BOARD DIVERSITY AND EFFECTIVENESS: IMPLICATIONS FOR THE ROLE OF THE CHAIR

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Abstract

This paper examines how social (ethnic and gender) diversity influences board effectiveness and impacts the role of the chair. It draws on semi-structured interviews with New Zealand board members from two company types - stated-owned enterprises (SOEs) and public listed companies (PLCs) - where the former has greater social diversity around the board table. Few prior studies of board effectiveness have accessed the views of board members via interviews, or compared directors' perspectives from companies of similar size but differing board diversity. The findings reveal that members of SOE boards, where there is greater social diversity, saw negative director characteristics (character and attitude) and weak board relationships as strongly negative influences on board effectiveness. This group also identified poor boardroom practice (i.e. failing to achieve a boardroom atmosphere that fosters quality debate and effective decision making) as having a significant, negative impact on board outcomes. While board members in both company types saw the chair as a key influence on both board effectiveness and ineffectiveness, the ways in which the chair was seen to exert that influence differed between the company types, suggesting that diversity impacts the role of the chair as leader of the board***.

Keywords: Board Effectiveness, Directors, Diversity, Gender, Ethnicity, Role of the Chair

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****The authors are grateful to the following people for their constructive comments on aspects of this study and earlier versions of this manuscript: Professor Andrew Kakabadse; Professor Lee Parker; Participants at the Performance Measurements and Corporate Governance Workshop, Pisa, Italy, September 2010; participants at the 4th New Zealand Management Accounting Conference, Auckland, New Zealand, November 2010; and participants at 2010-11 research seminars at the University of Technology, Sydney (Australia), La Trobe University (Australia) and The University of Auckland (New Zealand).*

1 Introduction

The corporate failures over recent years have drawn attention to the performance of the boards of directors who lead the companies that shape nations' economies. The structural and financial measures previously used to determine board effectiveness and company success are now being questioned, and governance research is shifting towards examining behavioural aspects of boards. With this growing recognition that behavioural studies can provide fruitful for insights into board performance (Bainbridge, 2002), both researchers and practitioners are seeking to understand how board effectiveness is impacted by the process and behaviours of the board (Roberts, McNulty and Stiles, 2005). The 2003 UK Combined Code of Corporate Governance gave further credence to the notion that board behaviour was an important factor in corporate governance and board effectiveness. This code shifted the emphasis from board composition to include a greater focus on the behaviour and conduct of boards as important for board effectiveness (Aguilera, 2005). The UK Corporate Governance Code (2010) moves even further towards accepting this notion via its inclusion of a new section on 'effectiveness' (Thomas, 2010). This reorientation reflects a growing recognition that the board is a social system whose behavioural elements will influence board effectiveness, and that the chair[1] has a key role in influencing that boardroom behaviour (Millstein and MacAvoy, 1998; Sonnenfeld, 2002; Cascio, 2004; Kakabadse and Kakabadse, 2007a).

Additionally, the increased focus on board performance has led the membership of boards to come under scrutiny, particularly in regard to how board composition reflects the wider population. In the UK, the Tyson Report (2003) identified the need for directors to be appointed from more diverse backgrounds, in particular to increase the proportion of women and people from ethnic minorities.

[1] While the terms 'chair' and 'chairman' are used interchangeably in the literature, 'chair' is used throughout this paper, except where a direct quotation is presented.

Diversity is also seen to ensure that better quality decisions are made (Wanous and Youtz, 1986; Watson, Johnson and Zgourides, 2002). The extent to which diversity is seen as important in the boardroom is reflected in recent changes to international stock exchange codes. For example, in 2010 the US Securities and Exchange Commission introduced a rule on disclosure of diversity policies that affected 15,000 US companies (Mayer Brown, 2010). The corporate governance principles developed by the Australian Securities Exchange (ASX, 2014) require listed companies to establish a policy on diversity, set measurable objectives for achieving gender diversity, and report against these annually, while the New Zealand Stock Exchange introduced a listing rule (effective December 2012) requiring companies to include gender data on directors and officers in their annual reports (NZX, 2012).

In the UK, a report by Lord Davies discusses the need to accelerate the inclusion of women on boards and has set a year 2015 target for this diversification (Davies, 2011). This is in addition to The UK Corporate Governance code (2010), which advocates well balanced and diverse boards as a means of promoting board effectiveness (Davies, 2011). It is inevitable that greater social diversity will be a feature of the future boardroom, therefore.

Group cohesiveness and group dynamics are important for boards (Forbes and Milliken, 1999) and social diversity can impact these factors (Jehn, Northcraft and Neale, 1999). Diversity is also seen as requiring excellent leadership skills (Joplin and Daus, 1997). The role of the chair in managing boardroom dynamics is, therefore, crucial in achieving maximum benefit from likely changes in board composition. The importance of the chair's role is recognised in the UK and is discussed in the Cadbury Report (1992) and Higgs Review (2003). Emphasis is also placed on the importance of the chair's role in ensuring board effectiveness in the more recent UK Corporate Governance Code (The UK Governance Code, 2010). Despite this recognition of the importance of the chair's role for board effectiveness, there have been only a few studies on this role (e.g. Roberts, 2002) and these have had a UK focus due to the prevalence of CEO-chair duality in the US.

This paper reports the findings of an interview-based study of 35 New Zealand board members' perceptions of the characteristics and outcomes of effective (and ineffective) boards. These board members are from two company types: stated-owned enterprises (SOEs) and public listed companies (PLCs). The main difference between the boards of these two company types is that SOE boards have greater gender and cultural diversity in their membership. The role and influence of the board chair in managing group dynamics inside the boardroom is also examined. The aim was to elicit the experiences of those who sit around the boardroom table (chairs, directors and CEOs) in order to understand the characteristics and outcomes of an effective board and how these might be impacted by differences in board diversity. The design of this study was informed by the literature on board effectiveness and the influence of the chair's role, which is reviewed next.

2 The literature: board effectiveness and the role of the chair

2.1 Board effectiveness

Most research into the factors contributing to board effectiveness has focused on structural aspects of boards using mainly quantitative research methods. In particular, there has been much attention given to board composition and its impact on financial performance, where board composition concerns board size and director independence (Dalton *et al.*, 1998; Bhagat and Black, 1999; Kiel and Nicholson, 2003; Dulewicz and Herbert, 2004), gender diversity and firm size and industry type (Grosvold *et al.*, 2007; Kang et al., 2007), and gender diversity and corporate reputation (Pavelin *et al.*, 2009).

During the last decade, however, there has been a move towards examining behaviour inside the boardroom using qualitative approaches (Higgs, 2003; Van den Berghe and Levrau, 2004; Leblanc and Gillies, 2005; Kakabadse, Kakabadse and Barratt, 2006; Edlin, 2007). Less research has been conducted on boards and how social diversity influences their workings and effectiveness. This paper sits within this genre of research by examining the key issue of how board performance is evaluated from the perspective of board members themselves.

Research into board behaviour has identified that boards need to be able to work together effectively to carry out their tasks. Interpersonal attraction (Forbes and Milliken, 1999) and the right board chemistry (Finkelstein and Mooney, 2003; Parker, 2008) are seen as vital for achieving board cohesiveness, as without the ability to work as a group the board cannot be effective (Charan, 2005). Additionally, trust and mutual respect are important elements for enabling group cohesiveness (Sundaramurthy and Lewis, 2003) and securing good board relationships, good behaviour and good processes (Forbes and Milliken, 1999; Charan, 2005; Roberts *et al.*, 2005). These characteristics are necessary for gaining the right atmosphere in the boardroom to facilitate good decision making (Higgs, 2003), which is regarded as the main board task (Forbes and Milliken, 1999; Nicholson and Kiel, 2004; Leblanc, 2005; Harper, 2007; Payne, Benson and Finegold, 2009).

Positive and open attitudes among directors (Cadbury, 2000; Van den Berghe and Levrau, 2004) and openness of communication are other factors that encourage trust (Whitener *et al.*, 1998). Further, good teamwork, including good communication between board and management, is also seen as essential for a board to carry out its tasks effectively (Charan, 1998; Daily, Dalton and Cannella, 2003; Leblanc and Gillies, 2005).

2.2 The chair's influence on board effectiveness

The chair is seen to exert a particularly important influence on board effectiveness (Higgs, 2003; The UK Corporate Governance Code, 2010). Besides having a process role related to board meetings and agenda structure (Roberts, 2002), the chair must also create the right atmosphere in the boardroom to encourage discussion and debate (Roberts, 2002; Stiles and Taylor, 2002; Garratt, 2003) and to ensure all directors' views are heard (Cadbury, 1992; Roberts, 2002; Kakabadse *et al*., 2006). The chair, as leader, also sets the 'culture' of the board (Leblanc, 2005; Kakabadse *et al*., 2006; Parker, 2008) and of the organisation (Cadbury, 2000; Roberts *et al*., 2005).

Yet, despite the recognised importance of the chair's role in promoting board effectiveness, there have been only a few (mainly UK) studies on this role (Roberts, 2002). There has, however, been some discussion on the desired characteristics of a chair (e.g. Parker, 1990; Harper, 2007). Some of the qualities an effective chair needs include the ability to manage tensions within the board, resolve disagreements and disputes, and reach a shared board perspective (Kakabadse *et al*., 2006). These attributes reflect the importance of ensuring that the right atmosphere and board processes are in place to ensure a board's effectiveness (Higgs, 2003; Roberts *et al*., 2005; Kakabadse and Kakabadse, 2007a).

While there is little research on chair attributes when there is social diversity in the boardroom, leadership research identifies that leaders of diverse groups require excellent leadership skills – in particular, good conflict resolution skills (Joplin and Daus, 1997) and strong interpersonal skills (Watson, Johnson and Zgourides, 2002). Further, strength in characteristics such as empathy, non-verbal skills, and inclusivity (i.e. ensuring all board members have a voice) is seen as more important when leading diverse groups (Joplin and Daus, 1997).

In summary, there is increasing recognition that behavioural issues are the main drivers of board effectiveness. In particular, these include: group processes, team dynamics, relationships, and the chair's role (Roberts, 2002; Van den Berghe and Levrau, 2004; Charan, 2005; Kakabadse *et al*., 2006). Social diversity has the potential to increase relationship conflict (Jehn *et al*., 1999) and impact boardroom dynamics (Joplin and Daus, 1997), both of which are areas where the chair is seen to exert significant influence on board effectiveness. The study reported in this paper examined the key drivers and outcomes of board effectiveness, as experienced within two types of company that have differing levels of diversity in their board membership. We turn next to outlining the New Zealand governance framework, which provides a context for this study.

2 Context: the New Zealand governance framework

The evolution of New Zealand company law has followed closely the development of English law governing corporations, with the New Zealand Companies Act 1993 currently the governing legislation. The main codes and principles of New Zealand's corporate governance framework are outlined in *Corporate Governance in New Zealand Principles and Guidelines* (Securities Commission, 2004). In line with the UK Corporate Governance Code, this New Zealand guidance requires that companies either implement the specified principles or explain "any significant departure" from them (Securities Commission, 2004, p. 15)[2].

This New Zealand guidance document includes a principle related to "board composition and performance" which states "there should be a balance of independence, skills, knowledge, experience, and perspectives among directors so that the board works effectively" (Securities Commission, 2004, p. 9). Further, a supporting guideline (number 2.4) notes that "the chairperson should be formally responsible for fostering a constructive governance culture and applying appropriate governance principles among directors and with management" (Securities Commission, 2004, p. 9). Hence, New Zealand's corporate governance framework explicitly notes the need for "balance" and "effectiveness" within boards and points to the important role of the chairperson in fostering an appropriate governance "culture".

In the 1980s, the New Zealand government introduced corporatisation of non-core government business, with the aim of improving their efficiency through competition and increased accountability (Crown Ownership Monitoring Unit, 2010). This led to the creation of nearly 200 companies and 1600 director positions (Garratt, 1997). The most commercial of these corporations became SOEs; as at 2010 there were sixteen of these. These SOEs have asset bases that place them in the top 50 companies by free float market capitalisation, as measured on the New Zealand Stock Exchange top 50 companies (NZX50) (Crown Ownership Monitoring Unit, 2007).

For some time New Zealand has been regarded as having high standards of corporate governance because, in large companies, the majority of the board are non-executive directors, the executive chair role is rare, and audit committees have been established for many years (Garratt, 1997). Nearly 90% of New Zealand listed companies have a separate chair and CEO, and only slightly over 50% of companies

2 This contrasts with the United States which, rather than following this "comply or explain" approach, has made compliance with corporate governance requirements mandatory (OECD, 2014, p. 13).

include the CEO as a member of the board (Teh, 2009). For SOEs, none of the CEOs is a board member (Crown Ownership Monitoring Unit, 2010).

Directors of SOEs have duties under the New Zealand Companies Act 1993, as well as a formula for how directors should act under the SOE Act 1996, which calls for directors to operate companies on (inter alia) a commercial basis, seeking performance similar to private sector businesses with similar risk profiles. However, the composition of SOE boards tends to be different to that of PLC boards, with SOEs having greater focus on membership diversity. This is because the New Zealand Government, as owner of the SOEs, wants board membership to reflect the diversity of the community while still adhering to the commercial requirements of these entities under the legislation (van der Walt and Ingley, 2003).

For example, in 2010, 38% of directors in SOEs were female compared with 9.3% of directors in New Zealand Stock Exchange (NZX) Top 100 companies (Human Rights Commission, 2010). Female directors on the NZX increased to 12.3% following a new listing rule introduced by the NZX, effective year ending on or after 31st December 2012. This new rule required companies to include in their Annual Reports quantitative data on the gender of directors and management (NZX Memorandum, 3rd March 2014). For SOE boards, the latest official review shows that female directors of SOEs increased only marginally to 38.7% (Treasury, 2014) and cultural diversity shows a reduction from 20% (Wheeler, 2003) to 12.2% of SOE board members who are non-European (Treasury, 2014). No official information is available on the cultural diversity of PLC boards in New Zealand, however based on the comparative gender statistics, similar lower levels are likely. These two different company types, with differing social diversity in their boards, offer a rare context within which to review whether the characteristic of social diversity could influence board effectiveness.

4 Research method

Gaining information from those who participate around the boardroom table, including an understanding of the influence of board processes and dynamics, is thought to present a valuable opportunity to explore the factors shaping board effectiveness (Huse, 2005; Leblanc and Gillies, 2005; Pye and Pettigrew, 2005). Studies into differences in board practice between different types of firms and ownerships (Zahra and Pearce, 1989; Pye and Pettigrew, 2005; Payne *et al*., 2009) are also seen to be of value, as are examinations of the influence of the chair on board effectiveness (e.g. Parker, 1990; Cadbury, 1992; Roberts, 2002; Leblanc and Gillies, 2005; Harper, 2007; Kakabadse and Kakabadse, 2007b). Consistent with several prior studies of behaviour aspects of board practices (Kakabadse, Ward and Korac-Kakabadse, 2001; Van den Berghe and Levrau, 2004; Roberts *et al*., 2005; Kakabadse and Kakabase, 2007b; Parker, 2008), this study drew on interviews with board members (directors, chairs and CEOs) to examine these issues. It looks at two organisation types (New Zealand SOEs and PLCs) which differ in the social diversity of their board membership. The study also examines the chair's role and its perceived influence on board effectiveness, given differing levels of board diversity.

4.1 Securing 'insider' access

Gaining direct access to board members has been an obstacle to prior research on board effectiveness (Edlin, 2007). This study did not face this problem, since the author who conducted the interviews has more than twelve years' experience as a practising director and chair in both PLCs and SOEs in New Zealand. This prior board experience facilitated access to board members and also created researcher empathy in understanding boardroom practices and the meaning of the relationships, actions and the language used. As Schwandt notes, "the idea of acquiring an 'inside' understanding – the actors' definitions of the situation – is a powerful central concept for understanding the purpose of qualitative enquiry" (Schwandt, 2000, p. 102; cited in Patton, 2002, p. 51). Achieving this requires that the researcher understands the language used by boardroom actors, since "each of the [language] games has its own rules or criteria that make the game meaningful to the participants" (Schwandt, 2000, p. 192; cited in Patton, 2002, p. 51). This sensitivity was particularly important in interpreting the distinctions between the responses of participants from the two different company types. It also created a trust relationship with participants, with interviewees willing to discuss their experiences with someone who understood the language and context in which these experiences were shaped. Therefore this study presents a novel 'inside' understanding of board performance. However, this closeness between the researcher and the participants necessitated constant reflexivity when analysing the responses to the questions to ensure that interpretations were not overly narrow or unconsciously shaped by the researcher's own preconceptions (Patton, 2002; Bryman and Bell, 2003).

4.2 Company and interviewee selection criteria

This study focused on companies that, due to their size or position, had a significant impact on the New Zealand economy. The comparison of PLCs and SOEs aimed to identify how board effectiveness might be influenced by differing social diversity characteristics. Additional sample criteria for company selection were that the boards had been in existence for five years or more and, for New Zealand

Stock Exchange listed companies, the main board (registration) resided in New Zealand. These additional criteria were introduced to reduce any variability in board approach that may occur due to some being in their start-up phase (Zahra and Pearce, 1989; Filatotchev, Toms and Wright, 2006), or due to external influences from a parent company in another jurisdiction (e.g. for Australian owned companies also listed in New Zealand). Secondary research using company websites was used to identify the eleven SOEs and thirty-five PLCs companies that met these selection criteria. In total, twenty PLC and fifteen SOE participants were included in the study. These participants represented nineteen PLC boards and eleven SOE boards (i.e. one PLC board and four SOE boards had two members participating in the study). Stratified purposeful sampling was used to select the interview participants. The sample included three categories of participants - chairmen, directors and CEOs, as each of these roles may offer a different perspective on board effectiveness. Also, half of the PLC chairmen interviewed had prior experience as a CEO. The inclusion of different categories of interviewees contributes to what Rubin and Rubin (2005, p. 67) call "triangulation of subjects", which helps to avoid bias (Miles and Huberman, 1994). See Table 1 for a summary of the interviewees.

Table 1. Interviewees by company and role type

	SOE	PLC	Total
CEO	5	5	10
Director	5	5	10
Chair	5	5	10
Chair (with prior CEO experience)		5	5
Total	15	20	35

Experience, i.e. length of service on boards or in a CEO position, was the main criterion used to recruit participants. Selected chairs and directors must have been a member of more than one board and been a director for at least five years[3]. This ensured they could draw on their experiences with more than one company. For CEOs, the selection criterion was that they had held their role in the company for at least three years. This ensured they had been with the organisation long enough to develop an understanding of the board and its governance.

The identification of people meeting these criteria was based on company website information, information produced by the Crown Company Monitoring Advisory Unit, the researcher's personal knowledge, and peer contacts. The match with criteria was then verified by background questions asked of the participants. The application of these selection criteria resulted in the interviewees including three female directors from SOE boards (no female PLC directors met the criteria) and two non-European directors from SOE boards (no non-European PLC directors met the criteria).

4.3 Conducting the interviews

Thirty-five interviews were conducted from November 2007 to June 2008, starting with six pilot interviews[4] to identify any potential ambiguity in the questions (Stiles and Taylor, 2001). The research evidence from the pilot study, as well as being analysed initially to inform the design of the remaining interviews, was combined with the main interview findings for analysis purposes. This was due to both the relatively small overall sample population for this research and the fact that a comparison of the pilot study results to those of the main interviews revealed no substantive differences in responses[5].

The qualitative nature of this study, using a semi-structured interview approach, meant that follow-up questions allowed dialogue to emerge (Bailey, 2007). An interview guide was made available to participants prior to the interviews (as per Bryman and Bell, 2003). The interview questions were broad in scope, since they were intended to prompt participants to share their views and recollections on key aspects of board practice[6] rather than direct them towards particular issues

The main interview questions were:

- What are the functions of an effective board?
- What are the characteristics and factors that lead to effective/ineffective boards?

[3] Where participants had served on both PLC and SOE boards, they were asked to focus only on their experiences with the company type they had been selected to represent in the sample. That is, participants were asked to respond from their perspective as a PLC director or an SOE director, but not both.

[4] The pilot interviews were with three PLC board members (a chairman, a director and a CEO) and three SOE board members (a chairman, a director and a CEO).

[5] The inclusion of pilot study results in the final analysis is not recommended where those involved in the pilot study have been used as a pre-test or focus group for a wider research study and may therefore be predisposed towards particular responses (Gilbert, 2001), or where probability sampling is used and the inclusion of a pilot study may affect the representativeness of the sample (Bryman and Bell, 2003). However, neither of these issues was relevant for this study.

[6] See footnote 2.

- What are the outcomes and outputs of effective/ineffective boards? What might an effective/ineffective board look like? What would an outsider see?
- How might board effectiveness/ineffectiveness be measured?
- What impact do the chair and/or CEO have on board effectiveness/ineffectiveness?
- Can you give an example of a situation that demonstrated an effective/ineffective board?

No specific question was included on diversity and how this might impact board effectiveness/ineffectiveness. Instead, the aim was to identify whether the difference in board diversity between SOEs and PLCs resulted in directors having a different view on the characteristics and outcomes of an effective board.

The last question - asking participants to recall a specific example - was intended to encourage fuller, more detailed answers (deMarrais, 2004) and to enhance the validity of the interview data by supplementing interviewees' perceptions with illustrative examples. While interview evidence based on recollections and opinions is inherently difficult to validate, Bailey (2007, p.54) notes that:

…what researchers learn from the participants depends, in part, on their own status characteristics, values, and behaviours [and] … taking this into account during all phases of the research can increase the validity or trustworthiness of the research.

Further, Lincoln and Guba (1985, p. 256) note that "respondents are more likely to be both candid and forthcoming if they respect the enquirer and believe in his or her integrity". Therefore, the researcher's experience as a director is likely to have helped elicit reliable information and informed its interpretation, thus enhancing the validity of the research evidence.

One researcher carried out all the interviews so there was no interviewer variation, increasing the reliability of research evidence captured. The interviews were tape-recorded and transcribed and the transcriptions were used as a basis for analysis and coding. This ensured that responses were captured in the participants' own language (Bryman and Bell, 2003). It also facilitated the use of direct quotations of interview evidence (Myers, 2009). As well as ensuring the reliability of the research evidence (Lincoln and Guba, 1985), tape-recording the interviews meant the researcher could be more alert to participants' responses and, where necessary, could probe their answers (Bryman and Bell, 2003).

4.4 Analysing the data

A multi-step process was used to code and analyse the interview data. First, each interview transcript was read through and a summary of first impressions and thoughts made (consistent with Strauss and Corbin's (1998) memo process) along with notes on themes that were emerging from the data (Bailey, 2007).

Second, the interviews were analysed by words, paragraphs and general concepts to generate first level coding (Miles and Huberman, 1994). For the next stage of coding, interviewees' comments were related to the list of themes created from the first level coding. In some cases, additional themes needed to be added. The thematic data was then counted and themes with fewer than ten mentions by participants were reviewed and combined with other, related themes. This process resulted in more focussed coding which revealed some themes as subsets of wider themes (Bailey, 2007). All the coded interview comments were then checked to ensure that the information was consistently captured, interpreted and coded into themes (Silverman, 2005). The final stage of the analysis was to review the themes to identify any overlap and/or need for further combination (Bailey, 2007). Throughout this process, the analysis differentiated between the two company types, PLCs and SOEs.

In qualitative research, triangulation is an important aspect of assuring data quality. Data collection from participants who have different views or have different positions is regarded as important in triangulation (Patton, 2002; Bailey, 2007). Data collected from different participants also allows for "subject triangulation" to help avoid bias (Rubin and Rubin, 2005). This study draws on the interview data arising from interviews with three different participant groups (chairs, directors, and CEOs) and across two different organisational types (SOEs and PLCs). As the third step in the data analysis process, triangulation was achieved by virtue of comparisons drawn between these groups and companies. In addition, adopting the dual perspective of effective versus ineffective board characteristics and factors and outcomes and outputs, allowed for triangulation across these analytical categories.

The final themes identified from the data analysis form the basis for the findings, presented next.

5 Findings

The findings of this New Zealand study fall into two main categories: characteristics of effective and ineffective boards; and the outcomes of effective and ineffective boards as seen by participants from the two company types. In addition, participants were asked to describe the functions of an effective board in order to identify any variation in their understanding of board functions and ascertain whether the perceptions of New Zealand board members are consistent with those reported in the international literature. The findings include multiple responses from the participants, since the data coding and analysis identified that participants sometimes referred to more than one theme when answering a question. Focussed coding also revealed themes to be subsets of wider themes (Bailey, 2007).

Each set of findings presented below highlights comparisons between SOE and PLC board members' experiences and perceptions.

5.1 Functions of an effective board

Both SOE and PLC participants identified 'the hiring and mentoring of the CEO' and 'directing and developing strategy' as the two key functions of a board. However, compared to SOE participants, PLC participants were more likely to mention the functions of governance (monitoring and compliance) and serving shareholders (adding value and communication), with 27 out of 75 PLC responses (36%) mentioning at least one of these functions, compared to 9 out of 43 (21%) SOE responses. On the other hand, SOE participants placed greater emphasis on the notion of 'good boardroom practice.' This concept, referred to by several participants, concerns creating an atmosphere in the boardroom that enables the board to carry out its role of questioning and challenging management, thus ensuring that decision-making is supported by good quality debate in the boardroom. For the analysis, relevant responses were categorised under this heading and we employ the term 'boardroom practice' for the remainder of this paper to reflect this perspective as it relates to participants' experiences of the characteristics and outcomes of boards. Table 2 summarises these key findings.

Table 2. Company comparison of the functions of an effective board

	SOE	%	PLC	%	Total	%
	N=15		N=20			
CEO - hiring & mentoring	13	30	23	31	36	31
Directing and developing strategy	9	21	18	24	27	23
Governance (monitoring & compliance)	5	12	16	21	21	18
Serving shareholders (adding value & communication)	4	9	11	15	15	12
Leadership on ethics and values	3	7	4	5	7	6
Good boardroom practice	5	12	2	3	7	6
Adding skills and knowledge about the business environment	4	9	1	1	5	4
Total mentions	**43**	**100%**	**75**	**100%**	**118**	**100%**

Source: Interviews (n=35) Multiple responses given

The following quotations illustrate views expressed about key functions:

Appointment of the CEO and the monitoring and mentoring of the CEO for an effective board are significant functions. (Chair, PLC)

I think the most important function is to establish the goals and strategy for the business, included in that of the performance parameters. (CEO, SOE)

There are functions of boards. One goes to the CEO, the second goes to strategy and performance and the third goes to compliance. (Chair/CEO, PLC)

As illustrated in the quotations, both the SOE and PLC participants had similar views on the main functions of a board. These identified key functions are also broadly consistent with the international literature (e.g. Zahra and Pearce, 1989; Conger, Finegold and Lawler, 1998), suggesting that New Zealand board members see their key roles as consistent with international perceptions on board practice.

5.2 Characteristics of effective and ineffective boards

Participants were asked to express their views on the characteristics of effective and ineffective boards. Although it might appear that factors leading to board effectiveness and ineffectiveness would simply be the converse of each other, the aim was to allow for the possibility that the *absence* of a characteristic may be perceived as damaging to board effectiveness, even though the characteristic itself is not mentioned as being particularly influential in achieving effectiveness (The Authors, 2011[7]).

Nine key characteristics were identified from the participants' experiences; they are combined into four themes for discussion here. First, *board structure* includes the makeup of the board and the processes by which it is assembled; this incorporates three factors - informational diversity within the board, director ability and board selection processes. Second, *relationships* includes four factors: relationships between the board and management, relationships between the board and the CEO, relationships amongst board members, and director characteristics (i.e. the attitudinal and behavioural characteristics of board members). Third, *boardroom practice* refers to the atmosphere in the boardroom, the quality of debate, and the ability to achieve effective decision

[7] Anonymised for review (this footnote will be removed post-review).

making (participants saw these as inter-related concepts). Finally, *the effectiveness of the chair* as the leader of the board is regarded as having both positive and negative potential influences on board effectiveness. A summary of the findings is presented in Table 3. The figures in brackets indicate the number of participants mentioning this issue (i.e. the breadth of concern for this issue across participants); figures without brackets indicate the total number of mentions across all participants (multiple mentions by some respondents can be seen to reflect a stronger degree of concern).

Table 3. Characteristics of effective and ineffective boards (by company type)

Board effectiveness						**Theme**	**Board ineffectiveness**					
Total	**%**	**SOE N=15**	**%**	**PLC N=20**	**%**		**%**	**PLC N=20**	**%**	**SOE N=15**	**%**	**Total**
73	**23%**	(15) 35	**26%**	(15) 38	**21%**	**The Chair**	**21%**	(15) 29	**22%**	(15) 23	**21%**	52
38	**12%**	(13) 22	**16%**	(16) 16	**9%**	**Boardroom practice**	**2%**	(3) 3	**6.5%**	(5) 7	**4%**	10
						Relationships						
35	11%	(11) 14	10%	(12) 21	12%	Internal board relationships	9%	(9) 13	17%	(13) 18	13%	31
35	11%	(8) 11	8%	(14) 24	13%	Director characteristics	12%	(13) 17	24%	(12) 25	17%	42
42	13%	(8) 17	12%	(15) 25	14%	Board and management relationships	20%	(14) 28	6.5%	(7) 7	14%	35
7	2%	(1) 1	1%	(6) 6	3%	Board and CEO relationships	4%	(6) 6	6%	(5) 6	5%	12
	37%		**31%**		**42%**	**Total Relationships**	**45%**		**53.5%**		**49%**	
						Board structure						
48	15%	(13) 20	15%	(15) 28	15%	Board diversity	19%	(10) 27	6%	(7) 7	13%	34
25	8%	(5) 9	7%	(10) 16	9%	Director ability	5%	(7) 7	8%	(8) 8	7%	15
15	5%	(5) 7	5%	(8) 8	4%	Selection process	6%	(8) 9	4%	(4) 4	6%	13
	28%		**27%**		**28%**	**Total board structure**	**30%**		**18%**		**26%**	
318	100%	136	100%	182	100%	**Total mentions**	100%	139	100%	105	100%	244

Source: Interviews (n=35) Multiple responses given

The findings related to the chair's leadership role and influence are examined next.

5.3 The chair's influence

The literature of the past two decades has, particularly in the UK, identified the importance of the chair's role in achieving board effectiveness. In the UK, the trend towards separating the chair and CEO roles consequent on the Cadbury Report (1992) means that only two of the top 150 companies by market value have a combined chair/CEO role (Spencer Stuart UK Board Index, 2011, p. 19). The separation of the chair and CEO roles is also common practice in both Australia (Nicholson and Kiel 2004) and New Zealand (Garratt, 1997). On the other hand, in the US 59% of the Standard and Poors Top 500 companies have a combined chair and CEO role, although this is down from 74% in 2001 (Spencer Stuart US Board Index, 2011, p. 6).

The literature also notes that the power of the chair's role in the boardroom (Cadbury, 1992; Pettigrew and McNulty, 1998) is central to achieving board effectiveness (Kakabadse *et al*., 2006; Harper, 2007; Kakabadse and Kakabadse, 2007). There is also recognition that the chair role involves a variety of tasks including: shaping the process of board meetings and the agenda structure (Higgs, 2003); creating the right atmosphere in the boardroom for open discussion and debate (Garratt, 1999; Stiles and Taylor, 2002); and ensuring there is boardroom participation so that all directors' views are heard (Cadbury, 1992; Roberts, 2002; Kakabadse *et al*., 2006).

Where groups are diverse rather than homogeneous, the leadership role takes on greater significance (Joplin and Daus, 1997), particularly in regard to the group's behaviour and ability to work together (Forbes and Milliken, 1999). The leader must give careful attention to achieving an open, trusting atmosphere and must have the ability to effectively channel conflict and summarise the outcomes of group discussions (Joplin and Daus, 1997). Therefore, an effective chair must be able to manage any group tensions, resolve disagreements and disputes, and reach a shared board experience (Kakabadse *et al*., 2006).

Both SOE and PLC research participants agreed that the chair has a significant impact on both board effectiveness and ineffectiveness. They saw a good chair as demonstrating leadership by ensuring that there are good internal board relationships and teamwork, and ensuring that the boardroom uses its time effectively in the boardroom through good boardroom practice. The following quotations from both participant groups illustrate these points:

The chair is ultimately the most important success factor for the board because I have seen many good boards, full of good individuals, fail through lack of good chairmanship. On the other hand, I have seen boards that have people who might otherwise not have looked like stellar individuals work really well and effectively because the chair has pulled them together and got the best out of them. Just as a good sports coach would do. (CEO, SOE)

A good board needs individuals with a diversity of experience and background, but melded together by a chair who has the ability to take individuals and turn them into a team. (CEO, SOE)

Good chairs draw out people with the expertise on the issues and allow them to share that with the board. They don't allow that expertise to dominate the thinking of the board. (Director, SOE)

On the other hand, participants saw a chair's lack of leadership skills as negatively impacting board effectiveness. The following quotations illustrate this point:

At the root of ineffective boards is poor chairmanship. (Director, SOE)

[A] lack of effective leadership … [means] the chair for whatever reason hasn't got the leadership characteristics that enable him or her to get the input from the board. (Chair, SOE)

With a few exceptions (e.g. Kakabadse and Kakabadse, 2007), the prior literature has focused on what a good chair can add to board effectiveness. Hence, a key point of difference in the findings of this NZ study is the extent to which participants perceive the chair to have a potentially negative influence on board effectiveness. This finding further highlights the significance of the chair role.

Further, while Table 3 shows that both groups perceive the role of the chair as having a significant influence on board effectiveness (26% for SOEs and 21% for PLCs) and ineffectiveness (21% for SOEs and 22% for PLCs), a follow-up question on the chair's perceived impact revealed some important differences. Overall, participants identified four keys aspects of the chair's influence: setting the culture and leadership style of the board; promoting good boardroom practice; maintaining good relationships with the CEO; and ensuring the board maintains a strategic oversight role rather than getting too involved in day-to-day management. The frequency of mentions of these issues by respondents from SOEs and PLCs is presented in Table 4.

Table 4. Chair impact on board effectiveness (by company type)

			Total responses			
	Totals	**%**	**SOE**	**%**	**PLC**	**%**
Leadership style/culture	32	35%	13	31%	19	38%
Boardroom practice	24	26%	14	33%	10	20%
Relationship with the CEO	21	23%	8	19%	13	26%
Board's role	15	16%	7	17%	8	16%
Total	**92**	**100%**	**42**		**50**	

Source: Interviews (n=35) Multiple responses given

These results reveal some divergence between the two company types. In particular, the SOE participants were more likely to mention 'the chair's influence on boardroom practice' as an important driver of board effectiveness (33% of SOE directors' responses compared with only 20% of PLC directors'). This view is illustrated in the following quotations from SOE participants:

Effective chairs will ensure that they do get the best out of the individual directors around the table; they will set the right tone to encourage challenge, discussion and debate. Everyone is going to have a different style, but the chair needs to have the ability to draw out the best from other directors. (Director, SOE)

I think that the chair, having the ability to ensure people prepare and participate at a board meeting, is absolutely critical to reaching a decision. The chair will either ensure that can occur or it will not occur; it is not something that just happens, it has to be made to happen. (CEO, SOE)

The single overall statement that I would make is that effective boards are characterised by consensus decision making, but with strong healthy debate, the democratic right for every board member in the room to contribute, and respect for contrary and individual views. And in that context, it is the responsibility of the *chair to guide the board to ensure that the atmosphere in the board room allows all that to operate. (Chair, SOE)*

On the other hand, the PLC participants were more likely to mention 'the chair's leadership style and culture' as a driver of board effectiveness (38% of PLC responses compared with 31% of SOE responses). This view is illustrated in the following quotations from PLC participants:

The chair is pivotal to the properly functioning board. He should dictate and reflect the culture. He must lead and control the board discussion and ensure the board makes and records decisions and that decisions are carried out. (Director, PLC)

The chair can ensure board cohesion, and cohesion between board and management, through their leadership style. (Director, PLC)

The findings related to diversity in the boardroom are examined next.

5.4 Diversity in the boardroom

Both SOE and PLC directors interviewed for this study viewed board diversity a key driver of board effectiveness. However, their responses reveal that the positive aspects of diversity are usually associated with informational rather than social diversity. The following quotes from both SOE and PLC participants illustrate this point:

I think you must have a range of skills, expertise and industry experience and knowledge. If your board is stacked with lawyers and accountants, you can have a CEO who runs wild because you don't understand the business. (Director, PLC)

We need clear-thinking people that are prepared to enunciate their views and recognise that a decision would have to be made which will be an amalgam of those views. You get the best decisions if you do have that diversity. (Chair, SOE)

Effective boards are balanced. They've got people with a range of skills around the table so there are no obvious gaps. (Chair/CEO, PLC)

This result is consistent with the international literature, in which informational diversity - as it relates to skills, knowledge and information - is seen as having a positive influence on group performance and effectiveness (Williams and O'Reilly, 1998; Jehn *et al*., 1999). Skills diversity is also seen as important to a board's ability to monitor and challenge management effectively (Sundaramurthy *et al*., 2003; van der Walt and Ingley, 2003) and is regarded as an important precondition for board effectiveness (Leblanc and Gillies, 2005; Roberts *et al*., 2005). Informational diversity has also been shown to enhance problem solving (Williams and O'Reilly, 1998; Watson *et al*., 2002) and the quality of decision making (Wanous and Youtz, 1986; Milliken and Martins, 1996), a key board task.

In regard to the characteristics of *ineffective* boards, Table 3 reveals some interesting divergence in the views of SOE and PLC participants. As outlined earlier, the main difference between New Zealand SOE and PLC board membership is the cultural and gender (i.e. social) diversity in the boardroom since SOE shareholders desire greater board diversity and the board selection process is managed in order to achieve that (Crown Ownership Monitoring Unit, 2010).

First, SOE participants mentioned 'weak director characteristics' as a driver of board ineffectiveness more often than PLC participants did (24% of SOE directors' responses compared to 12% for PLC directors). Director characteristics that were mentioned included a director's character, moral values and independence, and a director's attitude (which includes enthusiasm, energy, passion and commitment to their role in the company). These attitudinal and behavioural characteristics of board members are seen by participants to impact relationships inside and outside the boardroom. The following quotations illustrate how SOE directors see weak director characteristics as a negative influence on board effectiveness:

…. Directors not preparing, turning up and they haven't read their darn papers. They haven't analysed the issues. (CEO, SOE)

[Board effectiveness] is impaired by internal sniping; failure to take responsibility for outcomes; imbalance of workloads; imbalance of contributions between directors. (Director, SOE)

Director characteristics are seen as a contributor to diversity in relation to corporate governance (van der Walt and Ingley, 2003). The perceived influence of these director characteristics is consistent with results of prior research where board members' views have been obtained. These characteristics include a positive director attitude (Van den Berghe and Levrau, 2004) and director commitment (Dalton and Dalton, 2005). The behavioural characteristics of directors (Letendre, 2004,) including preparation and commitment (Forbes and Milliken, 1999; Lawler and Finegold, 2006; Minichilli, Zattoni and Zona, 2009), are also recognised as important board attributes. On the negative side, research into work groups shows that greater diversity can lead to lower commitment and satisfaction (Williams and O'Reilly, 1998).

Second, SOE participants mentioned 'internal board relationships' (i.e. relationships between directors) as a driver of board ineffectiveness more often than PLC participants did (17% of SOE directors' responses compared to 9% for PLC directors). Trust and respect among board members and the board being prepared to work together as a team are perceived as important ingredients in these relationships. Poor internal board relationships are seen as those where there is a lack of respect, poor teamwork, and personality clashes among members. The following quotations from SOE participants illustrate these points:

A lack of respect and trust between board members means that you can't get that effective team work. (Director, SOE)

If you don't have some sort of personal chemistry that works ... I mean that in a sense of being able to respect each other, and, being quite open and aware of strengths and weaknesses and styles ... then it is just not going to work. (CEO, SOE)

PLC directors' comments also reflected the perceived importance of teamwork and trust to an effective board, as illustrated below:

Something that is important is working as a team with all the individuals contributing. You can't afford to carry grandstanders or personality problems. Wanting to work as a team is very important. (Director, PLC)

I have worked on ineffective and effective boards and I guess the word that says it all is 'team'. (Chair, PLC)

They [the board] must have an atmosphere and culture of being open, of being questioning and being trusting. They have got to trust the management and each other. (Chair/CEO, PLC)

This recognition of the importance of internal board relationships and the link between trust, board chemistry and teamwork is consistent with prior international research. For example, Forbes and Milliken (1999, p. 496) noted that, for boards to work well together, "board members must trust each other's judgement and expertise, and trust will be difficult to sustain on boards with very low interpersonal attraction". Thus, cohesiveness, or "interpersonal attraction", is seen as necessary for achieving high levels of output and commitment from a group and as an important criterion for effective board decision making. Trust and co-operation are also perceived to be of benefit in 'social networks' such as boards of directors (van der Walt and Ingley, 2003). Alternatively, low cohesiveness can cause a board to be ineffective. Interpersonal relationships impact the board's behaviour and chemistry (Finkelstein and Mooney, 2003), which in turn influence the board's effectiveness (Harper, 2007). As Charan (2005, p. 29) notes, "unless individual directors can gel as a working group, they simply cannot be effective".

An interesting finding to emerge from this New Zealand study is that weak director characteristics and dysfunctional board relationships are perceived as a more significant influence on board ineffectiveness where board social diversity is greater (i.e. in the SOEs). This finding suggests that social diversity may present challenges to board cohesiveness. It has been noted in other areas of organisational research that diversity can lead to less cohesiveness and less trust (Hoojberg and DiTomaso, 1996) and that factions and relationship conflicts are more evident in diverse groups (Williams and O'Reilly, 1998; Jehn *et al*., 1999; Watson *et al*., 2002). But, this effect has not been examined empirically in relation to boards of directors. This New Zealand study contributes to the literature by providing empirical evidence. That is, the greater extent to which SOE participants see both negative director characteristics and poor internal board relationships as contributing to board ineffectiveness appears to be due to board social diversity, since this is the main difference between the two company types. However, *social* diversity must be distinguished from *informational* diversity, which is seen by both SOE and PLC directors as enhancing problem solving and leading to better quality decision making.

5.5 Perceived outcomes of effective and ineffective boards

Participants were asked to identify the outcomes they felt were most indicative of board effectiveness and ineffectiveness, based on their experience inside the boardroom. Three outcomes were identified as indicators of board effectiveness or (in the opposite direction) ineffectiveness: good/poor company performance; good/poor boardroom practice; and weak/strong relationships between the board and management. A further two outcomes were mentioned in regard to effective boards only: relationships with other stakeholders; and strategic clarity. In addition, internal board relationships were mentioned only in regard to ineffective boards. A summary of the findings is provided in Table 5. As for Table 3, the figures in brackets show the number of participants mentioning this issue (i.e. the breadth of concern for this issue across participants); figures without brackets indicate the total number of mentions across all participants (multiple mentions by some respondents can be taken to reflect a stronger degree of concern).

Three of these themes – boardroom practice, relationships between the board and management, and internal board relationships – have already been described in regard to the characteristics of effective and ineffective boards. Three others have not, so are briefly described here. *Company performance* was mainly perceived in terms of sustainable value creation and enhanced shareholder wealth. *Stakeholder relationships* concerns an externalised view of relationships, recognising that a key function of boards is to communicate appropriately with shareholders and other company stakeholders. *Strategic clarity* relates to another noted function of the board, i.e. directing and developing strategy.

Both SOE and PLC participants perceive strong (weak) board and management relationships as key signals that a board is effective (ineffective). However, there is considerable divergence between the two groups in regard to some perceived outcomes of effective and ineffective boards. First, PLC directors make more mention of strong (weak) company performance as an indicator of an effective (ineffective) board than do SOE directors, no doubt due to the more complex and multifarious performance objectives of SOEs. Second, 'strategic clarity' featured more strongly in SOE directors' responses on the outcomes of effective boards (22% of mentions for SOEs versus 8% for PLCs). The reasons for this again likely to be associated with the lack of a singular, profit-oriented strategic objective for SOEs, which makes achieving strategic clarity a more complex issue for these organisations.

Table 5. Outcomes of effective and ineffective boards (by company type)

Board effectiveness						Theme	Board ineffectiveness					
Total	**%**	**SOE N=15**	**%**	**PLC N=20**	**%**		**%**	**PLC N=20**	**%**	**SOE N=15**	**%**	**Total**
61	**36%**	21 (11)	29%	40 (20)	42%	**Company performance**	31%	17 (15)	12%	4 (4)	**24%**	**21**
12	**7%**	7 (6)	10%	5 (5)	5%	**Boardroom practice**	26%	14 (10)	50%	17 (11)	**35%**	**31**
						Relationships						
56	**34%**	26 (11)	35%	30 (11)	32%	Board and management relationships	28%	15 (11)	23%	8 (8)	**26%**	**23**
						Internal board relationships	15%	8 (6)	15%	5 (5)	**15%**	**13**
15	**9%**	3 (3)	4%	12 (7)	13%	Other stakeholder relationships						
	43%		38%		40%	**Total relationships**	43%		38%		**41%**	
24	**14%**	16 (9)	22%	8 (8)	8%	**Strategic clarity**						
168	**100%**	73	100%	95	100%	**Total mentions**	100%	54	100%	34	**100%**	**88**

Source: Interviews (n=35) Multiple responses given

Of most relevant to the issue of board diversity, however, is that SOE participants were more likely than PLC participants to mention 'poor boardroom practice' (i.e. failing to achieve the right atmosphere in the boardroom to foster quality debate and effective decision making) as the main outcome of an ineffective board (50% of SOE mentions, compared to 26% of PLC mentions). The following quotes from SOE participants illustrate the importance of boardroom practice with both a positive and negative comment:

You require unity, consensus, decision making, and effectiveness underpinned by things that will drive that. What I mean by that is robust debate where necessary, and not wasting time when it is not necessary. Everyone having a chance to contribute in a way in which they are comfortable; in other words, democracy in the boardroom. Rational, logical behaviour and a non-adversarial, non-intimidating, welcoming, collegiate environment. (Chair, SOE)

[Ineffective boards] have dissention, dysfunction, and poor quality board relationships. Because, when the board is not operating properly, you actually blunt your investigatory and enquiring power. This ultimately leads to diminishing company effectiveness. (Chair, SOE)

As outlined earlier, the main difference between SOE and PLC boards is the social (cultural and gender) diversity in the boardroom. Social diversity is thought to have a potentially adverse impact on groups via its negative effects on group integration (Milliken and Martins, 1996). A reduced level of integration can cause poor board cohesiveness (Forbes and Milliken 1999) and lead to difficulties in reaching a commitment (Jehn *et al*., 1999), which can impair the key board task of decision making (Forbes and Milliken, 1999; Leblanc and Gillies, 2005). In situations where more socially diverse groups need to be managed, the leadership role becomes more critical. In the board context, this is the role of the chair, whose influence is examined next.

5.6 The chair's influence and diversity

Prior literature notes that interpersonal relationships impact board behaviour, which in turn influences the board's effectiveness and 'chemistry' (Finkelstein and Mooney, 2003; Harper, 2007). Cohesiveness is seen as important in achieving high levels of output and commitment from a group, while low cohesiveness can cause a board to be ineffective (Forbes and Miliken, 1999; Charan, 2005). Where there is greater social diversity in the boardroom, achieving cohesiveness may require different skills of the chair (Joplin and Daus, 1997), who has an important role in shaping boardroom relationships and dynamics (Cadbury, 1992; Kakabadse *et al*., 2001; Harper, 2007; The UK Corporate Governance Code, 2010). This study's examination of the perceptions of board members from both PLC (less socially diverse) and SOE (more socially diverse) boards offers a more finely-grained view of how expectations of the chair's role shift in regard to social diversity. The findings suggest that, where greater social diversity exists within a board, the chair's ability to foster a collegial, inclusive and open boardroom environment that supports effective debate and decision-making (i.e. good 'boardroom practice') becomes paramount.

6 Conclusions

This study examined the views of board members from two different company types where the main difference is the social diversity of board membership. In New Zealand, although both PLCs and SOEs are governed by The Companies Act 1993, a key difference is that SOEs have a particular focus on ethnic and gender diversity in their board membership. The New Zealand environment provides the rare opportunity to undertake a direct comparison between boards of differing social diversity, therefore.

Participants from both PLC and SOE boards recognised the importance of the chair's role in securing board effectiveness, as well as the benefits of informational diversity (a range of experience and skills) around the boardroom table. However, participants who sat on SOE boards, where there is greater social diversity, were more likely to perceive negative director characteristics – poor character and attitude, along with weak board relationships - as having a negative influence on the board. The SOE participants also identified poor boardroom practice (i.e. failing to achieve the right atmosphere in the boardroom to foster quality debate and effective decision making) as having a significant, negative impact on the outcomes of a board. Further, the SOE participants were more likely to perceive the quality of boardroom practice as one of the main board characteristics that the chair, as leader of the board, can influence. While it was already known that the chair plays a key role in ensuring the boardroom atmosphere is conducive to discussion, debate and effective decision-making (Forbes and Milliken, 1999), this study has revealed the particular importance of this role where boards have high social diversity.

The UK Corporate Governance Code (2010) refers to the need for boards to be well-balanced and reflect 'social' diversity and includes a 'comply or explain' clause. In addition, Lord Davies' recent review recommended that quoted companies disclose the proportion of women on boards (Davies, 2011). This approach is mirrored by the Australian Securities Exchange Corporate Governance Council, which requires Australian companies to establish a policy on diversity with measurable objectives for achieving gender diversity and to report against these objectives annually (ASX, 2014), and the New Zealand Stock exchange which requires companies to report on the gender composition of directors and officers in their organisation and, where a formal diversity policy exists, to report on performance against this policy (NZX, 2012). Similarly, the US Securities and Exchange Commission requires public companies to disclose how board diversity is considered (Mayer Brown, 2010). Clearly, enhanced diversity in regard to ethnicity and gender is now a feature of international corporate governance codes. This greater heterogeneity has the obvious advantage of introducing a broader range of skills and experiences (i.e. informational diversity) into the boardroom. However, it also has the potential to negatively impact group cohesiveness, which is an essential prerequisite for good boardroom practice and effective board functioning (Forbes and Milliken, 1999). As a consequence, differing leadership skills may be required of the chair to ensure board cohesiveness and effectiveness (Joplin and Daus, 1997; Watson *et al.*, 2002).

This study has identified that increased social diversity is perceived by board members to have a significant influence on boardroom practice and effectiveness, and that the chair's role as the boardroom leader becomes increasingly important where social diversity is greater. One potentially fruitful area for further research would be to examine the influence of social diversity on the group processes and performance of boards. Further, comparative research into the chair's leadership of both homogeneous and heterogeneous boards could help to identify the differing leadership skills required to promote cohesiveness and effectiveness within the more diverse boardrooms of the future.

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