinary Units	$424,403,451	
✓	Kiwi Income Property Trust Ordinary Units	$987,850,309	✓
	Lion Nathan Limited Ordinary Shares	$252,989,583	
✓	Mainfreight Limited Ordinary Shares	$559,135,110	✓
	Michael Hill International Limited Ordinary Shares	$193,591,598	
✓	Methven Limited Ordinary Shares	$70,919,981	

✓	Nuplex Industries Limited Ordinary Shares	$579,296,612	✓
✓	New Zealand Oil & Gas Limited Ordinary Shares	$264,524,715	
✓	New Zealand Refining Company Limited Ordinary Shares	$267,267,917	✓
✓	New Zealand Exchange Limited Ordinary	$233,163,471	
	Property For Industry Limited Ordinary Shares	$287,804,049	
✓	PGG Wrightson Limited Ordinary Shares	$282,343,511	
✓	Port of Tauranga Limited (NS) Ordinary Shares	$422,431,380	
	Pumpkin Patch Limited Ordinary Shares	$356,458,380	
	Rakon Limited Ordinary Shares	$355,576,188	
✓	Ryman Healthcare Limited Ordinary Shares	$1,050,000,000	✓
✓	Sanford Limited Ordinary Shares	$205,920,389	
✓	Sky City Entertainment Group Limited (NS) Ordinary Shares	$1,102,347,424	
✓	Skellerup Holdings Limited Ordinary Shares	$61,647,379	
✓	Sky Network Television Limited Ordinary Shares	$1,708,464,461	✓
✓	Steel & Tube Holdings Limited Ordinary Shares	$174,335,316	✓

✓	Telecom Corporation of New Zealand Limited Ordinary Shares	$1,431,248,602	✓
✓	Tourism Holdings Limited Ordinary Shares	$204,075,529	✓
	Telstra Corporation Limited Ordinary Shares	$79,584,895	
✓	TrustPower Limited Ordinary Shares	$454,380,129	
	Tower Limited Ordinary Shares	$312,875,296	
✓	Vector Limited Ordinary Shares	$837,658,852	
	Westpac Banking Corporation Ordinary Shares	$1,061,551,926	
✓	The Warehouse Group Limited Ordinary Shares	$463,948,244	✓✓

Source: NZX50 November 2007

Australian public listed companies

Met company selection criteria	Company	Market Capitalisation August 2010	Persons interviewed
✓	Chair Amcor Limited Previous CEO Arnotts Ltd (Arnotts NZ a subsidiary)	$7.979 billion	✓
✓	Chair National Australia Bank Previous CEO Wesfarmers (Bank of New Zealand a subsidiary)	$50.921 billion	✓
✓	Chair One Steel Limited Previous CEO Colonial Mutual Ltd (One Steel major shareholder of NZ Steel & Tube)	$4.141 billion	✓

Source: ASX August 2010

New Zealand State-Owned Enterprises

Met company selection criteria	Company	Total Assets 2006/2007 year	Persons interviewed
	Energy		
	Electricity Corporation of New Zealand Ltd	$17.8m	
✓	Genesis Power Ltd	$1.5b	✓✓
✓	Meridian Energy Ltd	$6.7b	✓
✓	Mighty River Power Ltd	$2.9b	✓✓
✓	Solid Energy New Zealand Ltd	$546.2m	✓
✓	Transpower New Zealand Ltd	$3.0b	✓
	Land and environment		
	Animal Control Products Ltd	$5.3m	
	Asure Quality Ltd	Amalgamation	
✓	Landcorp Farming Ltd	$1.4b	✓
✓	Meteorological Service of New Zealand Ltd	$17.2m	✓
✓	Quotable Value Ltd	$17.6m	✓
	Timberlands West Coast Ltd	$57.2m ceased to trade	
	Services and infrastructure		
✓	Airways Corporation of New Zealand Ltd	$131.3m	✓✓
	Learning Media Ltd	$17.0m	
	ONTRACK	Sold	
	Communications		
✓	Kordia Group Ltd	$223.7m	✓
✓	New Zealand Post Ltd	$5.5b	✓✓

Source: CCMAU November 2007

Appendix Two Background sheet for participants

FOR DIRECTORS

Note: This background information will be collected at the interview.

Name:………………………………………………………………..
Note for the purpose of the research criteria I have nominated you as Chair of [Company name]

Start date of position ………………………………………………………………..

Please advise of any current Chair/directorships held and companies and start date:

……………………………………………………………………………………….
……………………………………………………………………………………….
……………………………………………………………………………………….

Please advise of any previous Chair/directorships held, including companies and the length of term held:

……………………………………………………………………………………….
……………………………………………………………………………………….
……………………………………………………………………………………….
……………………………………………………………………………………….

Please advise of current/previous occupation prior to directorships, e.g. Partner (firm), CEO, etc.

………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………

Please advise if you have served on a board when there was a change of Chair or CEO. If so, please note company and situation, e.g. director of (company), new CEO (year date) and/or new Chair (year date).

………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………

Appendix Three Participant list by company and role

List of participants and participating companies – as at December 2007

PLCs – NZSX50 + ASX –Total 20	**SOEs –Total 15**
Air NZ Chair John Palmer	Airways Corporation Ltd (2) Director Anne Urlwin CEO Ashley Smout
Auckland International Airport Ltd CEO Don Huse	Genesis Energy Ltd (2) Chair Brian Corban CEO Murray Jackson
Fisher & Paykel Appliances Director Norman Geary	Kordia Ltd Chair Wayne Brown
Hellaby Holdings Ltd Chair Bill Falconer	Landcorp Ltd Director Lex Henry
Kiwi Income Property Trust Ltd CEO Angus McNaughton	Meridian Energy Ltd Director Anne Blackburn
Mainfreight Ltd Director Bryan Mogridge	Metservice Ltd Chair Francis Small
Nuplex Industries Ltd Director Bryan Kensington	Mighty River Power Ltd (2) Chair Carole Durbin CEO Doug Heffernan
NZ Refining Company Ltd Chair Ian Farrant	NZ Post Ltd (2) Chair Rt Hon Jim Bolger Director James Ogden
Ryman Healthcare Ltd Director Don Trow	Quotable Value Ltd CEO Bill Osborne
Sky TV Ltd CEO John Fellett	Solid Energy Ltd CEO Don Elder
Steel & Tube Ltd CEO Nick Calavrious	Transpower Ltd Director Mark Tume
Telecom NZ Ltd Chair Wayne Boyd	
The Warehouse Group Ltd (2) Director Rob Challinor CEO Ian Morrice	
Tourism Holdings Ltd Chair Keith Smith	

ADDITIONAL TRANCHE FOLLOWING PILOT –CURRENT CHAIR PLC PREVIOUS CEO PLC (different company)
Amcor Ltd (ASX) Chair Chris Roberts -Previous CEO Arnott's Australia Ltd
National Australia Bank Ltd (ASX) Chair Michael Chaney -Previous CEO Wesfarmers Ltd
One Steel Ltd (ASX) Chair Peter Smedley -Previous CEO Colonial Ltd
Fletcher Building Ltd Chair Roderick Dean -Previous CEO Telecom Corporation NZ Ltd
Ebos Group Ltd Chair Rick Christie -Previous CEO Cable Price Downer Ltd

Appendix Four Date and location schedule for interviews conducted

Interview Schedule

Date	Person interviewed	Location
29 November 2007 Pilot	CEO – State-Owned Enterprise	Participant's offices Wellington
5 December 2007 Pilot	Director – State-Owned Enterprise	Participant's offices Wellington
5 December 2007 Pilot PART INTERVIEW	Chair – State-Owned Enterprise (Part interview, Chair had unexpected meeting to attend)	Participant's offices Wellington
6 December 2007 Pilot	Director – Public Listed Company	Participant's offices Auckland
14 December 2007 Pilot PART INTERVIEW	Chair – State-Owned Enterprise (2nd part of interview)	Researcher's offices Auckland
21 December 2007 Pilot	CEO – Public Listed Company	Researcher's offices Auckland
24 December 2007 Pilot	Chair – Public Listed Company	Participant's offices Auckland
January/February 2008 analysis of Pilot Interviews **February 2008 - Interviews continued**		
25 February 2008	Chair – State-Owned Enterprise	Neutral offices Wellington
29 February 2008	Director – Public Listed Company	Researcher's offices Auckland
6 March 2008	Chair – Public Listed Company – previous CEO Public Listed Company – Australia based	Neutral offices Wellington
17 March 2008	Chair – Public Listed Company – previous CEO Public Listed Company	Participant's offices Wellington
8 April 2008	Director - Public Listed Company	Researcher's offices Auckland
9 April 2008	CEO – Public Listed Company	Participant's offices Auckland
10 April 2008	CEO – State-Owned Enterprise	Participant's offices Auckland

15 April 2008	Director – State-Owned Enterprise	Researcher's offices Auckland
15 April 2008	Director – State-Owned Enterprise	Researcher's offices Auckland
17 April 2008	Chair – State-Owned Enterprise	Researcher's offices Auckland
18 April	CEO – State-Owned Enterprise	Researcher's offices Auckland
24 April 2008	CEO – Public Listed Company	Participant's offices Auckland
24 April 2008	Chair – Public Listed Company	Participant's offices Auckland
28 April 2008	Chair – Public Listed Company – previous CEO Public Listed Company – Australia based	Participant's offices Melbourne
30 April 2008	Chair – Public Listed Company – previous CEO Public Listed Company – Australia based	Participant's offices Sydney
2 May 2008	Director – State-Owned Enterprise (Part interview)	Participant's offices Auckland
5 May 2008	CEO – State-Owned Enterprise	Participant's offices Auckland
7 May 2008	Chair – Public Listed Company (Part interview)	Researcher's offices Auckland
7 May 2008	Chair – State-Owned Enterprise	Researcher's offices Auckland
8 May 2008	Chair – State-Owned Enterprise	Participant's offices Auckland
20 May 2008	Chair – Public Listed Company	Researcher's offices Auckland
26 May 2008	Director – State-Owned Enterprise (Part interview)	Researcher's offices Auckland
27 May 2008	Chair – Public Listed Company	Researcher's offices Auckland
6 June 2008	CEO – Public Listed Company	Neutral offices Wellington
6 June 2008	Director – Public Listed Company	Neutral offices Wellington
6 June 2008	Director – State-Owned Enterprise (2nd part interview)	Participant's offices Wellington

10 June 2008	Chair – Public Listed Company (2nd part interview)	Researcher's offices Auckland
10 June 2008	Director – Public Listed Company	Researcher's offices Auckland
11 June 2008	CEO – State-Owned Enterprise	Researcher's offices Auckland
16 June 2008	Director – State-Owned Enterprise (2nd part interview)	Participant's offices Auckland
25 June 2008	CEO – Public Listed Company	Participant's offices Auckland

Scheduled interview completion date 25 June 2008

Appendix Five Questionnaire Guide

Question Guide

Topics/Questions for discussion

1. *Please use the following to note down your thoughts on these questions in preparation for our interview. This information will not be collected at the interview.*
2. *Please note that whilst you have been selected based on a particular board position you hold, I would like you to draw from all your experience in Board situations. However, for examples please use PLC/SOE examples.*
3. *Please draw on your **actual experiences, rather than your general perceptions,** other than for the first question.*

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1. What in your opinion are the most important functions of an effective board?

2. From your experiences, what are the characteristics of an **effective** board? (Characteristics = distinguishing qualities) (DEFINITION ADDED FOLLOWING PILOT STUDY)

3. From your experiences, what are the factors that lead to the creation of an **effective** board? (Factors = circumstances, phenomena or influences which produce a result) (DEFINITION ADDED FOLLOWING PILOT STUDY)

4. How would you describe the outcomes / outputs that characterise an **effective** board?

5. Overall, what are the indicators or measurements you would use to determine that a board is working effectively?

6. Can you please share an example of a situation that demonstrated to you a board working effectively?

7. From your experiences, what are the characteristics of an **ineffective** board? (Characteristics = distinguishing qualities) (DEFINITION ADDED FOLLOWING PILOT STUDY)

8. From your experiences what are the factors that lead to the creation of an **ineffective** board? (Factors = circumstances, phenomena or influences which produce a result) (DEFINITION ADDED FOLLOWING PILOT STUDY)

9. How would you describe the outcomes / outputs that characterise an **ineffective** board?

10. Can you please share an example of what happened when a board that was **NOT** working effectively? Why did this happen and how was it resolved?

11. Given your further experience with SOE's, do you think there is a difference in the outcomes / outputs that would indicate an effective board for an SOE as opposed to a PLC? (NOTE – CHANGE OUT BASED ON COMPANY CRITERIA)

12. Is it true to say the CEO affects board performance/effectiveness? If so, to what extent and how? And/or in your experience, have you observed a change in board effectiveness or ineffectiveness when there has been a change in CEO?

13. Is it true to say the Chair affects board performance/effectiveness? If so, to what extent and how? And/or in your experience, have you observed a change in board effectiveness or ineffectiveness when there has been a change in Chair?

14. In your experience have you seen a change in board effectiveness or ineffectiveness where there has been a change in regulation or statutory requirements?

15. Are there any other issues related to board effectiveness/or ineffectiveness that you think should be considered in this research?

16. Finally, what do you think are going to be the most important issues or challenges that directors are likely to face in the future?

Thank you for your time and consideration

Janine Smith

Appendix Six Characteristics of board effectiveness and ineffectiveness by participant group

Board Effectiveness No. of mentions					Description	Board ineffectiveness No. of mentions				
Director N=10	Chair N=10	Chair/CEO N=5	CEO N=10	Total N=35		Total N=35	CEO N=10	Chair/CEO N=5	Chair N=10	Director N=10
26	**13**	**8**	**26**	**73**	**Chair**	**52**	**13**	**12**	**10**	**17**
10	**13**	**2**	**13**	**38**	**Boardroom practice**	**10**	**3**	**1**	**1**	**5**
11	12	7	5	35	Internal board relationships	31	8	5	12	6
11	9	6	9	35	Director characteristics	42	15	2	10	15
14	4	8	16	42	Board and management relationships	35	11	5	8	11
3	1	2	1	7	CEO	12	1	1	5	5
39	**26**	**23**	**31**	**119**	**Total relationships**	**120**	**35**	**13**	**35**	**37**
15	14	6	13	48	Board diversity	34	3	5	12	14
8	9	3	5	25	Director skills	15	4	1	2	8
7	2	2	4	15	Board selection process	13	3	1	6	3
30	**25**	**11**	**22**	**88**	**Total board structure**	**62**	**10**	**7**	**20**	**25**
105	**77**	**44**	**92**	**318**	**Total mentions**	**244**	**61**	**33**	**66**	**84**

Source: Interviews (n=35) Multiple responses given

Appendix Seven Outcomes of board effectiveness and ineffectiveness by participant group

Board Effectiveness No. of mentions					Description	Board ineffectiveness No. of mentions				
Director N=10	**Chair** N=10	**Chair/CEO** N=5	**CEO** N=10	**Total** N=35		**Total** N=35	**CEO** N=10	**Chair/CEO** N=5	**Chair** N=10	**Director** N=10
20	16	9	16	61	Company performance	21	5	3	6	7
2	5	1	4	12	Boardroom practice	31	10	3	11	7
18	17	8	13	56	Board and management relationships	23	3	2	10	8
		-			Internal board relationships	13	3	1	4	5
10	1	2	2	15	Stakeholders relationships			-		
11	3	1	9	24	Strategic clarity			-		
61	**42**	**21**	**44**	**155**	**Total mentions**	**88**	**21**	**9**	**31**	**27**

Source: Interviews (n=35) Multiple responses given