

CORPORATE BOARD: ROLE, DUTIES & COMPOSITION

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Shann Turnbull

This paper identifies eight reasons why it is rational not to trust large complex Anglo corporations and how these reasons could be removed. Two reasons are that directors are overloaded with information but also lack information independent of management to evaluate management and the business. A third reason is that directors do not have systemic processes to discover if their trust in management is misplaced. A fourth and fifth reason is that directors have absolute power to manage their own conflicts of interest and a dominant shareholder can enter into related party transactions that can unfairly extract value. The sixth and seventh reasons are the incentive for directors not to blow the whistle on their colleagues and the impotence of a director to act alone. The eighth reason is that shares can be manipulated and traded covertly. Four changes in corporate constitutions are identified that could remove these concerns. These are to establish a watchdog board, introduce cumulative voting for directors, establish stakeholder councils and introducing sunlight share trading.

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Alexander N. Kostyuk

The author reports on the corporate board practices in Ukraine. The roles of board of directors are mainly about control. The strategic and advisory roles are not developed. Mode of strategic involvement of the members of supervisory boards in Ukraine is mainly about reviewing and approving. Thus, the board of directors in Ukraine is "a rubber stamp". The degree of independence of directors is very low. Major board practices in Ukraine are: small number of independent directors on the board; low frequency of meeting of the board; small number of committees on the board; the management board influences the supervisory board. Board practices in Ukraine need a sort of recommendations, similar to those, made in UK at the end of 1990s, and at the start of the third millennium.

“Outside” Directors in SME Boards: a Call for Theoretical Reflections 28

Jonas Gabrielsson & Morten Huse

Good governance for SMEs is critical for economic development and growth in both developed and developing economies. In this paper we focus on boards and governance in small and medium sized enterprises (SMEs) by investigating the role and contribution of “outside” directors in this setting. By contrasting board role theories against different types of SMEs, firms are expected to recruit “outside” board members for various reasons. Illustrated by 52 empirical studies of “outside” directors in SMEs we show how agency theory, resource based view of the firm, and resource dependence theory can be applied to understand the multiple roles that “outside” directors can play in family firms, venture capital-backed firms and other SMEs. The illustration shows that the concept “outside” director is not the same in different theories and in different empirical settings. Based on this finding, we argue for the need to have a conscious and balanced use of theories for understanding the role and contribution of “outside” directors in SMEs.

Between Controlled Co-option and Direct Election. The Current Debate on the Functioning and Composition of the Supervisory Board in the Netherlands 38

Rienk Goodijk

This paper first describes the complex Dutch corporate governance system and the functioning of the Supervisory Board under the rules of the structure regime and co-option model up to the present time. The critiques of the parties and stakeholders involved in this model are investigated next, followed by a description and explanation of the recent developments of the Dutch model and a discussion of the pros and cons of the alternatives with regard to the interests of the various stakeholders. Finally, some key factors for improving the boards’ functioning in the – changing – Dutch corporate governance system are presented. The findings and recommendations are based on case-studies and interviews conducted in large Dutch companies over several years and on extensive analyses of documents and recent evolutions. This research method however, is only suitable for a process of exploration, clarification and development of hypotheses.

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