



Queensland University of Technology
Brisbane Australia

This is the author's version of a work that was submitted/accepted for publication in the following source:

[Elms, Natalie, Nicholson, Gavin, & Pugliese, Amedeo](#)
(2015)

The importance of group-fit in new director selection.
Management Decision, 53(6), pp. 1312-1328.

This file was downloaded from: <http://eprints.qut.edu.au/85678/>

© Copyright 2015 Emerald Group Publishing Limited

Notice: *Changes introduced as a result of publishing processes such as copy-editing and formatting may not be reflected in this document. For a definitive version of this work, please refer to the published source:*

<http://doi.org/10.1108/MD-10-2014-0598>



The importance of group-fit in new director selection

Journal:	<i>Management Decision</i>
Manuscript ID:	MD-10-2014-0598.R2
Manuscript Type:	Original Article
Keywords:	Boards of Directors, Corporate governance, Group dynamics, Board composition, Board effectiveness

SCHOLARONE™
Manuscripts

Peer Review

The importance of group-fit in new director selection

Purpose: Director selection is an important yet under-researched topic. This paper aims to contribute to extant literature by gaining a greater understanding into how and why are new board members are recruited.

Design/methodology/approach: This exploratory study uses in-depth interviews with Australian non-executive directors to identify what selection criteria are deemed most important when selecting new director candidates and how selection practices vary between organisations.

Findings: Our findings indicate that appointments to the board are based on two key attributes: (1) the candidates' ability to contribute complementary skills and (2) the candidates' ability to work well with the existing board. Despite commonality in these broad criteria, board selection approaches vary considerably between organisations. As a result, some boards do not adequately assess both criteria when appointing a new director hence increasing the chance of a mis-fit between the position and the appointed director.

Research implications: Our study highlights the importance of both individual technical capabilities and social compatibility in director selections. We introduce a new perspective through which future research may consider director selection: *fit*.

Originality/value: Our in-depth analysis of director selection processes highlights some less obvious and more nuanced issues surrounding directors' appointment to the board. Recurrent patterns indicate the need for both technical and social considerations. Hence our study is a first-step in synthesising the current literature and illustrates the need for a multi-theoretical approach in future director selection research.

Keywords: Boards of directors, director selection, board composition, board effectiveness

Article Classification: Research paper

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60

INTRODUCTION

“Perhaps often, and certainly occasionally, men cannot be promoted or selected or even must be relieved because they cannot function, because they ‘do not fit’, where there is no question of formal competence” [Barnard, 1938:224].

Barnard’s candid reflection on executives in 1938 supports a long recognised notion within the management teams’ literature; pursuing group-fit during member selection is important to ensuring group functioning. Group-fit, derived from an interpersonal compatibility between individuals and their work group (Kristof-Brown, 1996), facilitates cohesion and trust through value congruence and attraction (Seong et al., 2012). It is generally recognised that group performance improves with higher levels of cohesiveness (Evans & Dion, 2012). Like other teams, boards of directors are interdependent groups of people whose ability to communicate and coordinate is critical to task performance. In fact, the cognitive nature of their tasks combined with unique operating circumstances (meeting infrequently, for short amounts of time and being comprised mostly of outsiders) means boards are particularly vulnerable to interpersonal difficulties (Forbes & Milliken, 1990). It is surprising therefore that the notion of group-fit is largely absent from discussions on how boards should be composed.

The frequency and impact of corporate failures over the past two decades has resulted in an increased level of interest around corporate governance and boards of directors. In particular, the issue of board structure has attracted debate from both regulators and researchers who have drawn their attention to the question of *how should a board be composed to best add value?* In an attempt to ensure investor protection, regulators have revisited corporate governance codes, advocating greater board independence along with individual directors to have a higher degree of skills and qualifications. Similarly a number of scholars have considered how independence and various forms of human capital can add value to a board (Haynes & Hillman, 2010; Hillman & Dalziel, 2003). What is often absent from this conversation is the recognition that boards are groups (Bainbridge, 2002),

1
2
3 whose members need to interact and work together as a team (Bezemer, Nicholson & Pugliese,
4
5 2014; Forbes & Milliken, 1999).

6
7
8 While studies into board composition are abundant (Johnson, Schnatterly & Hill, 2012), there is
9
10 limited literature on the basis of director selection. Consequently, while we know much of who sits
11
12 on boards we know relatively little of the processes driving their selection. Since the appointment of
13
14 a new director is likely to affect board performance, this area deserves greater examination.

15
16
17 The purpose of our study is to address two gaps in the current literature. Firstly, *what criteria are*
18
19 *considered important by current directors when selecting new director candidates*, and secondly *how*
20
21 *do director selections vary*. The exploratory nature of our research questions and nascent state of
22
23 the literature led us to an inductive qualitative research design (Edmondson & McManus, 2007). Our
24
25 findings, drawn from in-depth interviews with current Australian non-executive directors unveil key
26
27 aspects of the director selection process, with implications for both theory and practice. We find
28
29 that while there is considerable variability in how boards identify and select candidates, in general
30
31 boards seek out candidates based on two overarching criteria: (1) those who fit the role and (2) who
32
33 fit the group. While the criterion of group-fit is unsurprising, this is an area that has received little
34
35 attention in the corporate governance literature. We further examine the processes by which boards
36
37 assess (or fail to assess) candidates for both forms of fit and suggest that the type of selection
38
39 process adopted by a board can impact the likelihood of appointing a director with the right fit.
40
41
42
43

44
45 Our paper is structured as follows: First, we present the rationale for this study and our research
46
47 questions in the context of the current literature into director selection. This is followed by a
48
49 discussion of our research method and an outline of our initial findings. The inductive nature of our
50
51 study leads us back to the literature and data using an iterative process to investigate how director
52
53 'fit' is affected by the selection process. Thereafter we reflect on our overall findings and present
54
55 propositions for use in future research. Finally, we discuss how our findings expand the current
56
57 director selection literature and explain why focusing on the two dimensions of director-fit may
58
59 provide more robust findings in future research compared with a single theoretical lens.
60

LITERATURE REVIEW AND THEORY DEVELOPMENT

Corporate governance research has typically considered director selection through either a rational economic or a socialised theoretical lens (Withers et al., 2012). The rational perspective assumes a formal and staged process of selection is used to appoint the individual judged most able to execute the role of a director and thereby positively influence governance (Fama & Jensen, 1983). Regulators promote this perspective by emphasising individual directors' independence and skills as critical components of board structure. In contrast, the socialised stream of research suggests that director selection is only marginally influenced by the search for a role-fit but is rather a part of the rituals of a managerial elite to whom directors belong (Davis, 2005).

Combined these two perspectives create an obvious tension between the desire to appoint a director with the capacity to govern well and the desire to appoint someone whom the selectors know and trust. In practice it is likely that director selections are driven both by economic and social factors, but this reality is generally not well recognised within the current literature (Withers et al., 2012).

Director selection criteria

The rational economic perspective emphasises the role requirements of a director. Agency theory suggests that candidates should be selected based on their ability to monitor management – hence their independence is paramount (Fama & Jensen, 1983). In doing so, the board adds value to the corporation by reducing the costs associated with the separation of ownership from control (Walsh & Seward, 1990). Alternatively, resource dependence theorists suggest directors are selected based on how well their occupational and functional experience fit the needs of the organisation (e.g. Hillman, Cannella & Paetzold, 2000; Pfeffer, 1972). To complicate the selection decision, board knowledge requirements are dynamic, changing in response to internal and external factors (Hillman & Dalziel, 2003; Nicholson & Kiel, 2004). For instance, organisational performance, strategy and life

1
2
3 cycle stages have all been considered to impact the capabilities a board seeks when recruiting new
4
5 directors (Hillman et al., 2000).
6

7
8 In contrast to the economic perspective, the socialised stream of research is less concerned with
9
10 individual skills and capabilities as selection criteria and instead focuses on how social and political
11
12 forces motivate appointments. Within this stream of research the balance of power between the
13
14 CEO and board of directors plays an important role in why new directors are selected. For example,
15
16 scholars have found that powerful CEO's use their influence over the selection process to build
17
18 alliances by appointing like-minded individuals and directors known for passive monitoring (Alderfer,
19
20 1986; Bebchuk, 2004; Mace, 1971; Westphal & Zajac, 1995; Zajac & Westphal, 1996). Increasing
21
22 evidence also shows that a director's reputation for conformity can act as a predictor for gaining
23
24 multiple appointments on other boards (Ahn, Jiraporn & Kim, 2010; Cashman, Gillan & Jun, 2012).
25
26 On the other hand when there is a relatively powerful board of directors, for example when a board
27
28 is dominated by outsiders and the role of CEO and chair is split, new directors are more likely to be
29
30 demographically similar to the incumbent board (Westphal & Zajac, 1995) resulting in a more
31
32 cohesive board better able to challenge the CEO's influence (Alderfer, 1986).
33
34

35
36 Status and prestige have also been found to increase a candidate's attractiveness in director
37
38 selections. Studies have found boards are more likely to appoint prestigious individuals or those with
39
40 prestigious connections to reduce uncertainty and signal legitimacy to investors (Acharya & Pollock,
41
42 2013; Certo, 2003; Davis, Yoo & Baker, 2003).
43
44
45

46
47 We have described two perspectives from the current literature on director selection criteria. The
48
49 first assumes directors are selected based on their individual skills and capabilities, while the second
50
51 suggests selections are the result of social and political influences. In reality both are likely
52
53 determinants of selection but few studies have combined these perspectives to consider the relative
54
55 importance of role-fit versus other social influences. Further, the fact that the board is a group and
56
57 needs to work well together to succeed is a factor given little attention by either perspective. Our
58
59
60

1
2
3 study aims to advance our knowledge of director selection by gaining a greater understanding of
4
5 what really matters when boards recruit new members. As such our first research question is:
6
7

8 *RQ1: What criteria are considered important by current directors when assessing new director*
9
10 *candidates?*
11

12 **Processes and practices in new director appointments**

13
14
15 The rational stream of research into director selection assumes a four-stage director selection
16
17 process: identification, screening, selection and appointment (Withers et al. 2012). This broad
18
19 approach is reflective of regulatory guidelines that emphasise the need for a formal, rigorous and
20
21 transparent process. However, research suggests there is no uniform process for identifying and
22
23 evaluating candidates (Alderfer, 1986; O'Neal & Thomas, 1995). Scholars have noted variations exist
24
25 in director selection approaches (Huse, 2007; Moodie, 2001) and many boards lack an effective
26
27 process for selecting new members (Nadler, 2004). This literature suggests director selection is not
28
29 solely a rational process and scope exists for selector biases to influence the decision.
30
31
32

33
34 For decades scholars have noted the influence powerful CEO's have on the director selection
35
36 process. Recent governance reforms recommend boards appoint a nomination committee made up
37
38 of independent directors to reduce a CEO's direct influence over the nomination process (for
39
40 example, principal 2.1 in the ASX corporate governance guidelines). Nevertheless, the extent of a
41
42 CEO's power both inside and outside an organisation can influence the willingness of independent
43
44 directors to support the CEO's wishes when it comes to board appointments (Bebchuk, 2004;
45
46 Sauerwald, Lin & Peng, 2014). More subtle social mechanisms found to impact the selection decision
47
48 include a directors ingratiation behaviour (Westphal & Stern; 2006, 2007) and the widespread use of
49
50 the 'old boy's network' (e.g. Lorsch & MacIver, 1989; Van den Berghe & Levrau, 2004).
51
52
53

54
55 While recent increases in regulatory oversight and shareholder activism have created expectations
56
57 for a more rigorous recruitment process (Huse, 2007; Monk & Minow, 2011), it is unlikely personal
58
59 biases have been eliminated (Bebchuk, 2004). Furthermore, given the varied contexts under which
60
organisations and boards operate, it is likely that selection processes differ. The intent of our second

1
2
3 research question is to gain a better understanding of how director selection practices vary across
4
5 boards.
6

7
8 *RQ2: Do director selection processes vary, and if so, how?*
9

10 **METHODS**

11
12 Our study relies on in-depth interviews with 10 directors involving 24 appointment events to explore
13
14 what selection criteria is considered important as well as how selection practices vary across
15
16 boards. The vast majority of studies into board composition have relied on survey and archival data-
17
18 gathering techniques (Gabrielsson & Huse, 2004). While their findings tell us the demographic
19
20 characteristics of appointed directors such as age, education, background and gender (Johnson et
21
22 al., 2012), they fail to explain whether these attributes are the reason for that individual's selection
23
24 or whether other social and political influences play a contributing role. Nor do they inform us of the
25
26 approaches used to search and select for directors. That is, while a large database study can
27
28 highlight the number of ex-CEOs appointed to boards, they provide less explanation as to whether
29
30 being an ex-CEO is a significant factor in selection decisions or if less quantifiable factors influenced
31
32 their appointments. In-depth interviews were chosen because of their ability to capture the
33
34 perceptions and experiences of participants (Marshall & Rossman, 2011). By drawing from the first-
35
36 hand experiences of individuals who have participated in a director selection process we are better
37
38 able to explore and describe the selection process in a way that would not be possible using other
39
40 methods.
41
42
43
44
45
46
47

48 **Data collection**

49
50 Given the contingent nature of board composition outlined in the literature, it is likely that director
51
52 selection practices vary according to firm size, ownership and levels of accountability. For example,
53
54 publicly-listed corporations are large organisations owned by a vast range of public shareholders and
55
56 subject to disclosure obligations under the *Australian Corporations Act (2001)*. In contrast non-profit
57
58 organisations vary from very small to large and are accountable to their members, while government
59
60

1
2
3 organisations face a high level of public accountability through various levels of government and
4 public bodies. Our sample was purposefully selected to include representatives from each of these
5 organisational sectors, and a variety of industries to allow greater insight into how selection
6 practices and criteria may vary across different organisational settings. To date there have been
7 limited empirical comparisons of this kind (Machold & Farquhar, 2013).

8 Sociological research emphasises homogeneity on boards, and a perception of boards as *'male, and*
9 *stale'*. A second objective of our selection strategy was to ensure we found participants outside this
10 typical range. To achieve this, our sample included participants from both genders and a range of
11 functional backgrounds and age groups.

12 Initially five directors were recruited on the basis of their experience in a director selection process;
13 all agreed to participate. Next, we employed a snowballing technique whereby each interviewee was
14 asked for an introduction to other individuals who met the sample criteria; again all directors agreed
15 to participate. The final sample includes 10 individuals serving 20 organisations across the publicly-
16 listed, government and non-profit sectors. Eight participants recounted more than one selection
17 experience. In total 24 processes were recounted during the interviews and the data from these 24
18 selections formed the basis of the data analysis.

19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
Insert here: Table 1: Profile of Participants

Data Analysis

The data analysis followed an iterative process of constant comparison between the data and theory (Eisenhardt, 1989; Gioia, 1991; Suddaby, 2006). This process involved taking the data apart and then reassembling it to draw meaning and address the research questions. The data set comprised 7.45 hours of recorded interviews and 65,236 words of transcripts that were subsequently coded into 182 relevant segments of data.

Data coding was performed at three levels – open, axial and selective. Initially, codes were developed around the director selection process. These were structural and not content specific but provided an important framework that allowed the data to be broken into manageable sized pieces

1
2
3 and provided a logical framework from which a second layer of open codes were inductively
4 developed. This initial process of assigning and revising codes resulted in a final set of 26 different
5 codes. Axial coding was undertaken to reassemble the data fractured during the open coding
6 (Strauss & Corbin, 1998). This stage of analysis involved interconnecting codes and providing
7 abstract names that were more reflective of the essence of the data. Categories were further refined
8 using a process of selective coding. Categories with commonalities were consolidated while single
9 incidents or categories with minimal evidence were deemed irrelevant. As themes developed it
10 became clear when theoretical saturation was reached. Once no new insights were revealed it was
11 felt the information had been exhausted and that the coding process had ended (Charmaz, 2006).
12 The final phase of data analysis involved aggregating the codes and categories into overarching
13 themes that reflected the core themes of the study providing the foundations for the study's
14 findings and conclusions. The final data structure map and process through which the main themes
15 and findings emerged are highlighted in figure 1.

16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
Insert here: Figure 1: Data structure maps

FINDINGS

Commonality in selection criteria

Our first research question considers director selection criteria. When asked about the criteria used to select individuals for board appointments, participants signalled three distinct types of attributes. Firstly, participants reported candidates should have an existing knowledge of how boards operate. Second, candidates should possess role-fit – they need to be able to contribute skills and experience complementary to those possessed by current directors. And finally, candidates should be a good group-fit – they should be socially compatible with the existing directors.

Board know-how

Half of the participants reported a pre-existing knowledge of how boards operate and what directors do is a hurdle or baseline that candidates must possess before being considered further. In

1
2
3 particular, it was stressed that would-be directors should know the difference between, *“what’s the*
4 *role of the board and what’s the role of management”* (D8). While participants acknowledged many
5
6 candidates do know how boards operate, one expressed frustration at the number of candidates
7
8 looking to fill board seats that didn’t know what boards do; *“lots of people want to be a director but*
9
10 *they don’t really understand what it means”* (D3).

16 **Role-fit**

17
18 In addition to knowing how boards operate, most of the participants reported candidate skills and
19
20 experience were an important consideration. To determine whether there is a role-fit, the skill
21
22 profile of a candidate is considered against the needs of the incumbent board; *“We had a number of*
23
24 *[incumbent directors] retiring, one was an engineer; one was a finance guy with extensive derivatives*
25
26 *experience which is important for (us) and we were also looking for a Chair of our audit committee.*
27
28 *So there were specific technical qualifications that we were looking for; an engineer, someone with*
29
30 *derivatives experience; someone who could chair an audit committee”* (D4).

31
32 The role-fit of candidates is also considered in terms of what’s required to fill a recognised gap;
33
34 *“We’re doing billion dollar projects and we don’t have someone who knows the right questions to*
35
36 *ask”* (D6).

37
38 Thus the skills and experience of a candidate are considered not in isolation, but expected to be
39
40 complementary to the profile of the board. Further, the skill set of the board is not a static list of
41
42 ‘must have skills’. Instead competency requirements are dynamic, changing with organisational
43
44 strategic changes; *“We were looking for people with [listed company] experience either as an*
45
46 *executive or as a director because at some point in the future [we] were going to be sold in some*
47
48 *form and needed to have a board that could go through that process”* (D4)

49
50 As well as changing external forces; *“The discussion has been around what sort of skill sets will we*
51
52 *need going into the future and given that in [our industry] there’s a lot of national focus on a*
53
54 *different regulatory framework we’ll need to import some other skill sets and we need to involve the*
55
56 *governments”* (D7).

Group-fit

While skills, knowledge and experience feature as primary criteria for selecting new directors, participants suggested a further necessary requirement; *"It's about the right personalities and the right capacity to be a member of a group"* (D9).

Most participants raised the importance of 'group-fit' as a selection criteria, its significance reflected by the strong emphasis used in describing why individuals are selected; *"The ultimate criteria was, will they fit in? ... It's the most important thing"* (D8).

Further, the group-fit criteria was perceived at least of equal important to that of the candidates' skills and experience; *"You've got to have the right experience and the right personal fit"; "There was very specific skills and personality (requirements) ... it was an equal combination"* (D5).

We further probed interviewees on what they meant as group-fit: participants defined it as, *"common ground"* (D6), the ability to find a *"connection"* (D9) and *"discuss the chunky things"*(D6).

Group-fit is seen as a necessary ingredient for a harmonious working environment, the need for which is stressed by one director in reference to the unique operating environment boards face; *"You're only meeting two hours every month so you're looking for a synergy where you can just get on and do things ... If there's too much of a bridge to build it will slow progress."* (D3)

While another explained how the value congruence that stems from group-fit is critical to effective decision making; *"It's about their values and what they stand for...When times get tough in the boardroom that's what is going to come out and that's what is going to be their goal post for decision making"* (D6).

Table 2 summarises the three selection criteria and highlights the need for candidates to possess a balance of both role-fit and group-fit. That is, role-fit and group-fit are considered complementary rather than competing criteria and an ideal candidate should possess both. Furthermore these two criteria are recognised as dynamic and dependent on the incumbent group formation. This suggests consideration of the board, as a group, is important for successful board appointments.

Insert here Table 2: Summary of selection criteria

Variability in selection process

The second research question considers how selection practices vary. As expected there was significant variability in the recruitment practices of boards. Of the 24 selections described for this study, 15 followed a similar rigorous and formal process, while the remaining nine were ad hoc, informal and at times heavily influenced by a single decision maker. Two significant dimensions in variation emerged from the data; firstly the source for identifying board candidates and second, the level of involvement by the incumbent board in the selection decision. Table 3 summarises the described selection processes and noted variances.

Insert here Table 3: Summary of board processes reviewed

Source of candidates

The strongest variation in directors' selection approach was in relation to the source for identifying suitable candidates: an *open* or *closed* network. We use the term 'open network' to describe a broad search pool that may include external advertising and external recruitment consultants while the term 'closed network' refers to a search pool relying solely on candidates known to the Chair, CEO or incumbent board members.

Level of board involvement

In addition to variation in the source of candidates, participants indicated a wide variation in the level of involvement by the incumbent board in the selection decision. Of the 24 described selections, 14 included a nomination committee or involvement by the wider board in the selection process, six appointments were made solely by a single decision maker (most often the Chair) while in four cases the appointments were made without any involvement of the board, including the Chair.

Relationship between selection approach and selection outcome

The variability in director selection approach described above gave rise to an important additional question: *how does the selection process impact the selection outcome?* This question prompted a

1
2
3 second iteration of data analysis to understand how different approaches to director selection
4 impact the board's ability to assess candidates for both role-fit and group-fit. Insights drawn from
5 the human resource literature and from participant experiences under each approach enabled us to
6 propose relationships between the selection process and the likely candidate fit. These propositions
7 are described below and illustrated in figure 2.

8
9 Candidate 'fit' is a multi-dimensional construct (Kristof-Brown, 2000) and while group-fit relies on
10 subjective assessment, role-fit requires a more objective consideration of a candidate's individual
11 skill and experience (Edwards & Shipp, 2007). This implies decisions are best made using multiple
12 steps that separate out role-fit and group-fit (Judge & Ferris, 1992; Kristof-Brown, 1996).
13 Preconceived views of candidates have strong effects on overall evaluations even when later
14 information disconfirms these initial opinions (Cable & Gilovich, 1998). For boards recruiting known
15 candidates from closed networks, these biases may affect the overall evaluation, while open
16 networks are likely better able to provide an objective assessment of role-fit.

17
18 Research has also shown decision makers use their own value system as a benchmark for assessing
19 candidates' overall fit and that candidates selected are most likely to reflect the values of the
20 decision maker (Judge & Ferris, 1992). This suggests that where a single person dominates the
21 selection process there is a greater risk that the appointment will not meet the groups requirements
22 whereas selection decisions involving the wider board are more likely to achieve group-fit
23 (Finkelstein & Mooney, 2003; Huse, 2007).

24 25 26 **Source of candidates and role-fit relationship**

27
28 External influences such as shareholder demands and regulators are pushing boards to adopt more
29 transparent and open search practices. Participants acknowledged the economic benefits of open
30 sources recognising they enable better access to the skills and experience needed; *"We decided we
31 needed this and that, we hired a search firm and we ended up with [name of director]" (D6).*

1
2
3 In contrast, when boards rely solely on closed networks it was acknowledged the result may not
4 always be beneficial; “[by relying on acquaintances only] you get a completely mixed bag of skills ...
5
6 it’s not good governance” (D5). These findings lead to our first proposition:
7
8

9
10 *Proposition 1: The more open the network for candidates, the higher the likelihood of candidate role-*
11 *fit.*
12
13

14 15 16 **Board involvement and group-fit relationship**

17
18 Despite variances in board involvement, there was a clear preference for high levels of board
19 involvement. Participants recognised a direct relationship between board involvement and the
20 ability to assess candidates for group-fit, explaining the process for one board; “Each of us met this
21 person one on one to gauge style, [we were able to] test for style and culture, how will I work with
22 this person?” (D6)
23
24
25
26
27
28

29 The importance of being able to assess candidates for group-fit was obvious from repeated
30 comments such as; “Until you sit down with someone and see if there’s a connection, do you respect
31 that person, you don’t really know” (D4).
32
33
34
35

36 Given the apparent importance placed on meeting candidates prior to selection it is not surprising
37 participants were critical of appointments made without board involvement; “The new directors’
38 start next month and the chairman and myself don’t even know these people. We weren’t consulted”
39 (D10).
40
41
42
43
44

45 These insights lead to our second proposition:
46
47

48 *Proposition 2: The higher the board involvement in the selection process, the higher the likelihood of*
49 *candidate group-fit.*
50
51

52 *Insert here Figure 2: Proposed relationship between selection approach and candidate fit*
53
54
55
56
57
58
59
60

DISCUSSION AND IMPLICATIONS

Despite its relevance, director selection has been subject to limited investigation. While director selection is crucial in ensuring boards are equipped to perform their tasks, extant literature is under developed on the issues surrounding how boards appoint their directors. Furthermore, normative views and the regulation emphasize the need to identify the 'right' directors' based on characteristics such as independence, skill-set and connections. While recommendations and expectations are straightforward, it is less clear how boards approach director selection and what processes and mechanisms drive the selection activities. Our study relied on in-depth interviews with non-executive directors whose involvement in numerous recruitment processes offers a more nuanced and richer understanding of the current practices.

Our findings on selection criteria were notably consistent across different organisational contexts. Regardless of sector or size, directors seek out candidates who understand how boards operate, who's skills and experience fit the role requirements (role-fit) and who are perceived compatible to the incumbent board members (group-fit). While board knowledge is considered a selection hurdle, role-fit and group-fit are both critical and considered with equal importance. Since these two criteria are dynamic, getting the right 'fit' is dependent on the incumbent board configuration. Thus recognising the board as a group is essential; a failure to consider collective capabilities and member personalities may result in the selection of an inappropriate candidate.

Next to an overall consistency in terms of what is required and expected of newly appointed directors, our findings also indicate a certain degree of variation in terms of the processes adopted to identify and select new directors. We suggest not all approaches are able to adequately assess candidates for both role-fit and group-fit. In figure 2 we propose an effective appointment is most likely when boards use open network sources (to identify candidates who best fit the role requirements) and engage a high level of board involvement in the selection decision (to ensure the successful candidate will fit the group).

1
2
3 Whereas role-fit contributes to board performance by filling a gap in needed skills, group-fit enables
4 an incoming director to utilise those skills for the groups' benefit. The emphasis on individual-level
5 attributes and incentives has attracted researchers and regulators' attention around director-level
6 characteristics; our results resonate with calls for additional exploration of the board as a distinct
7 unit of analysis, above and beyond the individuals who comprise it (Dalton & Dalton, 2011). The
8 group-based nature of the board means that where group-fit is absent, there is an increased risk of a
9 group misfit leading to process losses as incumbent members withdraw or disengage (Steiner, 1972).
10 For instance, our evidence indicates the ability to "discuss the chunky things" (D6) is important;
11 particularly so for a group that meets for short periods of time on a sporadic basis (Finkelstein &
12 Mooney, 2003). Thus group-fit is critical to the application of directors' role-fit.

13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
On the other hand, too much cohesion can also limit effectiveness as pressures for consensus
override the motivation to appraise alternative options (Janis, 1972). For boards this condition of
group-think is most likely to occur when candidates are selected on group-fit alone without
consideration for the diverse skills and experience needed to fill the role requirements. We suggest a
selection approach that considers both role-fit and group-fit will result in the most effective
appointment. This is illustrated in figure 3, which highlights potential consequences of not assessing
candidates for both role-fit and group-fit.

Insert here Figure 3: Selection outcome based on selection focus

Our paper makes theoretical contributions to corporate governance research on director selection
and board composition. To date director selection in the literature has been considered
predominately through a single theoretical lens. Scholars have either assumed director selection to
be a rational process driven by economic motivations or they have focused on selector biases
embedded within the process. Furthermore, few have considered the group based needs of the
board. Our study goes some way toward advancing our knowledge of director selection by
introducing a new lens through which future research may consider director selection; fit. Consistent
with the team literature our concept of fit emerged as multi-dimensional encompassing both role-fit

1
2
3 and group-fit. Our findings complement the existing literature by integrating economic and social
4 perspectives to provide a more realistic view of director selection and the keys to director success.
5
6

7
8 For example in figure 3 we suggest an effective appointment requires high levels of candidate role-fit
9 and group-fit, where role-fit reflects the boards economic needs and group-fit acknowledges the
10 boards social needs. It is only by having an appropriate group-fit that the equally necessary role-fit of
11 a director can be harnessed.
12
13
14
15

16
17 Our review of the literature shows that while numerous scholars have recognised the need to assess
18 role-fit in director selections less research has considered the social needs of the board in terms of
19 candidate group-fit. Our study points to group-fit as a major determinant in director selections
20 suggesting this factor has been underrepresented in governance literature. While many researchers
21 have noted the need for cohesiveness on boards (Forbes & Milliken, 1999; Kemp, 2006; Sonnenfeld,
22 2002), there have been few empirical studies examining the dynamics of the boardroom (Hambrick,
23 Werder & Zajac, 2008; McNulty & Pettigrew, 1999; Petrovic, 2008).
24
25
26
27
28
29
30
31
32

33 Future studies of boards of directors would therefore benefit from incorporating board dynamics
34 into their research and paying greater attention to how group-fit can impact on board effectiveness
35 as well as understanding what factors contribute to or detract from group-fit within a board context.
36
37 For example, what impact does diversity or the mix of insiders to outsiders have on board dynamics?
38
39 Related to this, a further worthwhile area for study would be in examining why directors leave
40 boards. An understanding of the conditions and influences that prompt a director to exit a board can
41 provide a counter perspective to the factors raised in this study and further our understanding of
42 how board dynamics may impact board performance.
43
44
45
46
47
48
49
50

51 Our study has some limitations that deserve to be noted. Firstly the findings from this study are
52 based on in-depth interviews. While this was appropriate for the objectives of this study, there are
53 implicit limitations due to the subjective nature of this research method. For example the findings
54 are based on the experiences and perceptions of the participants rather than what actually occurred
55 and are therefore subject to recall bias. Second, this study has been set within a context of
56
57
58
59
60

1
2
3 Australian organisations and based on a sample of non-executive directors. As such and its
4 transferability may be limited to countries that share a similar cultural and corporate governance
5 environment.
6
7
8

9
10 Director selection is an emerging area of research within the governance literature and much
11 remains to be uncovered about director appointments. Future research can enhance the reliability
12 of our findings by testing our propositions using more direct methods of data collection such as
13 surveys. Future research may also improve on the generalisability of our propositions by using a
14 sample set of organisations that operate under alternative governance environments and may
15 benefit from extending the sample to include executive directors and CEOs.
16
17
18

19
20 The data availability did not allow us to explore the effects of different selection processes over a
21 longer period of time, nor did it enable us to study changes in recruitment practices as a result of
22 previously successful (or unsuccessful) appointments. Future studies employing a longitudinal design
23 will certainly be better able to explore whether firms adjust according to past experiences and
24 consider other critical questions such as; *how long does it take for new members to integrate socially*
25 *with the incumbent board and how does this transition impact on their capacity to contribute*
26 *effectively to board decisions?*
27
28
29
30
31
32
33
34
35
36
37
38
39

40 Our research also has important implications for practitioners and governance regulators. Australian
41 corporate governance guidelines for board structure recommend selection procedures that include
42 an open and transparent search for candidates who meet the needs of the board as well as
43 advocating involvement by all board members in the selection decision (ASX Corporate Governance
44 Council, 2014). Practitioners, regulators and owners would do well to concentrate on all aspects of
45 this advice and not become overly focused on one single aspect. For instance, the evidence from
46 participants in our study suggests an emphasis on transparency and openness in the search for
47 directors on government boards can prove counterproductive if it excludes the incumbent board
48 from the selection decision.
49
50
51
52
53
54
55
56
57
58
59
60

CONCLUSION

Director selection is crucial in ensuring boards are well-equipped to perform their tasks. It is during the director recruitment process that prospective new members are assessed for their ability to contribute needed technical skills; a role-fit. It should also be an opportunity to assess candidates for perceived compatibility; a group-fit. In order to increase board effectiveness, Finkelstein and Mooney encouraged boards to “get to know and understand the other people on the board, to develop chemistry” (2003: 110). The logical place to begin developing this chemistry is at the selection stage. By casting a broad search net for candidates and involving the entire board in the selection decision, boards are best able to appoint a candidate who is not only equipped with the right technical skills but can also function well within the board environment to ensure that their skills are used to make an effective contribution.

REFERENCES

- Acharya, A.G., & Pollock, T.G. (2012). "Shoot for the stars? Predicting the recruitment of prestigious directors at newly public firms", *Academy of Management Journal*, Vol. 50, No. 5, pp. 1396-1419.
- Alderfer, C. P. (1986). "The invisible director on corporate boards", *Harvard Business Review*, Vol. 64, No.6, pp. 38-51.
- Ahn, S., Jiraporn, P., & Kim, Y. S. (2010). "Multiple directorships and acquirer returns", *Journal of Banking & Finance*, Vol. 34, No. 9, pp. 2011-2026.
- ASX Corporate Governance Council, (2014). *Corporate Governance Principles and Recommendations*, (3rd ed. revised).
- Bainbridge, S.M. (2002). "Why a board? Group decision making in corporate governance", *Vanderbilt Law Review*, Vol. 55, No. 1, pp. 1-11.
- Barnard, C.I. (1938). *The functions of the executive*. Harvard University Press. Cambridge, MA.
- Bezemer, P.J., Nicholson, G., & Pugliese, A. (2014). "Inside the boardroom: exploring board member interactions", *Qualitative Research in Accounting and Management*, Vol. 11, No. 3, pp. 238-259.
- Cable, D.M., & Gilovich, T. (1998). "Looked over or overlooked? Prescreening decisions and postinterview evaluations", *Journal of Applied Psychology*, Vol. 83, No. 3, pp. 501-508.
- Cashman, G. D., Gillan, S. L., & Jun, C. (2012). "Going overboard? On busy directors and firm value", *Journal of Banking & Finance*, Vol. 36, No. 12, pp. 3248-3259.
- Certo, S.T. (2003). "Influencing initial public offering investors with prestige: Signalling with board structures", *Academy of Management Review*, Vol. 28, No.3, pp. 432-446.
- Charmaz, K. (2006). *Constructing grounded theory: A practical guide through qualitative analysis*, Sage, London.
- Dalton, D.R., & Dalton, C. (2011). "Integration of micro and macro studies in governance research: CEO duality, board composition, and financial performance", *Journal of Management*, Vol. 37. No.2, pp. 404-411.

- 1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
- Davis, G. F., Yoo, M., & Baker, W. E. (2003). "The small world of the American corporate elite 1982-2001", *Strategic Organization*, Vol. 1, No. 3, pp. 301-326.
- Davis, G. F. (2005). "New directions in corporate governance", *Annual Review of Sociology*, Vol. 31, pp. 143-162.
- Edmondson, A.C., & McManus, S.E. (2007). "Methodological fit in management field research", *Academy of Management Review*, Vol. 32, No.4, pp. 1246-1264.
- Edwards, J.R., & Shipp, A.J. (2007). "The relationship between person-environment fit and outcomes: An integrative theoretical framework", In C. Ostroff & T. A. Judge (Eds.), *Perspectives on organizational fit*: 3-69. Lawrence Erlbaum Associates. New York.
- Eisenhardt, K.M. (1989). "Building theories from case study research", *Academy of Management Review*, Vol. 14, No. 4, pp. 532-550.
- Evans, C.R., & Dion, K.L. (2012). "Group Cohesion and Performance A Meta-Analysis", *Small Group Research*, Vol. 43, No.6, pp. 690-701.
- Fama, E.F., & Jensen, M. (1983). "Separation of ownership and control", *Journal of Law and Economics*, Vol. 26, pp. 301-325.
- Finkelstein, S., & Mooney, A.C. (2003). "Not the usual suspects: How to use board process to make boards better", *Academy of Management Executive*, Vol. 17 No. 2, pp. 101-113.
- Forbes, D.P., & Milliken, F.J. (1999). "Cognition and Corporate Governance: Understanding Boards of Directors as Strategic Decision-Making Groups", *Academy of Management Review*, Vol 24, No. 3, pp. 489-505.
- Gabrielsson, J., & Huse, M. (2004). "Context, behaviour, and evolution: Challenges in research on boards and governance", *International Studies of Management and Organization*", Vol. 34, pp. 11-36.
- Hambrick, D.C., Werder, A.V. & Zajac, E. (2008). "New Directions in Corporate Governance Research", *Organisation Science*, Vol. 19 No. 3, pp. 381- 495.

- 1
2
3 Haynes, K.T., & Hillman, A. (2010). "The effect of board capital and CEO power on strategic change",
4
5
6 *Strategic Management Journal*, Vol. 31, No. 11, pp. 1145-1163.
7
8 Hillman, A.J., Cannella, A.A., & Paetzold, R.L. (2000). "The resource dependence role of corporate
9
10 directors: Strategic adaptation of board composition in response to environmental change", *Journal*
11
12 *of Management Studies*, Vol. 37, pp. 235-255.
13
14 Hillman, A.J. & Dalziel, T. (2003). "Boards of directors and firm performance: Integrating agency and
15
16 resource dependence perspectives", *Academy of Management Review*, Vol. 28, pp. 383-396.
17
18 Huse, M. (2007). *Boards, governance and value creation: The human side of corporate governance*,
19
20 Cambridge University Press, Cambridge, UK.
21
22
23 Johnson, S.G., Schnatterly, K., & Hill, A.D. (2012). "Board Composition beyond Independence Social
24
25 Capital, Human Capital, and Demographics", *Journal of Management*, Vol. 39, No. 1, pp. 232-262.
26
27 Judge, T.A., & Ferris, G.R. (1992). "The elusive criterion of fit in human resource staffing decisions",
28
29 *Human Resource Planning*, Vol. 154, pp. 47-67.
30
31
32 Kristof-Brown, A.L. (1996). "Person-organisation fit: An integrative review of its conceptualisations,
33
34 measurement and implications", *Personal Psychology*, Vol. 49, pp. 1-49.
35
36
37 Kristof-Brown, A.L. (2000). "Perceived applicant fit: Distinguishing between recruiters' perceptions of
38
39 person-job and person-organisation fit", *Personnel Psychology*, Vol. 53, No. 3, pp. 643-671.
40
41
42 Janis, I. (1972) *Victims of Groupthink*, Houghton Mifflin, Boston, MA.
43
44
45 *Financial Economics*, Vol. 3, No. 4, pp. 305-360.
46
47 Lorsch, J.W., & MacIver, E. (1989). *Pawns or potentates: The reality of America's corporate boards*,
48
49 Harvard Business School Press, Boston.
50
51 Mace, M.L. (1971), *Directors: Myth and reality*, Harvard University Press, Cambridge, MA.
52
53 Machold, S., & Farquhar, S. (2013). "Board task evolution: A longitudinal field study in the UK",
54
55
56 *Corporate Governance: An International Review*, Vol. 21, No.2, pp. 147-164.
57
58 McNulty, T., & Pettigrew, A. (1999). "Strategists on board", *Organisational Studies*, Vol. 20, No.1, pp.
59
60 47-77.

- 1
2
3 Marshall, C., & Rossman, G. B. (2011). *Designing qualitative research*, Sage, London.
- 4
5 Moodie, A.M. (2001). *The twenty-first century board: selection, performance and succession*.
- 6
7 Australian Institute of Directors, Sydney.
- 8
9 Nadler, D.A. (2004). "Building better boards", *Harvard Business Review*, Vol. 82 No. 5, pp. 102-105.
- 10
11
12 Nicholson, G.J. & Kiel. G.C. (2004). "A framework for diagnosing board effectiveness", *Corporate*
- 13
14
15 *Governance: An International Review*, Vol. 12, pp. 442-460.
- 16
17 O'Neal, D. & Thomas, H. (1995). "Director networks/director selection: The board's strategic role",
- 18
19
20 *European Management Journal*, Vol. 13, pp. 79-90.
- 21
22 Petrovic, J. (2008). "Unlocking the role of a board director: a review of the literature." *Management*
- 23
24
25 *Decision*, Vol. 46, No. 9, pp. 1373-1392.
- 26
27 Pfeffer, J. (1972). "Size and composition of corporate boards of directors", *Administrative Science*
- 28
29
30 *Quarterly*, Vol. 17, pp. 218-229.
- 31
32 Sauerwald, S., Lin, Z.J., & Peng, M.W. (2014). "Board social capital and excess CEO returns", *Strategic*
- 33
34
35 *Management Journal*, doi: 10.1002/smj.2339.
- 36
37 Seong, J.Y., Kristof-Brown, A.L., Park, W.W., Hong, D.S., & Shin, Y. (2012). "Person-Group Fit Diversity
- 38
39
40 Antecedents, Proximal Outcomes, and Performance at the Group Level", *Journal of Management*,
- 41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
doi:0149206312453738.
- Sonnenfeld, J.A. (2002). "What makes great boards great", *Harvard Business Review*, Vol. 80, No. 9,
- pp. 106-113.
- Steiner, I.D. (1972). *Group process and productivity*. Academic Press, New York.
- Strauss, A., & Corbin, J. (1998). *Basics of qualitative research. Techniques and procedures for*
- developing grounded theory (2nd ed.)*, Sage Publications, Thousand Oaks, CA.
- Suddaby, R. (2006). "From the editors: What grounded theory is not", *Academy of Management*
- Journal*, Vol. 49, No. 4, pp. 633-642.
- Van den Berghe, L.A., & Levrau, A. (2004). "Evaluating boards of directors: what constitutes a good
- corporate board?" *Corporate Governance: An International Review*, Vol. 12 No. 4, pp. 461-478.

1
2
3 Walsh, J.P., & Seward, J.K. (1990). "On the efficiency of internal and external corporate control
4 mechanisms", *Academy of Management Review*, Vol. 15, No. 3, pp. 421-458.
5

6
7
8 Westphal, J.D., & Stern, I. (2006). "The other pathway to the boardroom: Interpersonal influence
9 behavior as a substitute for elite credentials and majority status in obtaining board appointments",
10
11
12 *Administrative Science Quarterly*, Vol. 51, pp. 169-204.
13

14
15 Westphal, J.D., & Stern, I. (2007). "Flattery will get you everywhere (especially if you are a male
16 Caucasian): How ingratiation, boardroom behaviour, and demographic minority status affect
17 additional board appointments at U.S. companies", *Academy of Management Journal*, Vol. 50, pp.
18
19
20
21
22 267-288.
23

24 Westphal, J.D., & Zajac, E.J. (1995). "Who shall govern? CEO/board power, demographic similarity,
25 and new director selection", *Administrative Science Quarterly*, Vol. 40, pp. 60-83.
26
27

28 Withers, M.C., Hillman, A.J., & Cannella, A.A. (2012). "A multidisciplinary review of the director
29 selection literature", *Journal of Management*, Vol. 38, pp. 243-277.
30
31

32
33 Zajac, E.J., & J.D. Westphal (1996). "Director reputation, CEO/Board power and the dynamics of
34 board interlocks", *Academy of Management Proceedings, Academy of Management*, Vol. 1, pp. 254-
35
36
37
38 258.
39

Table 1: Profile of participants

Ref.	Sector			Position	Gender	Age group	Current board seats	Processes described
	Non-profit	Public Listed	Government					
D1	X			Chair	Male	41 – 50	1	2
D2	X			Chair	Male	51 +	1	1
D3	X			Chair	Male	30 - 40	1	2
D4	X		X	Non-executive	Female	41 – 50	3	4
D5		X	X	Non-executive	Female	30 – 40	3	4
D6		X		Non-executive	Female	41 – 50	3	3
D7	X			Chair	Female	41 – 50	2	3
D8	X		X	Chair	Male	51 +	2	1
D9	X			Chair	Female	41 – 50	1	1
D10			X	Non-executive	Female	51 +	3	3
							<u>20</u>	<u>24</u>

For Peer Review

1
2
3 Table 2: Summary of selection criteria
4

5 Selection criteria	6 Assessing	7 Relationship to group		8 Response
9 Hurdle	10 Board know-how	11 Fixed	12 none	13 50%
14 Role-fit	15 Competency	16 Dynamic	17 Complementary	18 90%
19 Group-fit	20 Compatibility	21 Dynamic	22 Supplementary	23 80%

24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60

For Peer Review

Table 3: Summary of board processes reviewed

Participant Id.	Organisational sector	Candidate source	Board involvement
<i>D1</i>	Non Profit	Closed	High
<i>D1</i>	Non Profit	Closed	Low
<i>D2</i>	Non Profit	Open	High
<i>D3</i>	Non Profit	Open	High
<i>D3</i>	Non Profit	Closed	High
<i>D4</i>	Government	Open	None
<i>D4</i>	Government	Open	None
<i>D4</i>	Government	Closed	Low
<i>D4</i>	Non Profit	Open	High
<i>D5</i>	Non Profit	Closed	Low
<i>D5</i>	Government	Open	High
<i>D5</i>	Public listed	Open	High
<i>D5</i>	Non Profit	Closed	Low
<i>D6</i>	Public listed	Open	High
<i>D6</i>	Public listed	Open	High
<i>D6</i>	Public listed	Open	High
<i>D7</i>	Non Profit	Closed	Low
<i>D7</i>	Non Profit	Closed	Low
<i>D7</i>	Non Profit	Open	High
<i>D8</i>	Non Profit	Closed	High
<i>D9</i>	Non Profit	Open	High
<i>D10</i>	Government	Open	High
<i>D10</i>	Government	Open	None
<i>D10</i>	Government	Open	None

Figure 1a: Data structure map: Selection Criteria

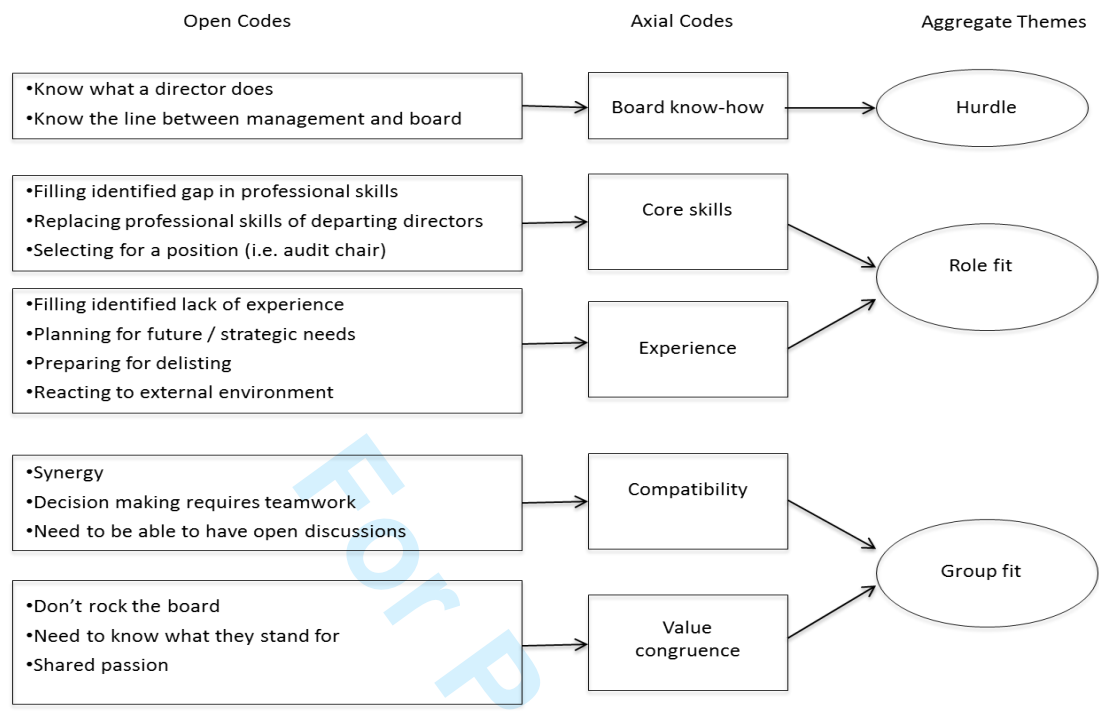
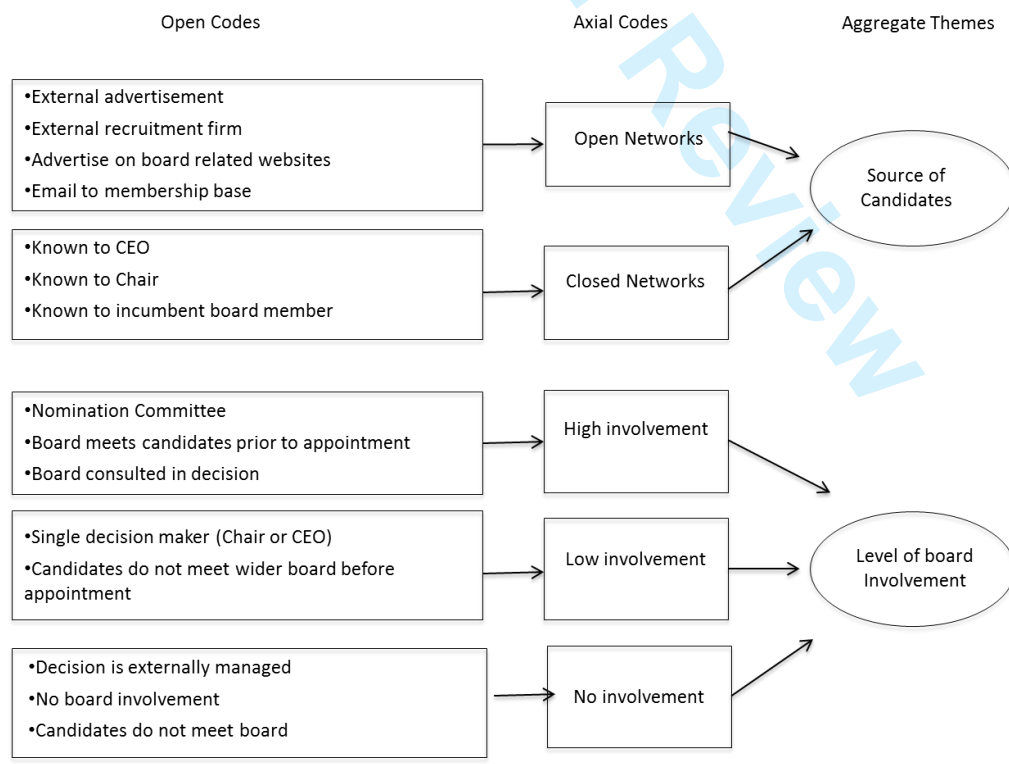


Figure 1b: Data structure map: Selection Process



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60

Figure 2: Proposed relationship between selection approach and candidate fit

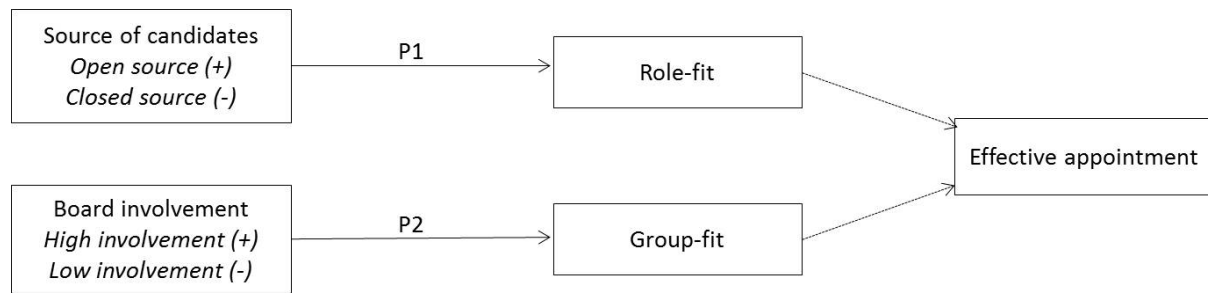


Figure 3: Selection outcome based on selection focus

	Low Role Fit	High Role Fit
High Group Fit	<i>Liked personality but skill set not value adding</i>	<i>Effective appointment</i>
Low Group Fit	<i>Ineffective appointment</i>	<i>Value adding skill set but a personality misfit</i>

For Peer Review

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60