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Boards of Directors and Board Committees in New Zealand: International Comparisons

Abstract
[extract] Before 1995, little was known about boards of directors of New Zealand companies. This is not the case in 1998. We have build up a picture of boards that encapsulates several elements: board size (the number of directors on any given board), representation by outsiders (non-executive directors on boards) and board leadership (whether or not the board chair is also an executive director). We also know something about board committees in New Zealand. These matters are important because they indicate the ability of boards to fulfil their corporate governance functions. Boards of directors fulfil three interrelated governance functions: compliance (ensuring the fulfilment of legal requirements); directing (determining the overall direction of organisations), and, monitoring (overseeing management). Studies of boards of directors suggest that much of the work of boards is carried out in committees, especially in larger boards. In Part II of this article we discuss debates concerning board size, CEO duality, and, non-executive representation on boards and board committees. Part III then proceeds to compare this data with other jurisdictions. In Part IV some conclusions are drawn.

Keywords
boards of directors, board committees, New Zealand, corporate governance

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BOARDS OF DIRECTORS AND BOARD COMMITTEES IN NEW ZEALAND: INTERNATIONAL COMPARISONS

By MARK FOX, Associate Professor of Management, Indiana University South Bend and GORDON WALKER, Senior Lecturer, School of Law, Canterbury University.

Introduction

Before 1995, little was known about boards of directors of New Zealand companies.[1] This is not the case in 1998. We have build up a picture of boards that encapsulates several elements: board size (the number of directors on any given board), representation by outsiders (non-executive directors on boards) and board leadership (whether or not the board chair is also an executive director).[2] We also know something about board committees in New Zealand.[3] These matters are important because they indicate the ability of boards to fulfil their corporate governance functions. Boards of directors fulfil three interrelated governance functions: compliance (ensuring the fulfilment of legal requirements); directing (determining the overall direction of organisations), and, monitoring (overseeing management). Studies of boards of directors suggest that much of the work of boards is carried out in committees, especially in larger boards. In Part II of this article we discuss debates concerning board size, CEO duality, and, non-executive representation on boards and board committees. Part III then proceeds to compare this data with other jurisdictions. In Part IV some conclusions are drawn.

Board Structure Debates

CEO Duality

CEO duality is typically defined to occur when the board chair of a company is also its chief executive officer (CEO). Those arguing in favour of CEO duality adopt the argument that duality leads to increased effectiveness, which will be reflected in improved company performance. CEO duality is seen to result in a situation where there is a clear leader of the organisation so that there is no room for doubt as to who has authority or responsibility over a particular matter.[4]

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1 Fox M, *Studies of Corporate Governance in New Zealand* (unpub PhD thesis, Canterbury University, 1995).

2 Fox M and Walker G, 'Evidence on the Corporate Governance of New Zealand Listed Companies' (1995) 8 *Otago LR* 317; Fox M and Walker G, 'Regulatory Design and Sharemarket Ownership in New Zealand' in Khoury S (ed) *Advances in International Banking and Finance, Vol III,* JAI Press (1998) 123. Hereafter, 'Fox and Walker, *AIBF*'.

3 Fox M and Walker G, 'Corporate Governance and the Company Secretary' (1996) 2 (4) *Corporate Governance Quarterly* 4.

4 Donaldson L and Davis J, ' Stewardship theory or agency theory: CEO governance and shareholder returns' (1991) 16 (1) *Australian Journal of Management* 49.

Given this, it has been proposed that separation of board chair and CEO roles 'is guaranteed to produce chaos both within the organisation and in relationships with the board'.[5] In the event that such 'chaos' does ensue, this may have a detrimental effect upon the formulation of corporate strategy and the responsiveness of the company to changes in the external environment. Both of these factors could potentially contribute to poor corporate financial performance.

Compelling arguments have also been made *against* CEO duality. In particular, it has been proposed CEO duality leads to a situation where the governance role of the board of directors is compromised. The argument is aptly put in the following quote:

> In a company where the chairman is also the CEO ... power concentrated in one individual and possibilities for checking and balancing powers of the CEO ... are virtually eliminated. In such a corporation, the board may not be able to function as an independent body - independent from the influences of top management.[6]

Taking an agency theory perspective, Daily and Dalton propose that separating the roles of CEO and chairperson 'reduces the opportunity for the CEO and inside directors to exercise behaviours which are self-serving and costly to the firm's owners'.[7]

It has also been proposed that the separation of CEO and board chair roles is necessary because one person cannot perform both roles effectively as both the chairman and CEO have a distinctive domain.[8] A further argument for separating the roles of chairperson and CEO concerns the relative role expectations on each. In contrast to the CEO, who is involved in the day-to-day management of the company, the board chair 'is often involved in special planning assignments, in policy review and formulation and in public and stockholder relations'.[9] It is likely that, given his or her day to day executive commitments, the CEO will not be able to effectively perform the additional roles of chairperson, and a fortiori during times of crisis. Furthermore, some of the benefits which the CEO can obtain from having a chairperson will inevitably be absent when the roles are combined. For example Stewart, has highlighted several roles of chairpersons, including mentoring (acting as a coach and counsellor positively seeking to influence the [CEOs] behaviours), and consultant (giving advice to the CEO and other directors).[10]

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5 Anderson C and Anthony R, *The New Corporate Directors*, New York: John Wiley & Sons (1986) 54.

6 Chaganti R, Mahajan V and Sharma S, 'Corporate board size, composition and corporate failures in the retailing industry' (1985) 22 (4) *Journal of Management Studies* 407.

7 Daily C and Dalton D, 'Corporate governance and the bankrupt firm: an empirical assessment' (1994) 15 (8) *Strategic Management Journal* 643, 645.

8 Stewart R, 'Chairmen and chief executives: an exploration of their relationship' (1991) 28 (5) *Journal of Management Studies* 523.

9 Chaganti et als, above n 6, 408.

10 Stewart, above n 8, 522.

Yet another proposed for the separation of CEO and chairperson roles is that - in the case of a poorly performing company - 'it is not immediately clear what process would be relied on to remove CEO/board chair'.[11] This is because the CEO who is also board chair is assumed to have a board which largely defers to him or her. Interestingly, research by Harrison, Torres and Kukalis (1988) indicates that it is more difficult to replace either the CEO or board chair when these roles are separated than when the two roles are held by one individual.[12]

Finally, CEO duality may lessen and organisation's ability to adapt to change. In this regard, Argenti gives autocratic leadership and CEO duality among the management defects which can contribute to eventual failure:

> An autocratically run company that also has not responded to change is plainly in jeopardy, for it means that the autocrat himself has almost certainly failed to notice how the world has changed. He is the company: if he has not understood some new trend in the business environment then the company is doomed. It might not happen for years, or it might be tomorrow. It only needs some stroke of bad luck to expose the fatal flaw that his company has been allowed to develop.[13]

Outsider Directors

As with the CEO duality debate, it is often proposed that inside (executive) directors cannot be relied on to impartially monitor their own performance. In contrast, outsiders are viewed as more independent and, therefore, impartial. Also, Sheppard proposes that outside directors 'provide an indicator of the board's orientation toward its external environment ... and thus its ability to respond to change'.[14] The inability to respond to change is one of the major causes of corporate decline.[15]

Those arguing in favour of having a board dominated by outside directors propose that the independence of inside directors is open to question. One role of the board is to monitor and evaluate top management. In this respect, inside directors are seen to be in a position to serve their own best interests.

As we can see from the preceding arguments there are compelling arguments in favour of outside directors. However, some arguments have been made against representation by outsiders on boards. It has been suggested that outsiders do not have the time and expertise to perform effectively.[16] In addition, outsiders may find it difficult to 'understand the complexities of the company and to

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11 Daily and Dalton, above n 7, 645.

12 Harrison J, Torres D and Kukalis S, 'The Changing of the Guard: Turnover and Structural change in Top-Management Positions' (1988) 33 (2) *Administrative Science Quarterly* 211.

13 Argenti J, 'Spot danger signs before it's too late' (1986) 97 (July) *Accountancy*, 101.

14 Sheppard J, 'Strategy and bankruptcy: an exploration into organisational death' (1994) 20 (4) *Journal of Management* 801.

15 Miller D, *The Icarus Paradox*, New York: Harper Business (1990).

16 Zahra S and Pearce J, 'Boards of directors and financial performance: a review and integrative model' (1989) 15 (2) *Journal of Management* 315.

monitor its operations and, hence, to be fully responsible or effective'.[17] These two arguments would lead us to expect that having more insiders on boards is conducive to higher corporate performance as these directors can be expected to have more time, expertise and knowledge to bring to bear which might help avoid corporate collapse.

Outsider representation on boards has not been shown to be consistently associated with positive outcomes. For example, Boyd found that insider dominated boards had lower levels of CEO pay[18] and Hill and Snell found outsider dominated boards to be associated with less research and development and more unrelated and overall diversification.[19]

As non-executive directors are more likely to be professional directors and on the boards of other companies,[20] there is greater potential for conflicts of interest and anti-competitive behaviour by these directors. This proposition holds good notwithstanding the raft of directors' duties imposed by the Companies Act 1993.[21] For example, the recent board struggle at Brierley Investments Limited (BIL) is ostensibly about the desire of two directors (Quek Leng Chan and Quek Poh Huat) representing the minority shareholder 20 per cent shareholder, Camerlin Group Bhd, to replace Sir Roger Douglas as executive chairman and restore BIL's 9 cents a share dividend.[22] The axing of the BIL dividend was a part of the strategic plan designed to restore the BIL share price.[23] Some reports, however, suggest that Camerlin has been severely effected by the Asian crisis[24] and needs the BIL dividend to survive.[25] If these reports are correct, then the Camerlin appointees to the BIL board appear to have a potential conflict of interest.

Board Size

The only requirement regarding board size imposed by the New Zealand Stock Exchange (NZSE) is that there shall be a minimum of three directors of an Issuer. The NZSE Listing Rules regarding board structure are permissive. Listing Rule 3.3.1 requires that an Issuer must have at least three directors of whom two must be resident in New Zealand. Listing Rule R 5.3.2 states that the NZSE *may* impose additional conditions that must be fulfilled by an Issuer in order to obtain or maintain listing. The Explanatory Note to this Listing Rule states that the

17 Chaganti et als, see above n 6, 407.
18 Boyd B, 'Board control and CEO compensation' (1994) 15 (5) *Strategic Management Journal* 335.
19 Hill C and Snell S, 'External control, corporate strategy and firm performance in research-intensive industries' (1988) 9 (6) *Strategic Management Journal* 557.
20 Fox M and Roy M, 'Composition of boards of directors and interlocks in New Zealand, 1987-93' (1995) 10 (1) *New Zealand Sociology* 17.
21 For a topical outline of directors' duties under the Companies Act 1993, see Beck A and Borrowdale A, *Guidebook to New Zealand Companies and Securities Laws* (6th ed) CCH, (1998), paras 309 et seq.
22 *The National Business Review*, August 28 1998, 1.
23 *The National Business Review*, July 31 1998, 6.
24 For background, see the special issue on the Asian financial crisis in *Asiaweek*, July 17 1998 and the symposium in (1998) 35 (2) *Finance & Development* (the quarterly publication of the International Monetary Fund).
25 *The National Business Review*, August 28 1998, 7.

NZSE may, for example, require Issuers to appoint independent directors to boards or *to make other arrangements for the monitoring of the rights of minority holders of securities* as a condition of listing or continued listing. As a consequence, questions such as representation of non-executive directors on the board or whether a CEO can be chairperson of the board, are *generally* matters which will be determined by the Constitution of the company.

There is general consensus that larger boards tend to result in better corporate financial performance. The first explanation takes a resource dependence view, whereby directors are seen to link the company with resources from its environment. This role is seen to be particularly important in times of corporate decline, when the necessity for corporations to co-opt resources from their environments is inevitably heightened. Companies with smaller boards are seen as being more likely to perform poorly or fail; a small number of board members is believed to indicate an inability - or lessened ability - by a firm to co-opt resources from its environment that are necessary for survival. Second, larger boards are believed to bring more diverse perspectives to bear when formulating strategy. The third explanation for a board size-corporate performance relationship concerns centralisation of control. Of concern here is the extent to which the CEO can influence the board. In this regard, it has been proposed that 'larger boards are not as susceptible to managerial domination as their smaller counterparts'[26] and, in particular, that CEOs are more likely to dominate smaller boards.[27] Hence, it is often proposed that a company with a smaller board is more likely than one with a larger board to have poor financial performance. This is because the CEO and/or other executives may have more scope to pursue strategic decisions which go unchecked by directors having some degree of impartiality. The legal concern with larger boards tends to be that they tend to have more directors who are on the boards of other companies (ie., 'interlocks'). As we mentioned earlier, this can lead to concerns about conflicts of interest and anti-competitive behaviour.

Board Committees

A criticism that has been made of corporate governance research is its focus on the board of directors as a whole, rather than on the key committees in which decisions are often made. In this regard, Kesner comments that '... researchers tend to focus on the characteristics and composition of entire boards. This approach may actually distort perceptions of corporate boards, their functions, and the role of directors.'[28] In 1996 we surveyed company secretaries of NZSE companies, receiving 56 replies.[29] Of those companies responding to our survey, 82 per cent had boards with one or more committees. By far the most common of these committees were the audit and remuneration committees (found in

26 Zahra and Pearce, see above n 16, 309.
27 See generally, Chaganti et als, see above n 6.
28 Kesner I, 'Directors' Characteristics and Committee Membership: An Investigation of Type, Occupation, Tenure, and Gender' (1998) 31(1) *Academy of Management Journal* 66.
29 Fox and Walker, see above n 3.

respectively 77 and 43 per cent of companies).[30] In terms of the composition of these two committees we found that:

- The average audit committee meets 3.3 times per year and comprises 3.5 members, 0.4 of whom were executive directors and 2.9 of whom were non-executive directors;
- The average remuneration committee meets twice a year and is comprised of 3.6 members, 0.5 of whom are executive directors and three of whom are non-executive directors. From these data it is clear that audit and remuneration committees are dominated by non-executive directors.

It is interesting to compare our findings with those in other countries. For this purpose we refer to data for the United Kingdom[31] and Australia[32] - see Table One. All of the companies in the U.K. and Australian samples had audit committees. By contrast, 77 per cent of those companies in our New Zealand sample had audit committees. Also, almost all U.K. companies had remuneration committees, compared to 66 per cent of Australian companies and 43 per cent of New Zealand companies. Finally, 69 per cent of U.K. companies had nomination committees, as did 19 per cent of Australian companies and 4 per cent of our New Zealand sample. What conclusions can we draw from all this? One likely explanation for the lower incidence of committees in New Zealand companies relates to the smaller size of these companies compared to U.K. and Australian companies. It has been proposed that as company size increases so too does the number of directors, and the use of board committees. In this regard, the average board size of our New Zealand sample was 6 members, compared to 6.5 for the U.K.,[33] and 8.9 for Australia.

There are no NZSE Listing Rules dealing with board committees. Part of the package of companies legislation introduced in New Zealand in 1993 codified directors' duties. As a result, the Institute of Directors has developed a Code of Proper Practice for its members and leading accountancy firms have established corporate governance units.[34]

Table One
Percentage of companies with board committees

Committee	U.K. 1993[35]	Australia	New Zealand

30 There were a total of fourteen other types of committees spread between a total of only nineteen companies.

31 *The Committee on the Financial Aspects of Corporate Governance Final Report (The Cadbury Committee Report)* (December 1992). For recent developments, see, Stapledon G, 'The Hampel Report on Corporate Governance' (1998) 16 *C&SLJ* 408.

32 Stapledon G and Lawrence J, *Corporate Governance in the Top 100: An Empirical Study of the Top 100 Companies Boards of Directors* Melbourne: Centre for Corporate Law and Securities Regulation (1996).

33 Coulson-Thomas C, 'Competent Directors - Board Room Myths and Realities' (1991) 17 (1) *Journal of General Management* 1.

34 Coopers & Lybrand, *Effective Business Control: A Guide for Directors* (1995).

35 The Cadbury Committee Report (1992). The sample was of Top 100 listed UK companies (measured by market capitalisation) at September 1993.

		1995[36]	**1996**[37]
Audit	100	100	77
Remuneration	98	66	43
Nomination	69	19	4

The Integrity Issue

Many arguments for separating CEO duality or for outsider representation are concerned with issues of integrity. In particular, it is implicit in these arguments that if there is CEO duality or insider representation on boards then there is a very real likelihood that executives who are directors will somehow abuse their board role eg., by not being as conscientious in their executive responsibilities as they may otherwise be. This is a somewhat cynical view of human nature, which has been encapsulated by agency theory. This theory proposes that managers will pursue their own self-interest, at the expense of shareholders, if their interests are not aligned with those of shareholders and/or if there are no control mechanisms in place. Managers interests are typically thought to be aligned with shareholders through the use of executive share incentive schemes. (Whether or not these schemes result in improved corporate performance over the longer-term is debatable, with shareholders perhaps being not all that concerned with the long-term but on the short-to-medium term). Control mechanisms include audit and other committees of boards and the use of independent non-executive directors on boards in general.

In contrast to agency theory, proponents of stewardship theory presume that managers are seeking to maximise organisational performance; 'the executive manager, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets'.[38] Both theories have gained some support. Within the New Zealand context there are several relevant studies. The first of these examines diversification and ownership.[39] Within the context of agency theory diversification is seen as the opportunistic pursuit of their own-self interest at the expense of shareholders (this is because undiversified companies tend to perform better than do, for example, conglomerates, but managers gain greater financial rewards and perks from larger companies). The study found that managers did not diversify when their interests were not obviously aligned with shareholders (eg., through a large controlling shareholder). Evidence was found to support stewardship theory as managers diversified in a (misguided) attempt to improve financial performance of companies with declining financial performance.

36 Stapledon and Lawrence, see above n 32. The sample was of 89 companies in the Top 100 listed Australian companies (measured by market capitalisation).
37 Fox and Walker, see above n 3.
38 Donaldson and Davis, see above n 4, 49.
39 Fox M and Hamilton R, 'Ownership and Diversification: Agency Theory or Stewardship Theory' (1994) 31 (1) *Journal of Management Studies* 69.

The financial performance during 1990 to 1993 of 56 NZSE-listed companies was examined. No correlation was found between ownership and subsequent financial performance (ROA or ROE), indicating that managers do not pursue their own interests more as shareholding in companies becomes more dispersed.[40] Another study looked at survival and failure of companies listed in 1995, but not by 1990.[41] Both the proportion of outsiders and having a majority of outsiders on boards were found to be significantly detrimental to a firm's chances of survival. Also, CEO duality was found to be immaterial to firm survival. The findings concerning outside directors are contrary to what many of the arguments against outsiders would expect, and lend further credence to stewardship theory, at least in the New Zealand context. Further, Fox in a study of 56 companies listed on the NZSE between 1987 and 1993, found that CEO duality and outsider representation did not influence the future financial performance (ROE and ROA) of those companies.[42]

In total, there is a lack of overall support for the proposition that CEO duality or outsider representation is beneficial for financial performance. On the contrary, outsider representation may be detrimental to firm survival. These research findings indicate that propositions about the undesirability of CEO duality or executive representation on boards may well be unfounded in terms of the consequences of such representation.

Table Two
Boards Performance: Consequences Of Outsider-Domination[43]

Study	Focus	Findings
Cochran et al, 1985	golden parachutes	outsider dominated boards more likely to adopt
Dalton & Rechner, 1989	golden parachutes	outsider dominated boards more likely to adopt
Mallette & Fowler, 1992	poison pills	insiders unrelated to adoption

40 Fox M, *Corporate Control and Financial Performance of New Zealand Companies*, Department of Economics and Marketing, discussion Paper No 14, Lincoln University, Christchurch, New Zealand, January 1996.

41 Fox M, *Corporate Governance and Corporate Failure*, Department of Economics and Marketing, Discussion Paper No 41, Lincoln University, Christchurch, New Zealand, November 1997.

42 Fox M, above n 1.

43 The sources of the studies mentioned in the table are as follows: Baysinger B, Kosnik R and Turk T, 'Effects of board and ownership structure on corporate R&D strategy' (1991) 34 (1) *Academy of Management Journal* 205; Mallette P and Fowler K, 'Effects of board composition and stock ownership on the adoption of 'poison pills'' (1992) 35 (5) *Academy of Management Journal* 1010; Hill and Snell, above n 19; Cochran P, Wood R and Jones T, 'The composition of boards of directors and incidence of golden parachutes' (1985) 28 (3) *Academy of Management Journal* 664; Dalton D and Rechner P, 'On the antecedents of corporate severance agreements: an empirical assessment' (1989) 8 (1) *Journal of Business Ethics* 455, and, Boyd B, 'Board control and CEO compensation' (1994) 15 (5) *Strategic Management Journal* 335.

Baysinger et al, 1991	R&D	insider dominated boards higher levels of R&D
Hill & Snell, 1988	corporate strategies	outsider dominated boards associated with less R&D, more unrelated divers., and more divers. overall
Boyd, 1994	CEO pay	insider dominated boards had lower levels of CEO pay

International Comparisons

New Zealand

Previous studies of board structure in countries with large numbers of listed companies have usually examined the largest listed companies, eg. the *Fortune 500*. Given the association between company size and some board composition variables, such studies do not provide an accurate portrayal of corporate governance in the countries of interest. Take, for example, board size which has found to be correlated with two measures of firm size, namely sales[44] and total assets.[45] Given these correlations we would expect any sample of companies drawn from a group of very large companies to have a larger mean board size than would a randomly chosen sample of all, for example, listed companies. Therefore, samples of very large companies will not accurately represent the average board size for all listed companies.

Table Three
Board Structure Variables

Variable	Definition	Illustrative Studies[46]
CEO duality	Occurs when an individual is both CEO and board chair	Turner (1985)
Executive board chair	Occurs if the board chair is also the CEO or another executive	Donaldson and Davis (1991)

44 Pfeffer J, 'Size and composition of corporate boards of directors: the organisation and its environment' (1972) 17 (2) *Administrative Science Quarterly* 218.

45 Dalton D and Kesner I, 'Composition and CEO duality in boards of directors: an international perspective' (1987) 18 (3) *Journal of International Business Studies* 33.

46 The sources of the illustrative studies are as follows: Turner R, 'Board of directors leadership' (1985) 7 *New Zealand Journal of Business* 59; Donaldson and Davis, see above n 4; Pfeffer, see above n 44; Barnhardt S, Marr M and Rosenstein S, 'Firm performance and board composition: some new evidence' (1994) 15 (4) *Managerial and Decision Economics* 329; Dalton and Kesner, see above n 45; Kesner I, Victor B and Lamont B, 'Board composition and the commission of illegal acts: an investigation of Fortune 500 companies' (1986) 29 (4) *Academy of Management Journal* 789.

Board size	Total number of directors (excluding alternative, or deputy, directors)	Pfeffer (1972) Barnhardt, Marr, and Rosenstein (1994)
Number of Outsiders	The number of directors who are not current executives of the company	Dalton and Kesner (1987)
Proportion of Outsiders on Board	Number of outsiders divided by board size	Dalton and Kesner (1987)
Majority of Outsiders	Binary variable. Coded as '1' if greater than 50 per cent of directors are outsiders; '0' otherwise	Kesner, Victor, and Lamont (1986)

Table Three summarises the findings of past studies in New Zealand along with those findings for the years added. We now proceed to identify and examine any changes which have occurred in the board structure of New Zealand listed companies since 1962.

Table Four[47]
Summary of New Zealand Board Structure Studies

	1962	**1970**	**1972**	**1980**	**1981**	**1984**
Board size	7.21	6.96	6.66	7.24	6.95	
CEO duality (%)				17.83		11.14
Exec. chairpersons (%)				20.16	20.30	
No. of outsiders				5.45		
Proportion of outsiders				0.75	0.72	
Percentage of companies with a majority of outsiders				86.82		
No. of companies	58	160	247	129	208	184
	1984	**1985**	**1987**	**1990**	**1993**	**1996**
Board size	7.12	7.45	6.14	5.70	6.07	6.15
CEO duality (%)		10.81	17.81	15.38	14.29	8.82
Exec. chairpersons (%)		14.19	18.49	17.48	16.54	13.73
No. of outsiders		5.60	4.48	4.15	4.57	4.91
Proportion of outsiders		0.76	0.73	0.73	0.74	0.78
Percentage of companies with a majority of outsiders		87.16	81.16	82.52	82.71	89.22
No. of companies	221	148	292	143	133	102

There has been a significant change in board size between 1962 and 1996 – see Table Four. In 1962 the mean board size was around seven members, whereas in 1996 the mean board size was around six members. There are two possible explanations for the reduction in board size in more recent years. First, the lower board sizes in more recent years, may reflect the levels of insolvency, bankruptcy, resignations, and the loss of legitimacy of some directors as a consequence of the 1987 stock market 'crash'. Second, the rapid deregulation of the New Zealand economy and the stock market crash led companies to 'give

47 The 1962 and 1970 data is from Laurent CR, *Interlocking directorates in New Zealand* (Unpublished MCA thesis, Department of Accountancy, Victoria University of Wellington, 1971) and Fogelberg G and Laurent CR, *Boards of directors in New Zealand companies*, Research Paper, No 1, Dept of Business Administration, Victoria University, Wellington (1974). The 1972 and 1984 data is from Firth M, 'Multiple directorships and corporate interlocks in New Zealand' (1987) 23(2) *Australian and New Zealand Journal of Sociology* 274. The 1981 data is from Chandler R and Henshall B, *Corporate directorship practices in New Zealand public companies*, Working Paper No 8, The Department of Management Studies, University of Auckland (1982). The 1984 data is from Turner R, 'Board of directors leadership' (1985) 7 *New Zealand Journal of Business* 59. All other data is from Fox and Walker, *AIBF*.

primary emphasis to their own survival'.[48] Companies in survival mode do not have the luxury of excess and unproductive directors, and are likely to alter their board structure accordingly. They are likely to be more responsive to external pressures such as from institutional investors. This may provide the most plausible explanation for lower board sizes.

There is a consistently high proportion of NZSE companies that have a majority of outsider directors (89 per cent in 1996). Also by 1996 the typical board had 76 per cent of its members who were outsiders. Prima facie, this provides support for the notion that boards are in a position to impartially oversee management.

The incidence of CEO duality among NZSE companies is relatively low, by international standards. In 1996 around 8.8 per cent of NZ companies had a board chair who was also the CEO. This figure is lower than in the late 1980s and early 1990s – perhaps as a response to the public perceptions of some people who held both posts and whose companies failed following the 1987 crash.

International Studies of Board Structure

Only two previous papers have attempted to integrate the literature concerning board structure in different countries.[49] Each of these papers neglects much of the relevant research. For example, the research on determinants of board structure[50] and performance consequence of board structure[51] contain a wealth of data on board structure that, to date, has not being brought together.

Dalton and Kesner is the only attempt that has been made to compare board structure variables between countries at a given time.[52] This study compared board composition variables for 50 large companies in each of the United Kingdom, United States and Japan. Dalton and Kesner concluded that there were differences in CEO duality between these three countries and that Japanese companies had a lower proportion of outside directors than either their U.S. or U.K. counterparts.

Given the lack of integration of previous research on board structure in different countries, and our interest in board structure in New Zealand, we decided to seek answers to the following research questions:

Q1: Does board structure in New Zealand differ from that in the United States, United Kingdom, Japan, and Australia?

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48 Hamilton R and Shergill G, *The Logic of New Zealand Business: Strategy, Structure and Performance*, Auckland: OUP (1993) 104.

49 Dalton D, Kesner I and Rechner P, 'Corporate governance and boards of directors: an international comparative perspective' (1988) 3 *Advances in International Comparative Management* 95; Dalton D and Kesner I, above n 45.

50 Pearce J and Zahra S, 'Board composition from a strategic contingency perspective' (1992) 29 (4) *Journal of Management Studies* 411.

51 Rechner P and Dalton R, 'Board composition and Shareholder Wealth: Am Empirical Assessment' (1986) 3 (2) *International Journal of Management* 86; Mallette P and Fowler K, 'Effects of Board composition and Stock Ownership on the adoption of 'poison pills'' (1992) 35 (5) *Academy of Management Journal* 1010.

52 Dalton and Kesner, above n 45.

Q2: What factors account for any differences in board structure between New Zealand, the United States, United Kingdom, Japan, and Australia?

One of the major difficulties in conducting international comparative research in the area of corporate governance is that:

> International governance is not a research stream per se, but rather a loosely integrated set of studies. Consequently, there is little consistency in the choice of theoretical perspectives, or countries and variables being studied. Because these papers are also written from a broad array of disciplines, they can be difficult to identify through an article search. This difficulty in identifying and locating international governance studies likely serves as a disincentive for other researchers to enter this area.[53]

Having decided to conduct an international comparative study, there were two possible approaches. First, we could elect to collect relevant board structure data from other countries, which we could then compare to our New Zealand data. Alternatively, we could draw upon existing studies of board structure and make comparisons to New Zealand from these. The first option was eliminated because of the inherent difficulties and time-consuming nature of collecting detailed board structure data in any country. We chose the second method - a literature review of existing data - because no comprehensive comparative literature review has previously been undertaken in this area.

For comparative purposes we collected published board structure data for the United States, United Kingdom, Australia, and Japan. The United Kingdom and the United States were selected for comparison because we thought more studies touching on board structure would be available for these countries than anywhere else. Australia was chosen because of its close ties with New Zealand and, in particular, its status as New Zealand's largest trading partner. Japan was chosen because companies from this country are believed to have vastly different governance structures than those apparent in western countries.[54] It is also important to note that the four countries selected for comparison with New Zealand are also major trading partners.

The data on overseas board structure was obtained primarily from studies relating to board structure alone, board structure and corporate performance, and company interlocks. In an attempt to obtain as many studies as possible, we searched abstracting databases (ABI-Inform, Econlit, Social Sciences Index). In addition, the references in each paper we obtained were examined to identify any further papers that might be of use; literature review papers were especially useful in this regard.

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53 Boyd B, Carroll W and Howard M, 'International Governance Research: A Review and Agenda for Future Research' (1996) 11 *Advances in International Comparative Management* 191.

54 Dalton and Kesner, above n 45.

We now compare the board structure of New Zealand listed companies with those of Australia, Japan, the United States, and United Kingdom. In making these comparisons we must be mindful of the relationships observed between firm size and board structure which may - by virtue of sampling biases (towards larger companies) - lead to otherwise erroneous comparisons being made. For example, if we find larger boards in American compared to New Zealand companies - then this may be a function of the data sources used (we would expect, say, *Fortune 500* companies to be very much larger than New Zealand Stock Exchange listed companies). Given this concern, we are only attempting to obtain a *prima facie* understanding of international board structures.

Country Comparisons

Table Five shows board size for Australian companies and comparisons with New Zealand companies. The Australian data is not strictly comparable to that for New Zealand because of the bias towards larger Australian companies. Nevertheless, examination of the available data highlights some differences. New Zealand listed companies appear to have lower mean board sizes than large Australian companies. Around 1980 this difference was about one director. However, by around 1990, the Australian companies have approximately two more directors than do New Zealand companies. This situation appears to have arisen because the mean board size of New Zealand listed companies has declined between 1980 and 1990 (from 7.24 to 5.70), whereas the mean board size for larger Australian companies has remained relatively stable over a similar period (8.33 in 1979 and 8.37 in 1991).

Table Five
Board Size of Australian versus New Zealand Companies[55]

Year	Australia			New Zealand	
	Sample	Basis for Selection	Average Board Size	Year	Average Board Size
1959	Top 250	Assets	6.60		
1979	Top 251	Assets	8.33	1980	7.24
1986	Top 250	Assets	8.62	1987	6.14
1991	Top 250	Revenue	8.37	1990	5.70
1996	Top 100	Market	8.89	1996	6.15

55 Data for 1959 and 1979 is from Stening B and Wan W, 'Interlocking directorates among Australia's largest 250 corporations 1959-1979' (1984) 20 (1) *Australian and New Zealand Journal of Sociology* 47. Data from 1986 and 1991 is from Alexander M. and Murray G, 'Interlocking directorships in the top 250 Australian companies: comment on Carroll, Stening and Stening' (1992) 10 (6) *C&SLJ* 385. Data for 1996 is from: Stapledon and Lawrence, above n 32.

The only other board structure variable that has been given research attention for Australian companies is CEO duality. Kiel and Blannerhasett, in their study of the top 50 Australian listed companies found that 8 companies (16 per cent) had a board chair that was also CEO.[56] Unfortunately, these authors do not give the year they obtained their data for, making a comparison with New Zealand data impossible. Stapledon and Lawrence found that 7 per cent of top 100 companies had a non-executive chairperson in 1996.[57] Also, these authors found 95 per cent of companies had a majority of non-executives (compared to 13.7 per cent in New Zealand) and that the average proportion of independent directors on boards was 73 per cent (compared to 78 per cent in New Zealand).[58]

Comparisons with the United Kingdom

As with Australia, most of the available board composition data for the United Kingdom relates to board size – see Table Six. Hiner[59] (1967) found that the mean board size of 345 randomly selected British listed companies was 5.9 directors in 1962. This compares to 7.21 directors in Laurent's[60] (1971) study of 58 large New Zealand listed companies in the same year. More recently, Dalton and Kesner[61] (1987) in their sample of 50 large U.K. companies for the year 1986 found an average board size of 11.44 directors. This compares with a mean board size of only 7.45 directors for our 1985 sample of New Zealand listed companies. However, this difference may be attributable to the size bias in Dalton and Kesner's (1987) sample.

Table Six
Board Size and Duality in United Kingdom Companies[62]

Study	Year	No.	Mean Board Size	Duality
Hiner (1967)	1955	510	8.31	33.92
Hiner (1967)	1960	704	8.07	36.80
Hiner (1967)	1962	345	5.90	
Dalton and Kesner (1987)	1986	50	11.44	30.00

Both Dalton and Kesner[63] (1987) and Li[64] (1994) examined the proportion of outsiders on the boards of U.K. companies. Dalton and Kesner[65] (1987) found

56 Kiel G and Blennerhasett P, 'The board of directors in large Australian companies' (1984) 22 (1) *Management Decision* 40.
57 Stapledon and Lawrence, above n 32.
58 Stapledon and Lawrence, above n 32.
59 Hiner OS, 'The Size of Company Boards' (1967) 4 (5) *Management International Review* 69.
60 Laurent, above n 47.
61 Dalton and Kesner, above n 45.
62 Hiner, above n 59.
63 Dalton and Kesner, above n 45.
64 Li J, 'Ownership structure and board composition: a multi-country test of agency theory predictions' (1994) 15 (4) *Managerial and Decision Economics* 359.

this statistic to be 0.64 for 50 large companies in 1986, whereas more recently Li[66] (1994) found it to be 0.36 for 60 U.K. based multinationals in 1987. On the face of it these two statistics appear incompatible. In any event it appears that New Zealand companies have a higher proportion of outsiders on their boards at this time (0.76 in 1985 and 0.73 in 1987).

65 Dalton and Kesner, above n 45.
66 Li J, above n 64.

Comparisons with the United States

More studies have touched on various aspects on board structure in the United States than anywhere else. However, these studies have typically focused on very large companies (Boyd et al., 1996).[67]

Board size

Large U.S. companies appear to have a mean board size of around 12 directors – see Table Seven. Only one study (Schellenger, Wood, and Tashakori, 1989)[68] examines a random sample of U.S. listed companies. That study found a mean board size of 6.58 directors for 1986. This compares to 7.45 directors in 1985 and 6.14 directors in 1987 for New Zealand listed companies. It appears that, around 1986 anyhow, New Zealand and U.S. listed companies had similar board sizes.

Table Seven
Board Size in United States Companies[69]

Study	Sample	Year(s)	Mean Board Size
Gordon (1945)	155 largest U.S. corporations	1935	13.5
Kaplan (1994)	146 companies with the highest sales on Fortune's list of the largest industrials in 1980	1980	14.88
Rosenstein and Wyatt (1990)	324 U.S. listed companies who appointed an outside director	1981-85	12.2
Kesner (1987)	250 randomly selected Fortune 500 companies	1983	12.48
Lee et al. (1992)	58 MBOs, 1983 to 1989 U.S. listed companies	1983-89	11.45
Brickley et al. (1994)	247 firms listed on the NYSE between 1984 and 1986	1984-86	11.96
Dalton and Kesner (1987)	50 large U.S. corporations	1986	12.96

67 Boyd et al, above n 53.

68 Schelleger M, Wood D and Tashakori A, 'Board of director composition, shareholder wealth, and dividend policy' (1989) 15 (3) *Journal of Management* 457.

69 The studies presented in this table are from: Kaplan S, 'Top executive rewards and firm performance: a comparison of Japan and the United States' (1994) 102 (3) *Journal of Political Economy* 510; Kesner I, 'Directors' stock ownership and organisational performance: an investigation of Fortune 500 companies' (1987) 13 (3) *Journal of Management* 499; Brickley J, Coles J and Terry R, 'Outside directors and the adoption of poison pills' (1994) 35 (3) *Journal of Financial Economics* 371; Schellenger M, Wood D and Tashakori A, 'Board of director composition, shareholder wealth, and dividend policy' (1989) 15 (3) *Journal of Management* 457, and, Lee D, Rosenstein S, Rangan N and Davidson W, 'Board composition and shareholder wealth: the case of management buyouts' (1992) 21 (1) *Financial Management* 58.

Schellenger et al. (1989)	526 randomly selected U.S. listed companies	1986	6.58

Table Eight
Proportion of Outside Directors in United States Companies[70]

Study	Sample	Year(s)	Proportion Outsiders
Kesner and Dalton (1985)	266 companies listed in Forbes from 1970 to 1980	1970	0.46
Kesner and Dalton (1985)	266 companies listed in Forbes from 1970 to 1980	1980	0.57
Rechner and Dalton (1986)	30 companies from the Top 100 Fortune 500	1980	0.68
Kesner et al. (1986)	Average for 1980-84 of proportion of outsiders on 384 companies listed in the Fortune 500.	1980-84	0.70
Rosenstein and Wyatt (1990)	324 U.S. listed companies who appointed an outside director	1981-85	0.66
Kesner (1987)	250 randomly selected Fortune 500 companies 1983	1983	0.64
Lee et al. (1992)	58 MBOs, 1983 to 1989 U.S. listed companies	1983-89	0.59
Brickley et al. (1994)	247 firms listed on the NYSE between 1984 and 1986 that	1984-86	0.69
Dalton and Kesner (1987)	50 large U.S. corporations	1986	0.70
Schellenger et al. (1989)	526 randomly selected U.S. listed companies	1986	0.65
Li (1994)	192 U.S. firms taken from the Directory of Multinationals	1987	0.74

70 Sources of studies: Kesner and Dalton, above n 45; Rechner and Dalton, above n 51; Kesner et al, above n 28; Rosenstein S and Wyatt J, 'Outside directors, board independence and shareholder wealth' (1990) 26 (2) *Journal of Financial Economics* 175; Kesner, 1987, above n 28; Lee et al, above n 69; Brickley et al, above n 69; Dalton and Kesner, above n 45; Schellenger et al, above n 69; Li J 'Ownership structure and board composition: a multi-country test of agency theory predictions' (1994) 15 (4) *Managerial and Decision Economics* 359.

Baysinger, Kosnik and Turk (1991)	176 Fortune 500 companies	not given but appears to be early 1980s	0.60

Table Nine
Number of Outside Directors in United States Companies[71]

Study	Sample	Year(s)	Number of Outsiders
Kaplan (1994)	146 companies with the highest sales on Fortune's list of the largest industrials in 1980	1980	9.57
Rosenstein and Wyatt (1990)	324 U.S. listed companies who appointed an outside director	1981-85	8.0
Lee et al. (1992)	58 MBOs, 1983 to 1989 U.S. listed companies	1983-89	7.50
Dalton and Kesner (1987)	50 large U.S. Corporations	1986	9.02

Proportion of outside directors

There is no indication that the proportion of outside directors on boards is associated with company size. This was shown in Dalton and Kesner's (1987) study of 50 large companies in each of the U.K., U.S., and Japan. Given this results relating to differences in the proportion of outside directors between countries should be informative.

Results of studies on the proportion of outsiders on U.S. boards do not show any trend – see Table Nine. However, it appears that between 1980 and 1990 mean proportion of outsiders on the boards of large U.S. companies was between 0.60 and 0.70. This is somewhat lower than in New Zealand companies where the average proportion of outside directors over the same period was between 0.73 and 0.76 per cent – see Table 2.

Number of outside directors

The only studies which have looked at the number of outside directors on the boards of American companies have examined large corporations (refer Table 10). Hence, no meaningful comparison can be made between New Zealand and United States companies with regards the number of outside directors. These studies found that large U.S. corporations had on average about 8 outside directors (refer Table 10).

71 Sources of studies: Kaplan, above n 69; Rosenstein and Wyatt, above n 70; Lee et al, above n 69; Dalton and Kesner, above n 45.

CEO duality

In contrast to New Zealand companies, American companies appear to have a significantly higher incidence of CEO duality - see Table Ten. Estimates of CEO duality for U.S. companies vary widely, from 46 per cent in 1980 (Boyd, 1994) to 89 per cent for 1980 to 1984 (Kesner et al., 1986). The most recent study indicates that 76 per cent of American companies had a dual CEO structure in 1987. This compares to only 10.81 per cent for 1985 and 17.81 per cent for 1987 among New Zealand listed companies. It therefore appears in any event that New Zealand listed companies have an extremely low incidence of CEO duality compared to American companies.

Table Ten
CEO Duality in United States Companies[72]

Study	Sample	Year(s)	% with CEO Duality
Rechner and Dalton (1991)	141 companies listed in the *Fortune 500* between 1978 and 1983, with stable governance structures	1978-83	78.7
Boyd (1994)	192 U.S. corporations	1980	46
Dalton and Kesner (1987)	50 large U.S. corporations	1986	82
Donaldson and Davis (1991)	321 U.S. corporations	1987	76
Kesner, Victor, and Lamont (1986)	384 Fortune 500 companies listed between 1980 and 1984	1980-84	89

Comparisons with Japan

Each of the studies examining board size in Japanese companies has used very large companies,[73] so once again any comparisons with New Zealand are of dubious value. It is however interesting to note that the two studies just mentioned found board sizes of 22.5 and 21.0 members respectively, which are

72 Sources of studies: Rechner and Dalton, above n 43; Boyd above n 18; Dalton and Kesner above n 45; Donaldson and Davis above n 4; Kesner, Victor and Lamont, above n 46.

73 Kaplan above n 69; Dalton and Kesner above n 45; Dalton, Kesner and Rechner, above n 49.

extremely large by any standards – see Table 12. The large size of Japanese boards has not been explained by previous researchers.

Table Eleven
Board Structure in Japan[74]

Study	Sample	Year	Mean Board Size	No. of Out-siders	Proportion Out-siders	CEO Duality
Kaplan (1994)	119 Japanese companies included in the 1980 list of Fortune 500 largest foreign industrials	1980	22.49	0.86		
Dalton and Kesner (1987)	50 large Japanese companies	1986	21.04	10.17	0.51	10.9%

The only study to examine CEO duality in Japanese companies is that of Dalton and Kesner (1987) who found that only 10.9 per cent of their sample of large Japanese companies had this board characteristic in 1986. This compares with a similar figure of 10.8 per cent for New Zealand companies in 1985, but a considerably higher figure for New Zealand companies of 17.8 per cent in 1987. The difference that is indicated for this later year may be due to the adoption of a board leadership structure by New Zealand boards leading up to the 1987 stock market 'crash'.

The findings of previous studies with regards the number of outsiders on Japanese boards are confusing – see Table Eleven. Kaplan (1994) found that only 0.86 outsiders were represented on the average board during 1980. In contrast, Dalton and Kesner (1987) found that 10.2 outsiders were represented on the average Japanese board in 1986. There is no sound explanation for a massive increase in outsider representation over the 1980-85 period, leading us to conclude that the difference may be attributable to sampling bias. Given this possibility we elected not to compare Japanese and New Zealand boards on this variable, as we thought that any differences observed would in all likelihood be dubious.

The only study that has investigated the proportion of outsiders on Japanese boards is that of Dalton and Kesner (1987) who found this statistic to be 0.51 for

74 The studies are from: Kaplan, above n 69; Dalton and Kesner, above n 45.

1986. This compares to somewhere around 75 per cent at the same time for New Zealand listed companies. It therefore appears that New Zealand companies have a higher proportion of outsiders on their boards than Japanese companies. Insight into why this may be the case is provided by Dalton, Kesner and Rechner (1988):

> In Japan ... the role of the director appears to be less the steward of the stockholder than would be expected in either the United Kingdom or the United States. The 'watchdog' model of outside directorship, then, may be largely unnecessary for the typical Japanese corporation ... [75]

Discussion and Conclusions

The analysis undertaken in Part II of this article indicates several key changes in board structure in New Zealand. First, board size has declined from around 7 members between 1962 and 1985 and 6 members more recently (1987 to 1996). As mentioned previously this reduction may be a result of the stock market crash and the pressures of economic deregulation.

As to representation by non-executive directors, New Zealand boards were found to typically be dominated by outsiders. The Cadbury Report (1992) in the United Kingdom prescribed a 'Code of Best Practice'. Among the features of boards seen as desirable in this Code was that, '... the representation of non-executive [ie. outsider] directors on the board should be sufficient in number to carry weight in the board's deliberations ...'. In this respect, New Zealand boards appear well equipped to perform their governance role effectively, with over 80 per cent of our boards having a majority of outside directors. Furthermore, by 1993, approximately three-quarters of the members on the average board were outside directors.

The Cadbury Report (1992) also recommended that there should be a clear division of responsibilities at the top of any large company between the chairman and the chief executive officer. Only 8.8 per cent of New Zealand listed companies had chief executives who were also board chairperson, indicating that such companies, *prima facie*, have an effective board leadership structure.

The findings in Part III of this article are indicative of some differences in board structure between New Zealand and each of Japan, Australia, the U.K., and the U.S. Ideally, future research in this area should take care to study representative samples of companies in different countries, rather than just very large companies, thereby giving researchers the opportunity to make more generalisable observations about differences in board structure between countries.

75 Dalton, Kesner and Rechner, above n 49, 101.

Some explanations as to why governance structures in the U.K., U.S., and Japan may be different have been provided by previous research. The corporate structure of Japanese companies in particular is seen to differentiate such companies markedly from those of most western countries. In particular it has been noted that, 'the typical Japanese firm is comprised of very few owners whose financing comes from large financial institutions who work very closely with top management'.[76] In a similar vein, Prevezer and Ricketts note that, in comparison to U.K. companies (and presumably U.S. companies too):

> ... [shareholders of Japanese firms] are largely insiders, having some kind of commercial contact with the company. Thus, although the structure of shareholding ... the nature of institutional shareholding is very different ... The institutions are not independent pension funds and insurance companies with their own interests and obligations ... They are instead institutions such as banks who may have provided loan finance; supplying companies who may have a long-running association; or other companies linked by cross-shareholdings.
>
> The second important feature of Japanese shareholding is that tradeability of rights is more constrained than in the U.K. It is estimated that nearly two-thirds of equity is held in the form of stable shareholding - *antei kabunush i*- which is distinct from interlocking shareholding - *kabushiki mochiai.*[77]

In addition to shareholding differences in Japanese (compared to western companies), it has been observed that corporate boards in Japan are more 'consensus orientated and less CEO-dominated' than their U.S. counterparts.[78] This may also help account for the apparently low incidence of CEO duality among Japanese companies and the apparently large boards of Japanese boards (presumably consensus decision-making involves the participation of many relevant parties, which may be represented on the board).

The above discussion indicates that Japanese companies may have different board structures than those of their western counterparts by virtue of differences in the nature of corporate ownership and decision-making. It is less clear why differences in board structure of western countries occur. It would be instructive for future international comparative studies to track board structure in different countries on an historical basis. Hence, any differences in board structure which may be present between countries today could be attributed to, say, how industry and corporate control has evolved in different countries.[79] Take for example the following:

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76 Dalton, Kesner, and Rechner, above n 49, 100-1.

77 Prevezer M and Ricketts M, 'Corporate Governance: The UK compared with Germany and Japan' in Dimsdale N and Prevezer M, eds, *Capital Markets and Corporate Governance* (Oxford: Clarendon, 1994) 245, 246.

78 Kaplan, above n 69, 520.

79 For an illuminating discussion on this point, see Roe M, 'Chaos and Evolution in Law and Economics' (1996) 109 Harvard LR 641.

> ... the British tradition of corporate accountability has been traced to the philosophical writings of Bentham. Bentham applied utilitarian principles to management, with the idea that there is a concept of accountability for management actions which should result in beneficial consequences.[80]

However, despite the calls made for international comparative research on corporate governance, one must remain somewhat sceptical of its value. It is inevitable that the variables of interest to academics - such as those used herein - provide only vague indicators of whether or not a board is in fact effective. Academic research on boards of directors has largely been driven by convenience of data collection, with variables such as board size, outsider representation and CEO duality being readily observable and, typically, easily obtainable from secondary data sources - hence their use and the theories revolving around these variables.

It would be more productive for researchers to focus on what makes some boards more effective than others. For example, to say that a larger board is likely to be more effective that a smaller board is somewhat simplistic. The quality and the diversity of the directors on the board is what one is more likely to be really talking about, and board size may only provide a proxy for these factors.[81]

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80 Boyd, Carroll and Howard, above n 53, 7.

81 Some research on the effectiveness of boards of directors has been conducted, however, such research has focussed on the health care sector: see, for example, Bradshaw P, Murray V, and Wolpin J, 'Do Non-Profit Boards make a Difference? An Exploration of the Relationships among Board Structure, Processes and Effectiveness' (1992) 21 (3) *NonProfit and Voluntary Sector* 227 and Kovner A, 'Improving the Effectiveness of Hospital Governing Boards' (1985) 2 (1) *Frontiers of Health Service Management* 4. More general observations on effectiveness have been made by Leighton D and Thain D, 'Selecting New directors:' (1993) 57 (4) *Business Quarterly* 17; Thain D and Leighton D, 'The Board of Directors: Key to Effective Governance' (1988) 53 (1) *Business Quarterly* 77, and, Weinbaum M, 'Updating the Corporate Board' (1986) 7 (1) *Journal of Business Studies* 77. At present, empirical research in the area appears to be non-existent; hence, this appears to be the most promising area for international governance research.