# AN EFFECTIVE BOARD FROM A TEAM PERSPECTIVE

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**Abstract**

This paper looks at boards from a team perspective, where insights from research on teams are used to discuss some classical problems of corporate governance. The Enron-case is used as an underlying theme as it portrays some of the biggest challenges that boards face today. Theories developed within the team literature emphasise that for boards to become more effective they need more time and better access to information as a source of knowledge, more structure and purposeful roles for directors and for the board in general, and they need to become smaller and more focused. In effect, the culture of teams could have avoided some of the blunders of the Enron board.

**Keywords:** Corporate governance, board of directors, teams, time, information, networks

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## Introduction

In 2000 *CEO magazine* picked Enron's board of directors as one of the top five in corporate America. The magazine said about the Enron board that it "works hard to keep up with things," and "we are heartened by the overall corporate governance structure" (McLean and Elklind, 2003, p. 237). The *CEO magazine* was far from the only admirer of the energy giant and its governance. *Fortune magazine* voted Enron the "most innovative company" six years in a row, from 1996 to 2001. The ultimate shrine to the governance of Enron is Gary Hamel's (2000) case study, published in his book *Leading the revolution*. The reasons were obvious, the business talent involved with Enron was staggering and the board of directors had what looked like a perfect candidate in every seat. As it turned out, things were not as wonderful as the glossy pictures portrayed and by the end of 2001 Enron had filed for the largest bankruptcy case in U.S. history (Fox, 2003; McLean and Elklind, 2003). Although few business cases have been researched as well as the Enron case and its malfunctions have displayed without much controversy few people involved with Enron have admitted any wrongdoing.[1] In fact the board of directors of Enron has denied any misconduct or malpractice. In a response to a criticism from U.S. Congress the directors issued a report stating that they "in good faith and prudently performed their fiduciary duties based on the information provided to them." (McLean and Elklind, 2003, p. 408). A senate committee that research the corporate governance at Enron, however, concluded: "By failing to provide sufficient oversight and restraint to top management excess, the Enron board contributed to the company's collapse and bears a share of the responsibility for it". The Senate panel, furthermore, found a nearly unprecedented breakdown in governance. (BusinessWeek, 2003). The failures of the Enron-board have been stated as: "see-no-evil, hear-no-evil" culture, unwillingness to ask tough questions or ask for more information, friendliness to the founder, lack of oversight, failure to assure smooth transition of leadership, blind belief in management, lack of understanding of financial issues and reliance on management as source of information (McLean and Elklind, 2003; Lorsch, 2002; Clarke, 2004; Coffee, 2002). On the surface, at least, these failures seem easily mended as Lorsch (2002, p. 3) pointed out: "I don't anticipate a rash of similar failures. Since I believe most boards will prevent such problems by improving themselves."

Although there is no lack of intelligent advice to boards about how they can improve, few researchers have looked at boards from team perspective. In essence the board can be described as a team that has a specific role and tasks to fulfil. In this paper we will use theories developed in the literature of teams to enhance our understanding of some of the problems of boards. The idea is to use team as a metaphor rather than arguing that boards act as teams. We will use the Enron-case as the underlying theme as it portrays some of the biggest challenges that boards face today.

[1] A case against Kenneth Lay and Jeffrey Skilling, the leading men at Enron, started 30th of January 2006. Both men pleaded not guilty. To that point 16 people had struck a plea deals with the U.S. Department of Justice and five other had been found guilty at trial in relation to the Enron case. On the 25th of May 2006 were Kenneth Lay and Jeffrey Skilling found guilty of fraud and conspiracy. Kenneth Lay passed away in July the same year.

## The Board

### The development of the board

The board of directors is legally considered the representative of the owner, "having all the power and alone having power" (Drucker, 1954, p. 178). The dilemma of the board is, however, that boards have not been able to use that power effectively.

Traditionally boards have been described as "rubber stamps" (Mace, 1971). Peter Drucker (1954, p. 178) stated: "The board may have become a mere showcase, a place to inject distinguished names, without information, influence or desire for power". Later he wrote: "There is one thing all boards have in common ... They do not function" (Drucker, 1974, p. 628). Lorsch and MacIver (1989) described the board as "pawns [rather than] potentates". This seems to be a quite common view as Gillies (1992, p. 3) points out: "Boards have been largely irrelevant throughout most of the twentieth century".

The last decade has partly changed this perception as increased pressure has been on boards to take their responsibility seriously. According to the European Corporate Governance Institute, at least 50 countries had introduced governance code for companies in 2003. There have been initiatives to push boards towards a more vigorous monitoring role (Lorsch and Carter, 2004). Lorsch (2002, p. 1) pointed out:

> *My 1989 study of the role of American boards concluded that too many acted more like pawns of their CEO rather than the potentates the law intended them to be. Fortunately, much has changed in the past decade. Under pressure from shareholder groups, stock exchanges, and the Delaware courts, most board have undergone a significant change in attitude. Where once directors could be called mere ornaments, today most take their responsibility very seriously and carry out their duties as best they can, given the limits of time and knowledge.*

The prestigious Enron board was, however, still like a pawn of their CEO despite being elected one of the best boards of America in 2000.[2] A more detailed study of board has proved that it was a mere rubber stamp just like boards have traditionally been (Fox, 2003; McLean and Elklind, 2003; Coffee, 2002).

### The role of the board

In his pioneering work Mace (1971) found evidence that the board did not carry out the classical roles described in the business literature, e.g. establishing basic objectives, corporate strategies, and board policies or asking discerning questions and that in most cases boards do not select the president.

According to different theories the emphasis of the role of the board tends to be different (Hung, 1998). There is, however, a tendency in the corporate governance literature to split the role of the board into three categories (Zahra and Pearce, 1989; Korac-Kakabadse et al., 2001; Nicholson and Kiel, 2004). These three categories are the control role, the strategic role and the service role. Korac-Kakabadse et al. (2001, p. 25) described the tasks within each role in the following way:

*Control role*:
- safeguard interests of shareholders;
- select CEO;
- monitorCEO/management performance;
- review CEO's analyses;
- rectify executive decisions; and
- separate decision control from decision management.

*Strategic role*:
- guide corporate mission;
- develop, implement and monitor the firm's strategy;
- allocate resources; and
- span boundaries.

*Service role*:
- co-opt corporation;
- control corporation;
- enhance corporate reputation; and
- formulate and implement decision making.

It seems, according to the research of McLean and Elklind (2003), the Enron-board managed to fail miserably in most, if not all, of those tasks. Some of the reasons for failure seem to be classical problems covered in the corporate governance literature, e.g. lack of time, information, as well as the size of the board, others sound more paradoxical, e.g. lack of independence, diversity and knowledge.

### The theory behind the board

The rubber-stamp label is related to the seminal work of Berle and Means (1932) where separation of ownership and control was central thesis for increased management power in American business. In other words, according to **managerial-hegemony theory**, the board is in effect a legal fiction and dominated by management control (Mace, 1971; Kosnik, 1987). The ensuing weakness of shareholder control is likely to lead to a self-serving behaviour of management where they pursue objectives of their own choosing (Parkinson, 1993). The board will therefore be adopting a "rubbing-stamping" role (Herman, 1981). Managerial-hegemony theory tends to focus on the control role of the board.

**Agency theory** offers a more detailed investigation into the relationship between owners and management of large corporations (Jensen and Meckling, 1976). The separation of ownership and control gives rise to conflicts of interest between shareholders (principals) and managers (agents)

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[2] The Enron scandal and other scandals regarding companies like HealthSouth, WorldCom, Global Crossing and Adelphia led to the passage of the 2002 Sarbanes-Oxley Act in the United States.

because of the opportunism of managers. Williamson (1984) and Fama and Jensen (1983) have argued that the role of the board of directors and more generally the corporate governance system is to harmonize these agency conflicts. The board is principally an instrument by which managers control other managers (Williamson, 1984). It is an instrument of control with the primarily role of monitoring management activities in order to minimize agency costs and thereby protect shareholder interests (Stiles and Taylor, 2001). Agency theory tends to focus on the control role of the board.

The main tool in aligning the interests of shareholders and management has become granting management shares and stock options (MacAvoy and Millstein, 2003). This solution to the agency problem is common in business although there is little evidence that such measurements lead to more profitable corporations. Few companies used these tools more freely than the board of Enron as they paid out $1,058 million in options at the same time that market capitalisation decreased by $18.8 billion (MacAvoy and Millstein, 2003).

**Stewardship theory** takes an alternative look at the relationship between the management and the board of directors (Donaldson and Davis, 1991). Managers are considered good stewards of corporate assets rather than opportunistic and self-interested actors (Donaldson, 1990). In this sense monitoring is less important as a function for the board although some researchers have argued the need for reviewing strategies, which have been formulated by management (Andrews, 1980). The role of boards within this theory is however defined by its activity and involvement in guiding the management to achieve corporate mission and objectives (Hung, 1998). It also argues for combining the chief executive and chairman roles (Stiles and Taylor, 2001). Stewardship theory tends to focus on the strategic role of the board.

Clarke (2004, p. 5), however, argued that the Enron case was "a classic illustration of how self-interested managers can strip the wealth out of a company, leaving misled shareholders with little if anything of their investment."

Agency theory and stewardship theory have in common that take the shareholder view of the company. **Stakeholder theory**, on the other hand, stresses that corporations and boards have to accept responsibility for other stakeholders than just shareholders, such as customers, suppliers, employees, and the community (Lorsch and Carter, 2004). The stakeholder approach to the role of the governing board implies negotiations and compromise with stakeholder interests (Hung, 1998). The stakeholder view has, however, not had much influence on the development of thinking and policy making regarding corporate governance in recent years (Clarke and Clegg, 2000; Clarkson, 1995; Donaldson and Preston, 1995). Stakeholder theory tends to focus, at least partially, on the service role of the board, especially the importance of enhancing corporate reputation.

On the surface the Enron-board took the shareholder view, although it turned out that they weren't doing a very good job, as both management and the board were fixed on the share price (McLean and Elklind, 2003). One of the blunders to proof this point is although Enron trading games played a huge part in the energy crisis in California in 2000 the board seems to have had little interest in stopping the Enron-traders (McLean and Elklind, 2003). Jeff Skilling, one of the leading characters of Enron, even joked about it publicly: "You know what the difference is between the state of California and the Titanic? At least the lights were on when the Titanic went down." (McLean and Elklind, 2003, p. 281).

## Playing together like a team

The baseball legend Babe Ruth might have identified the importance of teamwork (Rigsby and Greco, 2003, p. 265), when he said:

> *The way a team plays together as a whole determines its success. You may have the greatest bunch of individual stars in the world, but if they don't play together, the club won't be worth a dime.*

The following section looks through team-based research with a view of identifying insights that may be applicable to a board setting.

## Roles

Moving from Babe Ruth, a more academic illustration is from Belbin (2004) based on his 9 years of studying teams at Henley Management College. Belbin's research was conducted via composing teams that competed against other teams in a simulated management environment. One of the more obvious combinations that he tested was putting together a team of extremely smart individuals to judge their performance versus the teams composed of less "clever" members. He found the following:

> *That a team of clever people should win in an exercise that placed a premium on cleverness seemed fairly obvious. Such an elementary principle was at least worth checking before any more subtle variations in team design were made. It was as well that we did. The Apollo team finished last.*

In his research, Belbin identified nine roles that were performed in teams. Three roles were action-orientated, three were people-orientated, and three roles were cerebral. His research indicated that teams achieve the best results when there is a *balance* of these roles.

## Diversity and knowledge

For teams to be effective, they need to have the *right* level of knowledge, and the ability to integrate this knowledge into coherent solutions in a timely fashion.

To achieve these objectives, it has been argued that the greater level of diversity in the team, the better the performance in terms of creativity and innovation. The logic behind this claim is that the greater the level of knowledge in the team, the better it is able to make informed decisions that take multiple perspectives into account. Given a team of a certain size, the way to maximise the level of knowledge is to have individuals with a lot of knowledge individually, and minimise the level of knowledge overlap between members, as this is a "waste" of knowledge. Essentially, this is having a diverse team.

Another lever to increase the level of team knowledge is to increase the size of the team. While there is no optimal size for teams as the purpose and the tasks of teams vary considerably. Teams are, however, usually comprised of a “fairly small number of people” (Drucker, 1973, p. 564). Katzenback and Smith (1993) argued that small size teams, less than ten, are more pragmatic than absolute necessity for success. Larger groups are, however, more likely to break into sub-teams rather than function as a single unit. Lau and Murnighan (1998) make a similar point in their discussion of fault lines. Size therefore serves as a practical limitation. Within this limitation, we return to having the most knowledgeable individuals, with the lowest level of knowledge overlap to form a team with a maximum knowledge base.

Research by Ancona and Caldwell (1992) supported this logic, finding that teams with diversity in functional background where rated by management as performing better in terms of innovation. Leonard's research also had similar findings. She talks about "when sparks fly" (1999) due to the "creative abrasion" (1995) that is required to bring together the diverse perspectives of the diverse team.

Others researchers have built on these findings to look at different dimensions of diversity. Cummings (2004) looked at diversity in geographic location, functional assignment, reporting manager, and business unit. His findings also supported the notion that more diverse teams had stronger performance than their more homogeneous counterparts.

## Knowledge boundaries

It seems quite intuitive that a more diverse team will be more knowledgeable, and a more knowledgeable team will develop superior insights. However, it is not quite as simple as this. Different *thought worlds* make communication and therefore collaboration difficult between different social communities or organisational units (Dougherty, 1992; Griffin and Hauser, 1992). So on the one hand increasing diversity increases the team knowledge base, thereby providing the potential for superior insights, on the other hand it also reduces the shared interpretive scheme making it increasingly difficult to integrate the knowledge that the team possesses.

Additionally, as noted by Ancona and Caldwell (1992), even if the team arrives at a good solution, implementation tends to be inferior to that of a more homogeneous team. In a sense, the very diversity that provides the opportunity for arriving at superior insights makes implementing these insights more challenging.

To make matters worse, although it is often claimed that bringing together diverse groups produces the best results, Jehn, *et al.*'s (1999) research indicated that this often leads to increased conflict. This should not be a big surprise given the different interpretive schemes, and is often claimed to bring benefits from this conflict via *letting sparks fly* and *creative abrasion*. Others, however, have found that conflict is associated with reduced productivity and satisfaction in groups (Gladstein, 1984; Wall and Nolan, 1986). So while increasing diversity has the potential to deliver superior results, there is a risk of this being a somewhat pyrrhic victory, with the organisation suffering over the longer term.

The challenge would therefore appear to be to get the benefits of the diverse team without the negatives associated with communication issues and conflict.

## Boundary objects

Carlile (2002) noted that knowledge proves to be both a barrier to, and a source of, new ideas. That when working across functions, consequences often arise that generate problematic knowledge boundaries. He describes the use of *boundary objects* as a means of representing, learning about, and transforming knowledge to resolve the consequences that exist at a given boundary. While boundary objects may indeed help to transform knowledge at the boundaries and therefore facilitate communication within diverse teams, it is not clear how to develop such objects.

Bunderson and Sutcliffe (2002, p. 875) note that “[i]n much of the existing work on functional diversity in teams, researchers have conceptualised functional diversity as the distribution of team members across a range of relevant functional categories, overlooking the extent to which these individuals are narrow functional specialists or broad generalists with experience in a range of functional areas... Although a few researchers have recognized the potential significance of examining the functional breadth of individual team members … there have been no attempts to empirically examine this aspect of functional diversity in teams.”

Burke and Steensma (1998) suggested that intrapersonal functional diversity is important for management teams and not just for individual managers. They argued that management teams composed of people with wide-ranging functional backgrounds will have broader *dominant logics* (Prahalad and Bettis, 1986) and will be less susceptible to decision-making biases. In the words of Dougherty (1992), these people would be more able to overcome *thought world* biases this would suggest that teams composed of functionally broad individuals will be better at sharing information than will teams composed of functional specialists. In a sense these functionally broad individuals could act as a *boundary object* (Carlile, 2002) for the team and therefore potentially aid communication, understanding and performance.

While the above may be true, it would seem more challenging to achieve the same level of team knowledge with a team of generalists rather than specialists. There is also currently no research at this point to provide further insight to this point.

## Internal communication

Potentially a practical solution is working on relationships between the team members. While this could entail the ubiquitous team building sessions, another explanation noted by Harrison, *et al.* (2003) is that teams that have worked together previously perform better (in terms of quality and speed) than teams that have not worked together previously.

So, maybe the solution to benefiting from the diversity in the team is simply to have the team together for longer and have them communicate frequently. Ebadi and Utterback (1992) suggested this in his research on technological innovation. He found that that frequency of communication had a significant impact on team performance. Un and Cuervo-Cazurra (2004) did similar research, and came to a similar conclusion. Communication is key.

In a sense it is not surprising that communication is vital to team performance. There is no point having large amounts of knowledge in a widely diverse team, if they do not communicate and bring this knowledge together to address the problem at hand. If this communication has the added benefit of improving relations of the team members, this can only be beneficial.

## External communication

While it is often assumed that diverse team membership is valuable for the knowledge of the team members, this is not actually where the key lies. The key benefit of the diverse membership is actually the increased network of contacts that this diverse group of people have access to. This is not to say that their knowledge is not important, just that their network is more so.

This has been noted from the beginning when Ancona and Caldwell (1992) found that the greater functional diversity, the more team members communicated outside the team's boundaries. This communication was with a variety of groups such as marketing, manufacturing, and top management. Similarly, Cummings (2004) found that external knowledge sharing was more likely to improve performance when groups were more structurally diverse.

The important shift here is that the diversity of the team members primarily delivers benefits as they have access to a different network and therefore have a broader knowledge base to draw from. This is a point argued by Burt (2004) when he notes that brokers who sit between structural holes in networks (structural holes are basically gaps between networks of people, if you bridge this gap you are able to take information from both sides) have a better chance of developing new ideas by integrating knowledge from the different disconnected sources. So effectively, a diverse team brings together diverse information sources and is able to act as a broker to bring this together to make good decisions. Essentially they have their finger on the pulse of what's happening throughout, and indeed outside of, the organisation.

Reagans and Zuckerman (2001) also address this topic. They start by reframing the team composition problem in terms of social networks. Arguing that team diversity optimists focus on diverse teams providing the opportunity to act as a bridge between groups generally disconnected from each other. This provides information benefits. In contrast, group diversity pessimists base their view on the hypothesis that decreased network density – the average strength of the relationship among team members – lowers a team’s capacity for coordination.

Essentially, pessimists focus internally and examine how demographic diversity affects *local* interactions. Optimists focus externally and examine how demographic diversity on a team provides the team with an opportunity to act as a bridge between groups generally disconnect from each other. Optimists focus on *global* structural holes and the information benefits that bridging such holes provide (Reagans and Zuckerman, 2001, p. 504).

Given, diverse teams deliver value due to having a larger network, but diversity in the team can be problematic in terms of communication and conflict, it raises the question as to whether an extensive network can be achieved without having diversity in the team. Reagans and Zuckerman (2001) address this issue, and in their research find that while “many analysts find affects for diversity and interpret these results as consistent with a particular network of relationships on the team, we find affects for such network variables which are independent of demographic composition.” So demographic/team diversity metrics are often used (unintentionally) as a proxy for network characteristics. They therefore suggest teams should be composed based on social network analysis rather than diversity metrics. While this makes sense, it is far more difficult to implement.

## The problem of boards

Although boards are often not thought of as teams, and might rather be explored as working groups as Katzenback and Smith (1993) make the distinction between teams and working groups, they do fit the definition of a team in that they are a small number of people brought together to jointly deliver an end result. The concept of team is used here as a metaphor to broaden the discussion about boards. Morgan (1998, p. 4) makes the argument: “It is a primal force through which humans create meaning by using one element of experience to understand another. Think about how flat and static our communication would be if we could describe something only as itself: for example, “The world is a world”. “The question is if boards act as teams are they effective as teams or not?

As highlighted previously, the Enron board seems to have done a particularly poor job. McLean and Elklind (2003) stating that they managed to fail miserably in most, if not all, of their tasks. The reasons given where the classical; lack of time, information as well as the size of the board, as well as the more paradoxical lack of independence and diversity of knowledge.

## Time

Time is a scarce resource at the board level and this can partly explain why boards rely on management for information. Lorsch and Carter (2004, p. 22) point out that since most directors are independent non-executives, “they are *very* part-time“. They estimate that time spent by these busy people on board matters is approximately two weeks a year. Increased time spent on information search is therefore not always an option. Lorsch and MacIver (1989) found the issue of time to digest and discuss information at board meetings to be a major constraint. Lorsch (2002) points out that most boards try to direct companies through six daylong meetings each year, the Enron-board had five.

Lack of time can though hardly be an excuse for a “rubber stamping” board and especially not a board like Enron that decides that five meetings are enough while other boards meet more regularly.

The problem of boards behaving as rubber stamps is partly to do with motivation (Berle and Means, 1932; Mace, 1971; Lorsch and MacIver, 1989). Sitting on boards is hard work if a director is to understand the business and the issues at hand and participate in discussions. The independent directors are responsible for obtaining adequate information, which can range from asking the CEO questions to seeking a second opinion and checking the reliability of information (Nowak and McCabe, 2003).

In a sense there could be a number of time related issues with boards. The first could be simply that boards do not spend enough time together to form and act as effective teams. This would be one explanation that could be gleaned from the research conducted by Harrison, *et al.* (2003) on teams who work together for longer performing better. Secondly, and maybe more fundamentally, boards may simply not have enough time to do their role effectively. Twelve people spending two weeks each to oversee a large and complex organisation may simply not be sufficient to do an adequate job. This second factor may be compounded by the first, in that if the board had spent sufficient time to form an effective team, they may be able to perform their duties in a shorter period of time.

## Information

Information is a key factor for boards to be able to fulfil their controlling duties and here lies one of the paradoxes in corporate governance: The board is likely to rely mostly on the information system that management has acquired or the information that management shares with the board from that information system (Nowak and McCabe, 2003; Nadler, 2004; Lorsch and Carter, 2004).

In a study of a series of 45 interviews of public listed companies across Australia, Nowak and McCabe (2003) found that directors perceive the CEO or the executives to have the controlling power over information. Management acts as a gatekeeper to the information flow to the board. The sheer information overload requires that management try to filter the most important information out in respect of the time available for the board members. Indeed Coffee (1977, p. 1131) stated that such filtering of information “is characteristic of all bureaucratic organizations”.

Pahl and Winkler (1974, p. 108), however, pointed out that in all companies with an active board, management adopts a manipulative strategy *vis á vis* the board. Nadler (2004, p. 109) reports on what he calls the “dark side” of communication between management and the board in the words of a corporate secretary of a major company: “There are two equally effective ways of keeping a board in the dark,” he said. “One is to provide them with too little information. The other, ironically, is to provide too much”.

The other options are to provide the board with misinformation or otherwise block information that should be reaching the board. This is especially important in the case of corporate misconduct where adverse information appears not to reach the board until a crisis has become unavoidable (Coffee, 1977). This is indeed what the Enron board claimed had happened. The attorney who represented Enron's outside directors for the senate committee claimed: “This board was continually lied to and misled by management. … No amount of further diligence or questioning would have been sufficient to cause management to tell them about these transactions” (BusinessWeek, 2003). Coffee (2002) argued that the Enron governance failure was in fact a failure of gatekeepers of information.

While it may be true that it is difficult for a board to do it’s duties when management is actively blocking information or providing it with misinformation, this does not remove the fact that board composition could be improved via learning from team based research. Firstly, boards could be composed with members that have strong networks both inside and outside the organisation. As per team research (Ancona and Caldwell, 1992; Burt, 2004; Reagans and Zuckerman, 2001), this would provide the board with a broad information base to test and integrate knowledge from. Therefore making it more able to make informed decisions. Regardless of the information filtered to it from senior management. Composing the board via this criteria could be more important that having a board with a heterogeneous background. Though these criteria are often aligned, it could be an ideal scenario to have a board with relatively homogenous backgrounds yet large and heterogeneous networks.

Secondly, having generalists on the board could facilitate communication (Burke and Steensma, 1998) due to overcoming thought world biases. This improved communication should facilitate improved performance (Ebadi and Utterback, 1992; Un and Cuervo-Cazurra, 2004).

## Size of the board

The size of the Enron-board, 17 directors, might not have been optimal as the larger the group is the easier it is for individuals to assume that someone else will do the job (Lorsch and Carter, 2004). There is a risk that the board splintered into sub-teams (Katzenback and Smith, 1993) along *fault lines* (Lau and Murnighan, 1998). The evidence is that smaller boards are often better than bigger ones.

Yermack (1996) found an inverse relationship between board size and firm value in a sample of 452 large US industrial corporations during 1984-1991. There is furthermore evidence from 334 hospital boards that big boards hinder strategic change (Goodstein et al., 1994) and Boyd (1990) found that boards tend to be smaller in a more uncertain environment. The annual survey of board practices in large US companies the executive search firm Spencer Stuart (2002) found that board size had shrunk from 15 directors in 1988 to 10,9 in 2002. It supports the conception that boards are generally shrinking, the reason being that smaller boards are considered to be more effective.

## Independence

The issue of independence of directors and the board has been a central issue of governance codes around the world although it is debated if more independence of boards leads to better boards as independence means by definition that director is to know nothing about the business (Lorsch and Carter, 2004). Independence if most often translated into outside or non-executive directors and the split role of CEO and Chairman. Experiments to show a relationship between independence and performance of firms has been mixed. Rhoades et al. (2000) for example found in a meta-analysis of 37 studies that board composition, especially the proportion of outside directors, had only an inconsequential relationship with firm performance. In the Enron-case many of the directors were outsiders and technically independent although their independence can be debated as many of them have been described as “friends of Ken”, Ken being the CEO and the Chairman of the board (Lorsch, 2002).

## Diversity and knowledge

Diversity is a characteristic of the board that has been a popular focus of study for researchers. The results have been mixed. Some studies have, however, found that board diversity has positive effects on performance (Carter et al., 2003; Erhardt et al., 2003). Jackson *et al.* (2003) argued furthermore that success of teams depends on members possessing an appropriate balance of skills, competencies and capabilities.

In terms of diversity, the Enron board appeared to be almost perfect. In 2001 it included an accounting professor, two former energy regulators, and four executives of financial and investment firms. This, however, didn’t stop it from signing off on some of the most dubious financial deals of American business history (Fox, 2003). This sounds surprising as well as the board’s lack of understanding of the Enron business model. It seems, however, to be a common surprise as Nadler (2004, p. 110) reports: “We are constantly surprised when directors who have served on boards for years confess that they don’t really understand how their companies make money”.

As noted previously, diversity may simply not be the right criteria for selecting teams or boards. Often diversity may act as a proxy for important network characteristics, but this is not necessarily the case (Reagans and Zuckerman, 2001). Additionally, the diversity may be hindering the integration of this knowledge and therefore not making use of the boards potential (Carlile, 2002). At the end of the day, it may be superior to make the most of less potential, than little of huge potential. Insights from Belbin’s roles could be crucial to this.

There is little doubt that most boards can become better by deciding on the role they are supposed to fulfil, taking their tasks seriously and by minimizing the hurdles that stand in the way of the board of doing its job effectively. The Enron-board surely could have, at least that was the conclusion of senate committee that researched the Enron-board after the collapse.

## Conclusion

Boards need to improve themselves to be able to have a purposeful role and to face the challenges of increased responsibility. This paper has looked at some of the challenges for boards using insights from research on teams. Some of the insights have to do with the characteristics of the board, e.g. size and diversity of boards, where a smaller and more purposefully chosen board might make the board more focused and effective. Information is the air the board breathes, it needs to have independent sources of information. Directors with a better network within and outside the company may help give them a better picture of the company and make them more independent of management. A wider network of information is a key for a more educated board that doesn't have to be the last group to hear of trouble in great business catastrophes, which seems to be common (Drucker, 1974).

The independence issue shouldn't be about stripping directors of any ties to anything to do with the company but rather about the directors understanding the role they have and taking it seriously, where, as in an effective team, everyone has a role, commitment and responsibility. The commitment of teams to solve problems should be a guiding light for boards to fulfil their roles. With more specific roles for directors, or when directors are chosen for the role that is natural for them, the work of boards can become more efficient and effective like the work of teams. The big dilemma is, however, time. With such a short time together directors have little possibility of forming a team and far too little time to tackle the problems of modern business. Therefore the advantages of the team are an illusion without more time for directors to do work together and learn from each other.

The Enron-case emphasises some of the weak points of corporate governance and the failures of the board of directors. In hindsight it is hard to see how some of the blunders of management could have bypassed the control role of the board. Partly it was failure of culture to "see-no-evil, hear-no-evil" and not to ask tough questions or demand for more rigorous information, a failure that can be related to lack of motivation and friendliness to the founder, as well as to failure of gatekeepers. As a result the board became a mere rubber-stamp. On the other hand time and knowledge, due to lack of information, are scarce resources which seriously hinder boards to do their job as well as they otherwise could. Time and knowledge are, however, factors that the board can manipulate to their advantage. In stead, the Enron board 'decided' to starve itself in regards of time and information.

In this paper we have looked at some of the classic problems of boards from a team perspective. The analysis has been insightful and opens up interesting research questions, which merge the corporate governance literature with the team literature. There is demand for research that explores how boards work from a team perspective and if more teamwork approach can help boards to improve themselves as they try to solve traditional problems and face new challenges.

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