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BOARD EFFECTIVENESS IN FTSE 250 COMPANIES: DIVERSITY MAY HOLD THE KEY

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ABSTRACT

This chapter takes the argument of Levrau and Van den Berghe (2007) further and explores yet another tool for improving board effectiveness. Guided by Strategic Leadership theory, this study interviews 30 board members of FTSE 250 companies and seeks their perspective on the attributes of effective boards. The findings of the study reveal that effective boards optimise the benefits of their members' experiences. Boards with a range of varied experiences, borne out of Directors' gender, nationality, and professional background, challenge the assumptions of the executive more constructively, and also enrich the decision-making process. Also, the stakeholders of FTSE companies are increasingly becoming aware of the role of diversity in enhancing board effectiveness. As a result, companies with diverse boards communicate positive signals more effectively. Lastly, the findings of the study argue that if diversity is defined broadly it strengthens the business case of board diversity. The findings of the study make a significant contribution to the existing literature on board diversity and effectiveness by presenting the perspective of board members on both constructs – diversity and effectiveness. The findings also contribute to Strategic Leadership theory by identifying Directors' gender, nationality, and professional background as critical experiences which shape their perspective and guide their actions/decisions. The findings also may have significant relevance for corporate praxis as they suggest that, in order to improve their performance, firms may first endeavour to compose effective boards through diversity.

Keywords: Board effectiveness, Board diversity, Strategic Leadership theory, Diversity of experience.

INTRODUCTION

The impact of board effectiveness in ensuring a firm's sustainability and long-term success is widely acknowledged (Levrau and Van den Berghe, 2007). It is now indisputably established that board effectiveness relates to its ability to perform various roles (Levrau and Van den Berghe, 2007; Thain and Leighton, 1992; Nicholson and Kiel, 2004, 2007; Minichilli et al., 2012). Although, the tasks that boards perform vary considerably depending on the sector, geographic regions, political influence, and regulatory regimes, the most commonly performed board roles are control, service and strategic direction (Zahra and Pearce, 1989). For FTSE companies, the role of a board is elaborately defined through the 2016 UK Corporate Governance Code (henceforth, 'the Code'), as challenging and supporting the executive, and providing long-term strategic direction.

For higher board effectiveness, various structural and compositional combinations such as an independent leadership (Donaldson and Davis, 1991), outsider-heavy ratios (Rosenstein and Wyatt, 1990), manageable board sizes (Goodstein et al., 1994), and diversity are recommended (Thain and Leighton, 1992; Randøy et al., 2006). Research suggests that diversity on boards may break groupthink (Janis, 1972; Ferreira, 2010; Upadhyay and Zeng, 2014; Financial Reporting Council (FRC), 2016), make them more independent (Farrell and Hersch, 2005; Singh, 2007; Ferreira, 2010) and improve board capital (Nicholson and Kiel, 2004; Huse, 2005). The Strategic Leadership perspective (Finkelstein et al., 2009) broadly indicates that board Directors' experiences, backgrounds, and values may shape their decisions and hence may influence firm outcomes. However, the existing literature is silent on the matter of identifying which experiences may have a bearing on specific board roles. Additionally, the impact of board Directors' attributes on firm outcomes can only be understood after the impact on boards' effectiveness has been explored. Thus, this chapter addresses this void in existing research and reports the findings of a study conducted by interviewing 30 board members of FTSE 250 companies.

The research findings in this chapter argue that effective boards actively seek diversity of thinking and experience. The findings of the study strengthen the claim made by Levrau and Van den Berghe (2007) that boards' effectiveness is a process-oriented exercise and argue that processes leading to effective boards can be stimulated by composing diverse boards. This empirical research finds that Directors with varied experiences are more capable of supporting the executives and challenging their assumptions. Moreover, such diverse boards communicate effective, positive signals and take more empathetic decisions. Directors' cumulative experiences shape their perspective and guide their actions, which improve board effectiveness in a range of roles. The findings also support the proposition of Strategic Leadership theory (Finkelstein et al., 2009)

and elaborate on how Directors' experiences such as their gender, nationality and functional experience shape their decisions. The study outcome adds an intermediate level of board effectiveness in the relationship between board composition and firm outcomes.

The rest of the chapter is structured as follows. It first describes the attributes of effective boards, discusses the propositions of Strategic Leadership perspective (Finkelstein et al., 2009) and articulates the research gap. The data collection and analysis methods adopted in this study are then explained. The subsequent section presents the findings of the study and argues that effective boards strategically appoint Directors with varied experiences. This section also details the impact of various experience-based characteristics of Directors on specific role performance of boards. Finally, the contribution of this chapter is discussed and a few limitations of the study are presented.

ATTRIBUTES OF EFFECTIVE BOARDS – INDEPENDENCE

Board effectiveness relates to the performance of certain tasks/roles by boards (Nicholson and Kiel, 2004). Levrau and Van den Berghe (2007) claim that the most critical roles that a majority of boards are expected to perform are the control role (i.e. monitoring or challenging the executive), the service role (i.e. providing networks with the external environment to the company and counsel to the executive), and giving strategic direction to the company. The control role of boards relates to the fiduciary duty of boards towards the owners of companies (Lorsch and MacIver, 1989). Various American and European corporate scandals such as Enron, WorldCom, and Ahold have underlined the control role of boards in preventing a recurrence of such incidents and reinstating investor confidence (Levrau and Van den Berghe, 2007). The immediate response of the scholars in the wake of corporate scandals and reported malpractices has been to recommend more independence to boards with the objective of improving their monitoring/control role-effectiveness (Abbott et al., 2000). In the US, the number of Standard and Poor (an index, hereinafter referred to as S&P) companies with duality in leadership (positions of the Chair and Chief Executive Officer (CEO) being held by one individual) has decreased from 65% in 2007 to 49% in 2017 (Spencer Stuart, 2017b). Similarly, in the top 150 companies in the UK (FTSE 150) the duality of board leadership has been reduced from 2% in 2007 to 0.7% in 2017 (Spencer Stuart, 2017a).

However, the independence of board leadership is only one aspect of improving board effectiveness. Another aspect is to compose boards with a majority of Outsider/Independent Directors, that is, those who have not been in a companies' employment and whose appointments are made through an

independent and objective nominations committee (FRC, 2016). Levrau and Van den Berghe (2007) define Outside Directors as those who 'are not employees of the company and do not assume management tasks' (p. 9). In the UK, the Code (2016) recommends that boards of listed companies appoint a majority of Independent/Outside Directors, and the appointment/nomination process is objective and encourages diversity (Adams and Borsellino, 2015). According to section B.1.1. (the Code, 2016) Directors who have not been in the employment of the company for the last five years, have not conducted a material business relationship with upper echelons, have no family ties to them, and do not hold cross directorships with other Directors may be considered independent (the Code, 2016). In S&P 500 companies (in the US) the ratio of Independent Directors is reported to be 85% while in FTSE 150 companies (in the UK), the ratio is reported as 61% (Spencer Stuart, 2017b, 2017a). It is claimed that diverse boards may be more independent, hence may challenge the executive more profoundly and therefore improve boards' monitoring role-effectiveness (Staubo, 2010; Farrell and Hersch, 2005; Ferreira, 2010).

ATTRIBUTES OF EFFECTIVE BOARDS – BOARD CAPITAL

Another critical role performed by most boards in listed companies is their service role – advising/counselling the executive, resource provisioning and managing dependencies for the company, and enhancing the reputation of the company (Levrau and Van den Berghe, 2007). A board is also expected to reduce dependencies by providing accessible and affordable finance and give the company a network of external stakeholders such as new markets, suppliers, and government/regulatory authorities (Johnson et al., 1996). In order to perform their Service role effectively boards need board capital (Nicholson and Kiel, 2004). Board capital consists of human capital – that is, Directors' ability to take appropriate decisions – and social/contractual capital – that is, networks to reduce dependencies (Nicholson and Kiel, 2004). According to Stewardship theory (Donaldson and Davis, 1991), boards contribute to corporate governance by facilitating the performance of the executive through guidance and counselling. Diverse boards may also have richer intellectual capital such as varied experience (Treichler, 1995), and richer occupational attributes (Baysinger and Butler, 1985).

While existing knowledge indicates that the diverse background of Directors may improve a board's role-effectiveness in their control/monitoring and service roles, much board diversity literature defines diversity with reference to a Director's gender (Huse, 2007; Galia and Zenou, 2013; Torchia et al., 2015). However, the Strategic Leadership perspective suggests that a range of attributes

of Directors may influence their decisions and may impact firm performance (Finkelstein et al., 2009). The following section discusses the Strategic Leadership perspective further.

STRATEGIC LEADERSHIP PERSPECTIVE AND DIRECTORS' ATTRIBUTES

The Strategic Leadership perspective combines the attributes of the Discretionary perspective (Williamson, 1963) and the Upper Echelon perspective (Hambrick and Mason, 1984) and suggests that in order to understand organisational outcomes, leaders should be examined closely (Finkelstein et al. 2009). The theory suggests that the fortunes and trajectories of companies can be traced back to the attributes of their CEOs, top management teams, and Board Directors. Corporate leaders make decisions under ambiguous, uncertain, and often conflicting circumstances without detailed background information. Organisations reflect the decisions taken by their leaders and leaders in turn take decisions by interpreting situations before them with the help of their experiences (Finkelstein et al., 2009). The basis of information on which leaders base their decisions are motive-driven and pertains to unknowable situations which can only be interpreted. The interpretation of these situations may often be based on leaders' experiences, values, personalities, and other human characteristics. These attributes of corporate leaders may determine their field of vision, perception, and interpretation. In other words, the experiences of corporate leaders may be reliable indicators of their cognitive construct (Finkelstein et al., 2009). Hence, the Strategic Leadership perspective is a perfect fit for this study and guides various processes such as sample selection, data collection, and analysis in this research.

The study is conducted by interviewing strategic leaders of FTSE 250 companies: CEOs, Non-Executive Directors (NEDs), Executive Directors (EDs), and Chairs. The study seeks to answer questions on how board members' attributes impact their decisions and board effectiveness. The study also investigates whether any specific characteristics of board members have a specific bearing on boards' role performance.

DATA COLLECTION AND ANALYSIS

In the UK, corporate governance in listed companies is enforced through the Code (2016) on a 'comply or disclose' basis. Boards of top FTSE companies are under regular review for their composition and performance (e.g. through the Spencer Stuart UK Board Index, Davies annual reviews). Boards of FTSE 250 companies are the context to this study.

The challenges of approaching corporate leaders is well documented and boards are often given the pseudonym of 'black box' (Leblanc and Schwartz, 2007; Zona and Zattoni, 2007). Finkelstein et al. (2009) to explain that the challenges in approaching and studying the corporate elites are mainly due to their reluctance to subject themselves to psychological analysis. For this study, the authors interviewed 30 board members – 20 male and 10 female – of FTSE 250 companies including their Chairs, CEOs, EDs, and NEDs. Interviewees were initially approached from the personal networks of the authors and, subsequently, more participants were contacted at various networking events attended by the authors. A few participants introduced the authors to other board leaders in their network. Thus, the method of approaching participants for this study is purposive and snowballing (Tansey, 2007). The purposiveness of participants – having the experience of being a board member in at least one FTSE 250 company – was maintained during data collection. Interviews were conducted for a minimum of 60 minutes each and sometimes continued up to 90 minutes. Interviews were organised at the workplace of the participants and were conducted in English. English is the language of the business-related communications for all the participants.

Table 1 describes some diversity attributes of the participants in the study.

The interview protocol followed in the study consisted of three themes:

- 1) background of the participants (their family background, educational qualification, nationality, religious affiliations, marital/parental status);
- 2) how their background/attributes impact their thinking and decision-making
- 3) how board decisions influence board effectiveness.

The authors in the study did not steer the conversation towards any specific type of board diversity (i.e. gender, ethnicity, nationality) and carefully refrained from using any academic terminology for board effectiveness. Technical terms such as monitoring ability, service role, or resource dependency/provisioning are deliberately avoided in the conversation in order to glean participants' definitions of and perceptions on these constructs. Interviews were recorded and transcribed before they were individually analysed by the authors. Broad themes observed by individual authors were then compared, and final themes were agreed upon.

Table 1. Participants in the Study

Gender	Education			Marital status (Married)	Parental status (Father/Mother)	Profession (other than finance)	Nationality (other than British)	Ethnicity (Other than British White)	Age (Above 50 years)
	Doctorate	Masters	Undergrad						
Male	2	7	10	20	20	10	2	6	17
Female	1	7	1	5	6	3	1	2	5

Source: Compiled by the authors.

FINDINGS – DIVERSE BOARDS AND BOARD EFFECTIVENESS

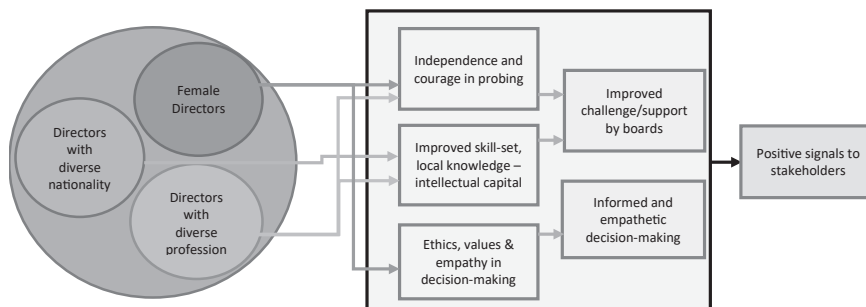
The analysis of the data reveals that the relationship between Directors' attributes and board effectiveness is not a linear but a complex one. The diverse experiences of Directors shape their thinking/perspective and thus, impact their actions, which in turn influence role-effectiveness and decision-making in boards. Additionally, not all experiences of Directors impact the role-effectiveness of boards in a similar way.

MODEL 1 – BOARD DIVERSITY AND ITS IMPACT ON BOARD EFFECTIVENESS

Model 1 (Figure 1) demonstrates this complex relationship between different constructs of board diversity and effectiveness. The model shows how:

- board diversity, which is relevant for board effectiveness, may be broader than the gender of Directors;
- the relationship between Directors' experience and board effectiveness is a complex and gradual one which evolves organically through its intervening impact on Director's perspective and actions/decisions;
- diverse boards not only have an improved monitoring and service role performance but also have more empathetic decision-making and effective signalling; and
- the most relevant characteristics that have a direct bearing on Directors' perspective, decisions, and thus on boards' effectiveness and decision-making are gender, nationality, and professional expertise.

Figure 1. Board Diversity and Role-Effectiveness



Source: Compiled by the authors.

The findings of the study suggest that diverse boards composed by Directors with varied experiences may have improved board effectiveness and decision-

making. Diverse boards improve their role performance because such boards have a higher board capital and more independent thinking, as compared to experientially homogenous boards. The findings of the study support the existing literature in that the relationship between board characteristics and outcomes may be ‘determined by a large set of interrelated variables’ (Levrau and Van den Berghe, 2007, p. 5). The findings explain some of the ‘processes and mechanisms’ that are claimed to be missing from the existing literature, which makes ‘great inferential leaps’ between board composition and performance (Pettigrew, 1992, p. 171).

The impact of specific experiences of Directors on their perspective, decisions, and board effectiveness is explained next.

DIVERSE BOARDS HAVE IMPROVED PRIMARY ROLE-EFFECTIVENESS AND DECISION-MAKING

The participants in the study are of different age groups, ethnicities, genders, nationalities, professional backgrounds, religious affiliations, marital and parental statuses (Table 1). In the study, the authors endeavour to investigate the impact of each of these attributes on Directors’ decisions, perspectives, actions, and board effectiveness. The findings of this research reveal that various attributes of Directors are either the result of, or lead to, diverse experiences. These experiences shape Directors’ thinking and, thus, their contribution in boardrooms. Directors’ contributions in boards determine board role-effectiveness. Thus, the Director’s attributes/experiences impact board effectiveness.

However, not all experiences or attributes may have the same impact on Directors’ perspectives and/or board effectiveness. The impact of certain attributes/experiences is more pronounced than others. The findings suggest that Directors’ gender, nationality, and professional experience form Directors’ thinking/perspectives and, as a result, impact board effectiveness more profoundly. Similarly, not all board roles are impacted by diverse boards.

Monitoring/control of the executive, which is a function of boards’ and Directors’ independence, is one of the most critical roles performed by top FTSE boards. However, the study indicates that the terminology used by board members is distinct from that used by academics; for example, Directors ‘challenge the assumptions of the executive’ instead of ‘monitoring’ or ‘controlling’ them. Diverse boards, that is, boards having Directors with varied experiences, have a direct and significant bearing on monitoring the effectiveness of boards.

DIVERSE EXPERIENCE ON BOARDS AND BOARDS' MONITORING ROLE-EFFECTIVENESS – GENDER

The diversity of gender impacts board monitoring effectiveness. Scholars have conjectured a relationship between gender-diverse boards and board effectiveness, suggesting that female Directors often ask different and more probing questions of the executive (Konrad and Kramer, 2006). Participants in the study also confirm that female Directors demonstrate a higher degree of independence of thinking and expression as compared to male Directors. Their independence of thinking can be observed in the questions asked by them and their style of probing. Participants often describe this trait as 'more courageous' as exemplified by female Directors in asking the executive different questions. One participant claims that *'courage is the most outstandingly different feature to many of the effective women that I have worked with than many of the effective men I have worked with'* (Participant 15). Additionally, female Directors display a collegial style of probing, which is bereft of confrontation. As a result, the CEO (and the top executive team) feel more confident and encouraged to share critical information with boards and even take corrective measures and modify their plans.

Participants claim that gender-diverse boards have an enhanced ability to ask questions, as compared to all-male boards, because female Directors' experiences are different from male Directors' and hence they ask significantly different, yet relevant questions. Thus, gender-diverse boards have a higher ability to challenge the executive, that is, a higher monitoring effectiveness. The findings of the study reinforce existing knowledge on female Directors asking more probing questions (Konrad and Kramer, 2006) and explain that the collegial and collaborative style of female Directors improve this ability further. The findings also confirm the propositions of Strategic Leadership theory (Finkelstein et al., 2009) and expand the definition of experiences by adding Directors' gender to their background, values, and professional experiences which impact their thinking and actions. The unique contribution of the study to the theory is that it characterises 'gender' to be an 'experience' rather than merely a physiological attribute.

DIVERSE EXPERIENCE ON BOARDS AND BOARDS' MONITORING ROLE-EFFECTIVENESS – PROFESSIONAL EXPERIENCE

The findings of the study demonstrate that the monitoring ability of boards is also improved when boards have the diversity of professional experience. Participants in the study claim that in companies under Anglo-American governance regimes, a significant majority of Directors have expertise in finance.

The ability to interpret financial reports and performance indicators is valuable and improves a board's ability to challenge executives' proposals and evaluate their/companies' performances. However, Directors with the knowledge and expertise in other professional skills can improve a board's ability to challenge further. One participant articulates his views on the subjects which are widely supported by other participants: *'I think many boards are too full of finance backgrounds. So, they focus only on a small set, the numbers, and not get behind the numbers. If you have somebody who understands technology, which is a big driver these days for corporations, they are able to challenge some assumptions. If you have a person, with a deep insight on human management, human relations, and human resources, the board has another competency around the table'* (Participant 16). Thus, Directors' professional experience in industry, other sectors such as academia, conducting legal matters, running operations, private/small businesses, and the third sector is an enabler for boards. International exposure and work experience also facilitate different thinking.

Existing literature indicates that there are several justifications for appointing Directors with diverse professional experience on boards. Corporate elites with similar experiences, such as an educational/functional background in finance, so often take similar positions on business problems as they share perspectives (Jensen and Zajac, 2004). New boards are expected to have innovative skill-sets, such as knowledge of cybersecurity and digital strategy, which will introduce 'a wide range of thinking styles on the board' (Skroupa and Manning, 2016). Thus, the findings of the research support existing literature and suggest that the knowledge of different verticals, industries, and sectors enable Directors to offer innovative yet workable solutions that might not have been thought of earlier. Thus, the varied professional experience of Directors provides boards with a broader skill set, which promotes effective challenging of the assumptions of the executive, improving boards monitoring effectiveness.

DIVERSE EXPERIENCES OF DIRECTORS AND BOARDS' DECISION-MAKING ABILITIES – GENDER

There also seems to be a direct relationship between the diversity of experience on boards and boards'/Directors' ability to take appropriate decisions. The participants in the study claim that, with increasing uncertainties of today's corporate world, it is imperative that boards are diverse. Board members participating in the research share many anecdotes to support their claim that diverse Directors broaden the inputs required for effective decision-making and companies ignoring board diversity may run the risk of being rendered irrelevant. A participant underlines the relationship between board diversity and boards' decision-making ability thus: *'Diversity in the broadest sense is critical to decision-making'* (Participant 30). The participants in the study share

many anecdotes to suggest that all-male boards often witness an ego-driven confrontation with male CEOs, which is not conducive to decision-making as the executive team has unique access and control on company-specific information. As a result, in the instance of a logjam between board members and the CEO, a board's ability to challenge the executive may be severely compromised, adversely impacting the ability to take appropriate decisions. In gender-diverse boards the environment is more collegial, the language of conversation more informal but respectful, and board processes are more focused on information sharing.

The findings of the study reinforce existing knowledge, which is currently very limited, and suggests that having a range of industries' and sectors' experience on boards helps Directors to contribute on a variety of issues (Nguyen et al., 2015). The findings further confirm the propositions of Strategic Leadership theory by presenting empirical evidence in support of its theoretical claim that the background of board members shapes their actions.

Gender-diverse boards also have a more empathetic, sensitive decision-making process than all-male boards. Male and female participants both share anecdotes from their experience and claim that female Directors are more concerned about the outcome and the impact of boards' decisions on various stakeholders. These findings support existing literature, which suggests that female Directors often demonstrate more sensitivity towards a range of stakeholders and are more concerned with the companies' social responsibility (Burke, 1997; Siciliano, 1996; Terjesen et al., 2009). The findings of the study further add to existing literature and suggest that female Directors ensure that companies are sensitive to the requirements of the female workforce – working off-site, flexible working hours, maternity/paternity leave. Female Directors often raise matters of gender parity in all hierarchies of the organisation, of provision for maternity leave for women in leadership positions, and of measures to make new mothers/fathers welcome in organisations. Additionally, female Directors are often more insistent on ensuring that organisations follow an ethical procurement and HR policy.

DIVERSE EXPERIENCES OF DIRECTORS AND BOARD CAPITAL – PROFESSIONAL EXPERIENCE AND CULTURE

The findings of the study also identify a link between appointing Directors with diverse professional expertise and the experience of different cultures (countries, governance and legal systems, processes and practices) and an improvement in boards' human capital and skill-set. Many of the FTSE 250 companies have an international footprint and they benefit from the diversity of experience on their boards. Directors with international experience/exposure offer comment, listen patiently, provide enthusiastic support, and constructive advice on executives' plans to expand their operations abroad. Similarly, boards with diverse professional experience (sectoral, industrial, and vertical) offer novel but relevant

solutions to operational problems faced by the executive. The participants in the study, however, seldom if at all use the term ‘advice/counsel’ while speaking of the service role of boards. The term most often used in the top FTSE companies is ‘support’, which they define as helping the executive in performing their roles efficiently. The role of diverse boards in their decision-making is articulated by a participant as: *‘A balanced board is an effective board. Having people of the same opinion on the board is dangerous because that way you don’t get the opportunity to challenge effectively and to support effectively. So, having diverse organisations, executive team and board is absolutely essential’* (Participant 26).

An extremely limited body of existing literature, of very recent origin, addresses the functional experience of board members and board capital and/or board effectiveness (e.g. de Villiers et al., 2011; Ben-Amar et al, 2013; Kim and Rasheed, 2014; Adams and Borsellino, 2015). The findings of this study support the literature and reiterate the impact of board diversity on board role performance. However, the findings of the study also reveal that in FTSE 250 companies, the functional diversity of Directors is welcomed widely and is considered imperative for boards’, and hence companies’, sustainability. Thus, the findings add yet another contribution to existing knowledge and further strengthen Strategic Leadership theory by establishing the role of professional background in influencing the boards’ role performance.

BOARD DIVERSITY AND BOARD’S SIGNALLING EFFECTIVENESS

The participants in the study claim that recent instances of reported collapse and malpractice in big corporate houses such as Sports Direct and BHS are wearing the public’s patience thin. Reports of a lack of accountability in upper echelons for deteriorating corporate performance have resulted in the loss of public faith and money. In these circumstances, boards need to ensure that the faith in companies’ intentions and accountability of their leadership is restored. Thus, Directors’ value-set and personal characteristics may also play a role in sending positive signals to a range of stakeholders such as government/regulatory agencies, consumers, suppliers, and current/future employees.

Existing literature on board diversity also acknowledges that as significant as it is that boards have the ability and the independence to challenge the executives and the capital to support them and provide the firm with networks, it is equally important that boards emit positive signals (Broome and Krawiec, 2008; Certo, 2003; Miller and del Carmen Triana, 2009; Shin and Gulati, 2011; Bartlett, 2010; Langevoort, 2010). Boards may have the responsibility of ensuring stakeholders are assured of the firm’s sustainability, ethical approach, regulatory compliance, and ability to provide an adequate return on investors’ money. With increasing

emphasis on corporate social responsibility globally, the role of Directors' values and beliefs also are now in the focus of public discourse.

Thus, the findings of the study indicate an improved monitoring and service role-effectiveness, and more ethical, sensitive and empathetic decision-making in diverse boards. However, the impact of diversity on boards is not limited to the primary roles of challenging and supporting the executive. Participants in the study claim that one of the most pronounced impacts on diversity on boards is on boards signalling role-effectiveness. The study's outcomes indicate that effective and positive signalling role performance (Spence, 1973) is due to stakeholder's perception about firm's effectiveness because diverse boards are expected to have an improved monitoring role performance and decision-making.

BOARD DIVERSITY AND BOARD CAPITAL AND SIGNALLING EFFECTIVENESS – NATIONALITY

The findings of the study suggest that one of the antecedents of Directors' perspective is their nationality. Boards may benefit by appointing Directors from different nationalities as most top FTSE companies either have an international presence or are contemplating expanding their operations beyond UK borders. The presence of Directors from countries where the companies have business interests may enable boards to have local knowledge of customs, regulations, and corporate culture which may improve boards' decision-making. One participant asserts *'If you are expanding into a new territory, one needs to understand local customs, habits, the local knowledge, how things are done locally, which are hugely important. Transferring their executives to run and manage operations in territories where they have no understanding and knowledge has been the kiss of death for a lot of organisations because you cannot manage if you don't understand. You need to have that expertise and involvement at the local level. Because business may be done globally, but successes are achieved locally.'* (Participant 29). Additionally the presence of Directors from foreign countries is also sought by various stakeholders of companies – decision makers, investors and the public. Such diversity is interpreted as respect for merit in the company as one participant shares *'Increasingly they (investors) are going to be challenging more companies. We have seen that with some of the institutional investors that they are challenging boards who are completely non-diverse. I think that will increase. I think the investors actually want to see greater diversity generally, to get away from that sort of groupthink approach.'* (Participant 7)

Existing literature indicates that the diversity of nationality may impact board members' perspectives (Hambrick and Mason, 1984) and suggests that the country of origin of individuals also influences their field of vision, perception, and interpretation of work situations (Nielsen and Nielsen, 2012). This study contributes to Strategic Leadership theory and explains that the diversity of

nationality on boards may influence the perspective of board Directors and also contribute towards board effectiveness. The findings support the trend of nominating Directors with a different passport as reported in a few existing studies (Alli et al., 2010). The findings also add to the knowledge by describing the type of resources provided by the diversity of nationality on boards – local knowledge of customs, culture, and regulations.

BOARD DIVERSITY – CRITICAL BOARD ATTRIBUTE FOR SURVIVING AND THRIVING

The findings of the study indicate that investors are prioritising companies with diverse boards. A few participants claim that investors are asking for a higher rate of return from companies that do not have diverse boards. One participant highlights the awareness among investors of board diversity and states that diverse boards are a sign of meritocracy: *'Some big UK investors are now looking at the diversity of leadership teams and consider it a sign that meritocracy is active. They believe that a company that is pushing and promoting meritocracy will outperform others. They're starting to apply higher return requirements for companies that are insufficiently diverse because it is more risky'* (Participant 30). Participants also confirm that in the UK, government agencies advertising tenders for supplies/work ask for the details of companies' workforce gender ratio in all hierarchies. A higher weightage is given to companies with a balanced workforce across hierarchies. Directors of companies in the consumer goods sector who participated in the study and have gender-homogenous boards disclose that their suppliers and bulk-customers are expressing dissatisfaction with their board composition. Participants in the study also insist that boards that do not represent the composition of their workforce and customers are running the risk of not attracting the best talent, depriving themselves of the awareness about aspirations of the new generation of employees, and losing out on the perspective of the customers of diverse ethnicities, age, and gender. One participant sums up the impact of a diverse board on its signalling: *'If there are more people from more diverse background, then signal goes to society, and particularly to the minorities in that society, that they have someone to aspire to be. Successful role models are very valuable, in articulating and demonstrating that to the larger society. And that aspiration is good. That has been the case in politics, that has been the case in sports. So, why shouldn't that be the case in corporate life?'* (Participant. 16). Thus, this study presents a detailed account of how diverse boards improve the perception of a range of stakeholders about the company and how the relevance of board diversity is increased in the present scenario.

In the UK, the conversation on improving board diversity is getting louder and broader. The effects of the Davies Report's (2011) recommendations on improving gender diversity on the boards of FTSE 100 companies are being assessed

annually. In 2015, the Davies review (Department for Business, Innovation and Skills, 2015) broadened the focus of their recommendations, bringing boards of FTSE 350 companies into its ambit and increased the voluntary targets to 30% by the year 2020. The Hampton and Alexander review (2016) further broadens the focus and brings one-below (i.e. one level below board level) hierarchy, that is, top management teams under the ambit of its recommendations of 33% gender diversity by the year 2020. The conversation on board diversity is no longer limited to increasing the presence of female Directors on boards in the UK, as the Parker Review (2016) recommends that boards of FTSE 350 companies have more than one ethnically diverse Director by the year 2021.

Clearly, the UK corporate sector is at the forefront of the diversity dialogue taking place globally. In the environment of increased dialogue on board diversity, various stakeholders seem to be supporting the idea of more diverse boards in top FTSE companies.

CONCLUSION – IT’S ALL ABOUT CUMULATIVE EXPERIENCE

Strategic Leadership perspective suggests that a cumulative set of attributes of corporate leaders may have a bearing on organisational outcomes. The findings of the study support the theory and indicate that Directors’ perspectives are shaped by the range of experiences that they have had in their lives. The experiences may relate to their personal attributes, such as gender, or acquired experiences, such as their professional expertise and/or nationality/international exposure. The participants in the study emphasise that board members take decisions based on what their cumulative experiences have been, which are often referred to as the ‘gut-feeling’. The respondents in the study explain that the decisions taken by the ‘gut feeling’ of corporate leaders are not some abstract and arbitrary approach to decision-making, but are decisions taken while interpreting information through the multiple lenses of their experiences. Finkelstein et al. (2009) also claim that while studying the corporate elite both their demographic and psychological characteristics may be relevant. In this study, the authors find that various attributes of corporate leaders impact their perspective through the experience those attributes facilitate for those individuals. The experiences of Directors determine how they gather and process information and use the relevant information for their decision-making. While Strategic Leadership theory suggests that their experience and psychological factors determine corporate leaders’ orientation, the findings of the study indicate that experiences may shape cognitive factors (e.g. perspective/thinking styles) which in turn may shape their actions in boards.

Thus, the findings support and strengthen the premise of Strategic Leadership perspective (Finkelstein et al. 2009) and indicate that experiences

of board members are valid proxies for less observable and less determinable constructs than their psychologies, properties, values, and personality. However, not all experiences put forth by the theory are observed to sufficiently impact perspective so as to influence boards' role-effectiveness. Religious affiliation, beliefs, and values do impact board members' perspective, but no direct impact of these experiences on their actions in boardrooms is observed. Similarly, while the professional experience of some sectors/roles seems to impact Directors' perspective, actions, and approach to issues, there is no notable impact on board role performance. The impact of Directors' characteristics on firm performance is beyond the remit of this research; however, since those attributes impact board performance, it is highly likely that they impact firm outcomes as well.

CONTRIBUTION

The findings of the study provide a significant contribution to literature, theory, and praxis. The study supports and strengthens the model promulgated by Levrau and Van den Berghe (2007) and confirms that the relationship between board composition and effectiveness needs to be expounded further. It is imperative to study this complex relationship before a link between input variables – that is, board composition – and the output variable of firm performance can be further examined. In this study, we explore board composition through the lens of diversity. Other aspects of board composition – such as board size, the duality of leadership, outside/inside ratio of Directors – is beyond the ambit of this research. The study adds to a small body of academic knowledge where corporate elites have agreed to subject themselves to academic research (e.g. Pettigrew, 1992; Kakabadse et al., 2015) and have shared their perspective on board effectiveness. Thus, the study aids the understanding of processes, interactions, and actions in boardrooms and opens the 'black box' further. The findings also have a high and valid claim of authenticity on the subject of board diversity and effectiveness because the study presents the views of the 'actors' (i.e. Directors) using their terminology for both constructs.

The findings of the study also contribute to Strategic Leadership theory, as the theory helps to explain how board member' attributes/experiences influence the intervening factors of Directors' perspectives and actions, which consequently impact board effectiveness. While the theory relates Director' attributes to organisational performance, the findings of the study show that there is an intermediary stage – board effectiveness – which may have a more direct and observable impact. The findings support the premise of Strategic Leadership theory (Finkelstein et al., 2009) which suggests that individuals exist in a web of their personal and professional experiences, and describe the most impactful experiences that shape their actions.

The findings also contribute to Strategic Leadership theory by establishing that the demographic background of Directors may not be solely valid proxies of Director's psychological makeup. Director's experiences may be a more valid indicator of their thinking styles and perspective. Additionally, the findings also indicate that Director's experiences lead to improved human capital of experience, skills and connection. The findings further support the theory and establish the idea that the international experience of Directors provides them with the knowledge of new markets and adds to the human capital of corporate elites. Finkelstein et al. (2009) claim that international experience improves a leader's ability to process information and make strategic choices. The findings of the study reinforce the claim and also add that not only international experience, but the nationality of Directors also impacts their knowledge, choices and ability to contribute to boards. The findings also strengthen the claim of Strategic Leadership theory that experiences of Directors shape their interpretation of problems and, as a result, organisations may become the reflection of their leaders.

Lastly, the study may contribute to corporate praxis, as companies may endeavour to promote their boards' effectiveness by appointing Directors with varied experience. The findings of the study lead to the proposition that the issue of board diversity may not only be of social justice, fairness, and equality, but may constitute a forceful and unambiguous business case. Those boards with Directors having varied experience may strengthen their abilities to interpret situations and improve their effectiveness in a range of role-performances.

LIMITATIONS AND FUTURE RESEARCH

Strategic Leadership theory also suggests a relationship between leaders' characteristics – such as their values, knowledge, and beliefs – and firm outcomes. This study could not explore all the attributes and their impact on Directors' perspectives and/or board effectiveness due to several constraints. Firstly, the time allowed by the participants for interviews was extremely limited. Discussing their family backgrounds, defining diversity and effectiveness often took a significantly large part of the allotted time. Secondly, the study is conducted through elite interviews, which have an entirely different discipline of interviewing. Interrupting the participant is seldom an option because that could interrupt their train of thought, or, in the worst case, they could have been offended and terminated the interview, depriving the authors of a rare insight into board processes and actions first-hand. Participants often spoke on the constructs of their choice (they had a choice of background, diversity, impact on their perspective/action and board effectiveness). Lastly, but significantly, this chapter could not address a detailed description of other relevant influences

due to the word-limit and therefore only the most impactful experiences are presented in this chapter. Other interesting experiences such as marital and paternal status, religious beliefs, practices, and values are also seen to impact Directors' perspectives and/or board effectiveness, but are not addressed in this chapter. These aspects of board diversity and effectiveness may be further explored in future research.

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