

ROLE OF NON-EXECUTIVE DIRECTORS IN IMPLEMENTING NON-REGULATORY CODES ON CORPORATE GOVERNANCE IN SMES LISTED IN THE ALTERNATIVE INVESTMENT MARKET IN THE UK: A CONTENT ANALYSIS

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Abstract

This study explores roles of NEDs of SMEs listed in the Alternative Investment Market (AIM) in the London Stock Exchange. It extends the literature on NEDs' roles relevant to a context where the adherence to the principles of non-regularity corporate governance is not compulsory. We adopted a content analysis approach as a novel method for exploring roles of NEDs using details of 1220 NEDs recorded in 75 annual reports. It revealed that NEDs meet the expectations of several stakeholders simultaneously by playing multiple roles. A conceptual model depicting testable relationship between cognitive tasks and key roles of NEDs is also developed.

Keywords: Roles of NEDs, SMEs, Content Analysis, Corporate Governance in AIM Companies, Role Theory

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1 Introduction

The separation of ownership and management in listed companies demands the appointment of the Non-Executive Directors (NEDs) into the board of directors to align the interests of the managers and the shareholders (Fama and Jensen, 1983a). However, corporate governance problems such as expropriation of assets of the shareholders by managers (Shleifer and Vishny, 1997), excessive salary increases for CEOs and other executives (Bebchuk and Fried, 2005), expenditure on decoration of office complexes and luxury facilities (Berle and Means, 1933) etc. are some of the sources of conflicts of interests between the shareholders and the managers. Although these conflicts have been documented as relevant to large scale and public limited liability firms, they might be generally applicable for any small or medium firms (SMEs) listed in the Alternative Investment Market (AIM) (e.g. Chris and Kean, 2010; Gunatilake and Chandrakumara, 2012). The negligence of duties towards a number of other stakeholders such as debtors and suppliers has also been noted by a number of other researchers (e.g. Byrd and Hickman, 1992; Donaldson and Preston, 1995; Helland and Sykuta, 2005; Belden, Fister and Knapp, 2005). Essentially, these issues are associated with roles of NEDs directors (Maseda et al., 2014) and codes on corporate governance.

With regard to empirical research on the roles of NEDs in SMEs, a number of related issues have also been reported. First, research on roles of NEDs in SMEs has not received adequate and continuous

attention (e.g. Seiascia et al., 2013; Voordeckers et al., 2007) and they have largely been taken only when there are corporate collapses (Jones and Pollit, 2003; Šević, 2005). Second, the topic of corporate governance role in SMEs is relatively recent (Gnan et al., 2013; Al-Najjar, 2014) and largely under researched, and remains poorly theorized (Seiascia et al., 2013; Pye and Pettigrew; 2005, Collier, 2004). Third, the role of NEDs in SMEs has not been examined in the context where the implementation of NRCCGA is not compulsory. As such, this paper aims at filling the knowledge gap in understanding the role of NEDs of SMEs listed in the Alternative Investment Market (AIM) in the London Stock Exchange with specific reference to voluntary codes on corporate governance. Specifically, this study examines (a) what are the roles played by NEDs of SMEs in AIM listed companies in the UK? (b) What characteristics of NEDs' roles of these companies could be identified through content analysis? and, (c) Is there any relationship between different roles played by NEDs of AIM companies?

The AIM has grown in many aspects since its launch in 1995 to date, which includes an increase in number of the UK and international companies to 861 and 226 respectively and in equity capital from a mere £82 million to £80,592 million (AIM, 2014). However, there is a dearth of research on the AIM listed companies. For example, we have found only two papers which discuss some aspects of the corporate life of these companies and with the use the phrase 'Alternative Investment Market' within the title of their papers (Mallin and Ow-Yong, 1998;

Parsa and Kouchy, 2008; Alessandra, 2010). Further, NEDs in SMEs play such critical roles as advising, formulating strategies, supervising day to day operations, paying marketing visits to foreign firms etc. (e.g. Deakins, O'Neill and Milliken, 2000; Corbetta and Salvato, 2004; Long, Dulewicz and Gay, 2005; Minichilli and Hansen, 2007). However, the role of NEDs with regard to voluntary application of the UK's Code on Corporate Governance by the AIM listed firms has not been paid much attention. This may be due to the fact that those SMEs that are new to listing might consider that some of the provisions are disproportionate or less relevant in their cases or some of the provisions do not apply for companies below the FTSE 350 (Financial Times Stock Exchange -350). Given these realities, such SMEs may consider that it might be appropriate for them to adopt the approach outlined in the Code as they are encouraged to do so (FRC, 2012). As such, this study is aimed at contributing to the knowledge in understanding the role of NEDs of SMEs in implementing the NRCCG by the AIM listed companies in the UK.

The paper proceeds as follows. Introduction to the study is followed by a brief review of literature on the role of NEDs and role theories. Research methodology with the adoption of content analysis is presented in detail in the second section of the paper. The presentation of results and discussion of finding is presented next. Finally, we conclude the paper with our contribution to the knowledge on the role of NEDs of SMEs listed in AIM in London stock exchange with a direction for further research.

2 Literature review

The role of the directors of public limited liability companies in the UK is explained broadly in sections 171 to 177 in the Companies Act of 2006 as (i) to serve the company within the powers, (ii) promotion of the business and (iii) exercise judgment and exercise reasonable care. The Corporate Governance Code (FRC, 2012) in the UK explains the role of the NEDs as follows:

'Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning' (FRC, 2012, p.10).

Within the unitary board system in the UK, executive directors as well as the NEDs take joint decisions and bind them all for the decisions taken (Davies, 2003; Conyon and Muldoon, 2006). A

unitary board system or any other board system such as the two-tier system of boards exists in countries such as Germany and Japan (Vives, 2000), members in the board could have many differences in terms of the age, qualifications, experience and so on. A number of authors note the importance of a mixed bag of cognitive tasks such as right perception, positive beliefs, assumptions and attributions necessary to create a successful board (Walsh and Seward, 1990; Forbes and Milliken, 1999; Sundaramurthy and Lewis, 2003; Haleblian and Rajagopalan, 2006).

According to Stiles and Taylor (2001), NEDs are required to execute three roles: monitoring the managers, setting the strategic frame, and the service. However, they argue that 'the strategic role is said to be the defining role of the board and given the term 'director' means playing an important part in determining organization's effectiveness' (Stiles and Taylor, 2001, p.27). Because of the significant nature of these roles, a board is explained as the apex of the firm's decision control system by Fama and Jensen (1983a). Many authors also agree on the fact that the NEDs perform a vital function in securing vital resources for the SMEs such as the markets, technology, financial institutions and so on (Neilsen and Rao, 1987; Burt, 1997). In general, Mintzberg (1983) identified seven roles of the NEDs: (1) selecting the CEO; (2) exercising direct control during periods of crisis; (3) reviewing managerial decisions and performance; (4) co-opting external influencers; (5) establishing contacts and raising funds; (6) enhancing the organisation's reputation and (7) giving advice to the organisation.

In addition, Roberts, McNulty and Stiles (2005) emphasise the need to create accountability within the board by the NEDs in making an effective dialogue at the board meetings. Accordingly, NEDs could be effective if only they pay their attention at the board meetings in challenging and questioning appropriately about the assumptions of the managers while supporting them. They caution that the NEDs must understand about their non-executive function and must have an incremental approach with a mindset of an '*experienced ignorance*' which they term as '... just by asking the idiot-boy questions' (Roberts, McNulty and Stiles, 2005, p.14). Useem (2003) also note that corporate failure could be avoided with probing and challenging the assumptions of the managers. A synthesis of several arguments cited above has been brought under a concept of "corporate directing" by Pye (2002), which covers governing, strategizing and leading. Corporate directing includes, 'more than just board behaviour, but all aspects of directors' communications, both explicit and implicit as well as inside and outside their organisation in the process of shaping their organisation's future' (Pye, 2002, P.155).

3 Theories on roles

According to the above analysis, the role of the board is complex and it has to deal with a multitude of tasks other than the monitoring and controlling proposed by the agency theorists (Jensen and Meckling, 1976; Eisenhardt, 1989). As such, the approach of this paper is to use the Role Theory (Sarbin and Allen, 1968) as the guiding framework to analyse the role of NEDs. In role theory, a role is never defined by itself. It is defined in relation to other possible tasks – mother and father in relation to daughter and son, merchant in relation to customer and artisan, etc., ‘which can be designated as counter positions. ... a role frame’ (Connell, 1979, p.11). These counter positions or ‘role senders’ (Rogers and Molnar, 1976:598) represent a number of parties. Shareholders (Koehn and Ueng, 2005; Jong, Mertens and Roosenboom, 2006), employees (Clapham and Cooper, 2005), and debtors (Day and Taylor, 1998) are the major role senders or the stakeholders. These stakeholders have the decision making power to offer rewards if their expectations are met, otherwise the use of punishments such as the removal of the directors from the positions may occur (Connell, 1979).

According to these theoretical arguments, if the expectations of the stakeholders could be identified, it could be possible to list out the tasks to be performed by the NEDs, disregarding the fact that job contract of NEDs could be incomplete due to many other factors (Eisenhardt, 1989). Due to the large number and a wide variety of stakeholders (Stenberg, 1997) and the difficulty of understanding the relative importance of each stakeholder (Friedman and Miles, 2002), writing the job contract for the NEDs is challenging and a difficult task. While the Principal-Agent Theory (Jensen and Meckling, (1976) explains that shareholders expect the principals to maximise their interests mainly the return on capital, Huse (2005) argues that there are altruists also among the shareholders who do not necessarily expect maximisation of return for their investments. Huse (2005) argues that investors expect their investments to generate some social benefits too such as environmental protection, social equity and so on. Given these theoretical positions and arguments, what is identifiable is the difficulty of getting a clear idea about the desired roles of NEDs, which provides the theoretical basis for adopting the content analysis of annual reports of companies listed in the AIM.

4 Methodology

We adopted content analysis as a method of data collection form companied listed in the AIM. It is based on the analysis of annual reports of companies to be selected. Corporate annual reports are widely used in content analysis in accounting research such as disclosures and social reporting (e.g., Milne and Adler, 1999; Smith and Taffler, 2000; Beattie, McInnes and Fearnley, 2004; Alsaeed, 2006).

Research evidence also indicates that a number of other disciplines such as communication through internet web sites (Perry and Bodkin, 2000; Jun and Cai, 2001); management research (Jauch, Osborn and Martin, 1980), marketing (Harris and Attour, 2000), Business Ethics (Bell and Bryman, 2007) and Political Science (Hart, Jarvis and Lim, 2002) have also benefitted from the content analysis research method. Alsaeed’s (2006) analysis of the relationship between the disclosure level and the appointment of the NEDs was also based on the content analysis. To the best of our knowledge on roles of NEDs, no studies can be found with the adoption of content analysis method using annual reports of companies.

4.1 Unit of analysis

Milne and Adler (1999) point out that a sentence of a text is reliable than a word and page in a document for content analysis. However, the decision on the selection of the unit of analysis has to be taken in the context of the research and the type of the document (Weber, 1990; Neuendorf, 2002; Krippendorff, 2004). Stiles (2001, p.634) notes that ‘sentences that contain reference to board’s involvement in strategy was analysed and key verbs or qualifiers were highlighted to ascertain the mode of involvement’. For the proposed study, we also selected the sentence as the unit of analysis.

4.2 Stability, reliability and validity

Kassarjian (1977, p.8) notes that content analysis is a research technique for the ‘objective, systematic and quantitative description of the manifest content of communication’ and that three properties should be achieved by a content analyst, namely; stability, reliability and validity.

According to Kassarjian (1977), the stability can be achieved if the coding of a document is done in the same way after a period of two weeks, and if the same codes are given for the document coded. Reliability is the degree of confidence a reader could develop in his or her mind about the results of the content analysis. In order to ensure reliability, there are many steps to follow in the content analysis.

Several steps are taken to ensure reliability: (1) preparation of the coding instrument for the coding of annual reports; (2) theoretical framework to develop the coding instrument, (3) establishment of coding decision rules. These steps could ensure the protection of two properties in content analysis (Weber, 1990; Neuendorf, 2002; Krippendorff, 2004), i.e. mutual exclusiveness and mutual exhaustiveness. Mutual exclusiveness means that a sentence could fall only into a single category and mutual exhaustiveness means that all the sentences in the selected ‘locations’ (Milne and Adler, 1999) in an annual report are paid the attention of the coder (Weber, 1990; Neuendorf, 2002; Krippendorff, 2004). Denscombe (2003) points out that constant comparison by going backward and

upward in the document could ensure the above two properties.

Validity means the categories established in the content analysis have the property of explaining the particular phenomena that is meant for the analysis. Validity consists of two components namely internal validity and external validity. If the categories established through the coding process are backed by the theory, internal validity is ensured. For example, category of strategy, advice and monitoring and so on are found as tasks of the NEDs (Stiles and Taylor, 2001). Any conceptual term not familiar with the researcher is required to be considered as unique at the open coding stage (Glaser and Strauss, 1967). However, in order to ensure complete understanding of such conceptual terms or what Glaser and Strauss (1967) explain as theoretical saturation or theoretical sensitivity (Ahuvia, 2001). Such conceptual terms found in the open coding stage is further studied to see whether there is any theory behind (Perry and Bodkin, 2000).

4.3 Coding of annual reports

For the coding of the annual reports for content analysis, a sample of AIM annual reports is selected. The number of annual reports selected is not a priori decision. As Glaser and Strauss (1967) and Ahuvia (2001) explain, last annual report to be coded would be decided when only the coder gets an understanding of the emerging pattern of the data and the picture. When there are two or more coders, it is essential to see the inter-coder agreement (Milne and Adler, 1999). However, when there is only one coder as found in this research, Ahuvia (2001) and Milne and Adler (1999) explain that the researcher should have the theoretical knowledge to gain theoretical saturation and the development of the coding instrument, which could be considered to show the theoretical knowledge and sensitivity in the subject. Location of sentences in the annual reports and coding rules applicable to current study are presented below.

4.4 Location of the sentences:

Berg (2004) emphasises the need to look across the document to identify the themes needed for the analysis. 'Themes may be located in a variety of places in most written documents, it becomes necessary to specify in advance which places will be searched' (Berg, 2004, p.273). Thus the page or the section of the document or 'location in report' (Milne and Adler, 1999) is identified before the proper coding takes place. We examined a number of sections as highlighted below from 75 annual reports to prepare the coding instrument and to select the location of the themes of the coding instrument in the annual reports. The selected sections include Chair's statement, CEOs statement/review, Corporate governance report, Directors' details, and Directors' report.

4.5 Coding decision rules

Milne and Adler (1999) and Beattie, McInnes and Fearnley (2004) point out the need for developing coding rules in order to make the coding instrument and coding process reliable and valid. Following decision rules are developed for the coding process of the annual reports of the AIM companies:

- (1) The objective is to identify the role of NEDs.
- (2) Selection of annual reports

Annual reports of AIM companies are chosen irrespective of the sector. Number of annual reports or the sections selected is not a priori decision. It will depend on the theoretical saturation or sensitivity explained earlier.

- (3) Coding process - basic rules, specific rules and exclusion rules

Basic rules of coding are as follows:

- (a) Unit of analysis is the sentence. A conceptual term should reside in the sentence selected otherwise the sentence is excluded protecting the two properties explained earlier (mutual exclusiveness and mutual exhaustiveness).
- (b) Following locations in an annual report are coded: (a) Chairman's statement (b) Chief Executive Officer's report (c) Corporate Governance report; (d) Directors' details or biographies report and (e) Directors' report.
- (c) The paragraph number and the location of the sentence is entered in the database in order to enable constant comparison (Denscombe, 2003), that is going backward and forward in the document to ensure mutual exclusiveness and exhaustiveness explained earlier.

Specific rules: Following questions are asked before the coding process begins.

- (a) Does the sentence mention the words Non Executive Directors (NEDs)?
- (b) Does it have an identifiable outcome and who claim it? NED or board?
- (c) If the word NED does not appear, does the word 'Board' or the phrase 'Board of Directors' appear?
- (d) If the above criteria fulfils, does the board has NEDs?

Exclusion rules on coding are as follows:

- (a) Sentences which start with the words 'We' and 'Our' are excluded. Top management which include NEDs take decisions jointly (Hambrick and Mason, 1984). The context (Johns, 2001) of the sentence is evaluated.
- (b) Within the annual reports, corporate governance report and the directors' report, the statutory responsibilities of the directors as per the Companies Act (2006) have been indicated. If a sentence says anything other

than these statutory responsibilities such as the maintenance of the web site, it will be considered as a contribution of the NEDs. As such, the sentence is considered for coding.

4.6 Bases of interpretation of coded data:

Contingency tables (Rose and Sullivan, 1998) or frequency analysis is the popular method of data tabulation interpretation of content analysts (Farrell and Cobbin, 1996; Perry and Bodkin, 2000, Jun and Cai, 2001, Harris and Attour, 2003; Beattie, McInnes and Fearnley 2004). This paper also follows the methodological insights of the above papers namely, the preparation of cross tabulated data tables and frequency analysis.

This research paper uses χ^2 test (Cooper and Schindler, 2003) to see how close the observed frequencies are to the expected frequencies. We find that it appropriate to use this test because the coding of the annual reports generates only categorical data. Number of pre-requisites are required in order to calculate the χ^2 (Cooper and Schindler, 2003): (1) content analysis data should be from a sample of a population which is assumed to be randomly distributed; (2) categorical data must be mutually exclusive and exhaustive; (3) data must be reported in frequencies not in percentages; (4) there should not be any cells with zero frequency and (5) expected frequencies below five should not compose more than twenty per cent of the cells.

Muhr (1991, p. 358) argues that the insignificant frequencies could either be deleted, amalgamated or redefined. 'Codes and memos that have already been delineated can be renamed, deleted, uncoupled from codes or redefined by simply re-selecting them'. However, uncoupling or collapsing of the categories should avoid any loss of the significance of the data. The removal of the less frequent categories ensures the application of the χ^2 but could damage the picture to emerge. However, Cooper and Schindler (2003) point out that if there is a significant difference between the observed and expected values, it is required to identify those cells and reasons behind the differences.

4.7 Content analysis schedule

In order to understand the nature of implementation of the provisions of the FRC (2006), that is separation of chair and the CEO role, appointment of sub-committees of the board and appointment of NEDs, annual reports that are coded are used to get answers for the following questions: (1) How many directors are in the company? (2) How many of them are NEDs? (3) What is the title of the Chair? (4) How many sub committees of the board operate? These questions could be included in a content analysis schedule (Jauch, Osborn and Martin (1980, pp.524-525). Many authors use annual reports to find out the

extent of implementation of the codes on corporate governance in listed companies but do not strictly follow the content analysis rules (Dahya, McConnell and Travlos, 2002; Pass, 2004). With the insights gained through the above methodological approaches, the next section presents the results of our analysis.

5 Analysis and results

Our analysis is based on information presented in 75 annual reports. Since the coding of the number of annual reports were decided when the researchers gained an understanding of the emerging pattern of the role of NEDs, the number of annual reports used to get the understanding of the corporate governance mechanisms of the AIM companies were limited to the same number of annual reports (75). Although this may not be a representative sample of the total number of AIM companies (about 1076 as at December 2012), the following data still reflect an important picture with regard to the degree of voluntary acceptance of the principles and provisions of Code on Corporate Governance. Appointment of the NEDs as chairs, number of NEDs and acceptance of the sub committees of the board are some examples we have found in this study.

5.1 Corporate Governance variables: type of chair, number of NEDs and sub committees

Table I shows that the AIM companies use three different titles beneath the statement of the chairman in the annual reports coded: Executive chair (22.7 per cent) non-executive chair (52 per cent) and chairman (25.3 per cent). The annual reports which do not specify beneath the statement of chair whether the chair is an executive or non-executive director belong to the category of chairman. However, a closer look at the bibliography page of the board members and in relation to the chair, it is found that the chair is classified either as executive chair or non-executive chair. However, whether the NED chair meets the criteria of independence (Higgs, 2003) could be judged by seeing whether the particular NED chair has shares and any other interests in the company. Our finding shows that majority of the NED chairs of AIM companies have shares in the companies they work and not truly independent as the NED chairs of FTSE 100 companies.

Table 2 shows that vast majority of companies (92 per cent) appoint NEDs. There are no NEDs at present in six companies (8 per cent). Thirty two percent of companies (24) have two NEDs. There are twenty two firms (29 per cent) with three NEDs. While there is only one company with five NEDs, eleven companies have four NEDs each. This picture shows a remarkable acceptance of the significant role present and role of NEDs.

Table 3 shows that the audit and remuneration committees are more established units for about 74 per cent of companies. It also shows that the

nomination committees (41 per cent) are still to develop as a whole. However, there is no clear term of reference for the sub committees in the AIM listed firms as applicable for the FTSE 100 companies. Interestingly, it is found that 35 per cent of companies have all three sub-committees. There are at least two committees in about 33 percent of companies. More importantly, almost one fourth of companies have no a single sub-committee in the board. This is also compatible with the non-availability of a single NED in 8 per cent of companies (Table 2). The degree of significance given for the sub-committees varies among the firms. This could be due to the firm specific factors such as the stage of growth of the company, appraisal of cost and benefit of sub-committees, growth of the market and so on.

The significance of existence of sub-committees in corporate governance could be a reflection of vigilant corporate governance at the expense of the vital strategic role of the NEDs (e.g. Taylor, 2004). However, sub-committees could be an avenue for more discussions and sharing ideas among board members and also for polarisation of ideas and diversities if they are not matched properly (Sundaramurthy and Lewis, 2003). Pettigrew and McNulty (1995) find that there are two types of board cultures namely maximalist and minimalist. Maximalist culture accommodates more discussions, listening, collaborative work and the minimalist boards are in the opposite side of these attributes.

The evidence shows that there could be more vigilant corporate governance in AIM companies which are dominated by the NED chairs. For example, in Table 4, of the 1,220 sentences coded, 703 sentences (58.0 per cent of total sentences) are in the coded annual reports where there are NED chairs. There are 245 sentences coded (20.1 per cent) in the annual reports reflecting executive chairs. In the unclassified chairman category, there are 272 sentences coded (23.9 per cent). Thus, the number of sentences in the annual reports coded with the presence of NED chairs could be used as a proxy for more vigilance corporate governance.

This picture is further supported by the information presented in Table 5. Table 5 shows that when the number of NEDs in a board is two 34.8 per cent (with 425 sentences) and

30.1 per cent (with 367 sentences) of the coded sentences are found respectively. A remarkable feature is that when there are more than 4 NEDs in a board, the number of coded sentences remains low. A number of previous researchers point out that when there are more than the required number of NEDs, board deliberations are difficult and virtually collapse the board level of discussions (Walsh and Seward, 1990; Sundaramurthy and Lewis, 2003). However, this possibility has to be verified with empirical research as the required number may vary according to the complexity of other aspects of firms.

5.2 Characteristics of the roles of NEDs

Content analysis data shows at least four major characteristics of the roles of the NEDs.

5.2.1 Characteristic 1: Multiplicity of roles

Multiplicity of the tasks is the major feature found in relation to the roles of the NEDs, which is reflected by existence of a relatively large number of tasks. Table 4 shows that the result of the content analysis indicates 37 tasks of the NEDs. Cognitive tasks are explained in theory but there is lack of empirical evidence in relation to board research (Forbes and Milliken, 1999, Haleblian and Rajagopalan, 2006). This survey finds number of cognitive tasks of the NEDs such as beliefs (2.7 per cent or just 33 sentences), considerations (2.4 per cent or 25 sentences) and expectations (1.9 per cent or 23 sentences). Beliefs make a vital function among many stakeholders in large organisations (Steiner and Edmunds, 1979). Beliefs created among the minds of the stakeholders by the board or beliefs of boards are important to develop the morale of the management and employees. Gist (1987) explains that the beliefs guide many actions such as recruitment, setting of goals for the corporation and motivation of employees. Such beliefs are one of the decisive factors of job satisfaction (Brief and Aldag, 1981). Design and development of *criteria* to evaluate the board performance and recruitment of the directors is vital to protect interests of the stakeholders as explained by Useem (2003) who points out the lack of such *criteria* reflects in the failed giant corporations in the US. Interestingly, the issue of whether there is an evaluation of the performance of both the NEDs and executive directors counts for only just close to 1 per cent of sentences (11 sentences) coded. This finding is consistent with Higgs's (2003) finding that the evaluation is one of the least considered board tasks. Our analysis also shows the less significance role of *criteria* development for managerial decision making (1.0 per cent). Useem (2003) also pointed out that *criteria* development for the managerial decisions and for the board tasks is one of the most needed but forgotten task of boards.

5.2.2 Characteristic 2: Differences in roles according to the type of chair

In order to understand the relative significance of each category of roles according to the type of chair, we decided an arbitrary value to judge the most significant role categories for a chair (as 5 per cent of coded sentences or above). Accordingly, Table 5 shows that some role categories are more significant for some type of chairmen. For example, the NED chair considers organisation (11.5 per cent), responsibilities (9.3 per cent), revisions (9.1 per cent), meetings (8.8 per cent), approvals (7.3 per cent), studying information (6.6 per cent), recommendations

(6.3 per cent) and considerations (5.6 per cent) as relatively significant roles. When we apply the same rule for the executive chair, we could identify meetings (12.7 per cent), organisation (11.2 per cent), responsibilities (10.7 per cent), revisions (8.3 per cent) and approvals (6.3 per cent) as important roles among other categories. Within the unclassified chair, responsibilities (10.8 per cent), revisions (10.3 per cent), meetings (9.9 per cent), organisation (9.4 per cent), approvals (8.1 per cent) and monitoring (7.6 per cent) take higher values according to the above 5 per cent rule. Across all the chairs, several categories such as organising the tasks of the board, meetings, responsibilities, revisions and approvals are more important than other roles.

5.2.3 Characteristic 3: Variation within roles in Role Engagement

Variations in relation to ways of engagement in above roles NEDs are noted under this characteristic. For example, the task in relation to strategy has many variations of engagement such as planning, approval, revision and so on. Stiles (2001) also found such variety of tasks in relation to strategy. In particular, he identified that revision, approvals, monitoring as sub parts of the process of strategy. The result of our analysis presented in Table 5 also indicates a member of such roles such as monitoring, revisions, and approval.

5.2.4 Characteristic 4: Identification of the Gate Keeper role

This survey supports the Gate Keeper role of the NEDs (e.g. Kirkbride and Letza, 2005). Accordingly, preparation of the terms of reference of the NEDs and appointment of the sub committees of the board such as the audit, remuneration and nomination committee could be considered as strengthening the Gate Keeper role of the NEDs. Some excerpts from the annual reports coded to support these roles are: ‘The directors intend to strengthen the Board through the appointment of at least one new non-executive director’ (LPA Group, Annual Report, 2006, p.4). ‘The directors have established audit Nomination and remuneration committees with formally delegated rules and responsibilities. Each of the committees currently comprises the non-executive directors’ (Celoxica Annual Report: 2006, p.15).

5.3 Validity and reliability of content analysis

The aim of the Chi Square statistical test was to see whether the coded data is randomly distributed ensuring mutual exclusiveness and exhaustiveness of the categories. As explained earlier, categories which have 5 or less than 5 frequencies are removed to calculate the expectancy values (Cooper and Schindler, 2003). Accordingly, the total number of sentences remained 883 from the initial number of 1,220 sentences (Table 6). Table 6 shows the

calculated expected values. The difference between the observed and the expected values (residual values) is only a matter for further analysis when there is a significant difference between the two.

Accordingly, the calculated Chi Square value is 16.85 with the degree of freedom of 26. The table value for degree of freedom of 26 with the 0.05 confidence level is 38.85. As the calculated value is less than the table value, null hypothesis cannot be rejected. The independence between the variables is indicated. On the other hand, it means that each category has its’ own independent distribution with the protection of the properties in content analysis, that is mutual exclusiveness and exhaustiveness. This signifies that the content analysis data is randomly distributed. A discussion on the relationship between these variable is presented below under discussion.

6 Discussion

We found that NEDs play not only just number of roles, but also engage in various tasks and cognitive roles as well. When considering all these as a whole, they represent such characteristics as multiplicity of roles, role differentiation by the type of chair, variation within roles in role engagement, and the existence of the gate-keeper role. In the theoretical section of this study, we emphasized the value of role theory. As such, we discuss our findings in relation to the assertion of role senders or stakeholders’ expectations in identifying and discussing roles of NEDs. In addition, the result of content analysis has provided us with the opportunity to evaluate the weight of corporate governance roles and strategic roles and making a ‘rough hypotheses’ (Berg, 2004:283) about the relative importance of the roles of NEDs of surveyed companies.

6.1 Identification and meeting of expectations of several stakeholders

Within the multiple numbers of tasks, it is possible to identify that NEDs play a variety of roles to meet the expectations of several role senders such as the shareholders, CEO and regulatory authorities. Some of these tasks could meet the expectations of several role senders simultaneously. For example, the tasks of meetings (9.8 per cent), communication (3.1 per cent), beliefs (4.3 per cent) and expectations (3.5 per cent) could meet the needs of shareholders, CEO and ‘regulatory authorities’ (Jones and Pollit, 2003), such as Financial Services Authority (FSA, 2006) and Financial Reporting Council (FRC, 2006).

6.2 More emphasis on corporate governance than the strategic direction

The content analysis gives the opportunity to understand vital aspects of corporate governance emerging in the context of the enhanced emphasis of the role of NEDs (Gnan et al., 2013; Al-Najjar, 2014; FRC, 2006). The finding of the existence of NED

chair and the sub committees of boards could be considered as more attentive compliance for corporate governance. This is rather consistent with Pettigrew and McNulty's (1995) finding that boards which give equal chance for the directors to discuss or make their points heard by the others, have more independent directors. They further emphasized that such boards involve in more corporate governance roles than the boards with more executive directors.

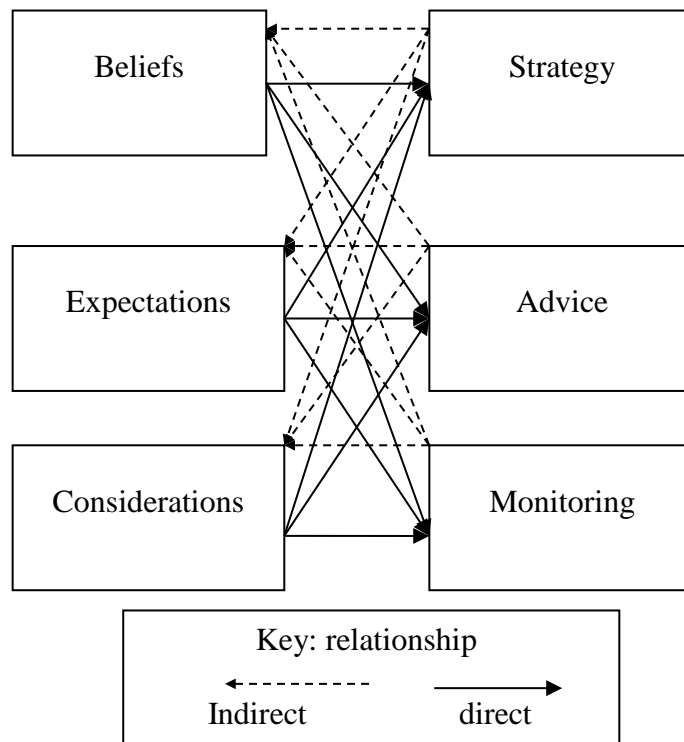
However, paying more attention on corporate governance could lead to less attention on the entrepreneurial activities of the companies. Strategic contribution and entrepreneurial role are pointed out as key aspects of NEDs' roles (FRC, 2006). Chambers (2005) argues that 'many directors will concur with the sentiment that a greater proportion of their available time is now taken up with accountability, audit, risk management and control matters than was historically the case' (p:28). The roles we found in our content analysis also indicate that organisation, meetings, and responsibilities take a higher value than the areas covered under the theme 'strategy'. Therefore, corporate governance roles tend to overrides strategic direction of the firms represented in this study. Therefore, the survey could build a 'Rough hypothesis' (Berg, 2004, p. :283) that greater the tendency towards NEDs playing more important roles in boards, higher the possibility of

NEDs' involvement in more corporate governance role than strategic roles.

6.3 Identification of independent and dependent relationship between roles

Using the Chi Square test we performed, we could also develop a 'rough hypothesis' (Berg, 2004:283) that there is a relationship between the cognitive aspects of the NEDs and the extent of involvement in such roles as strategic, advisory, monitoring, criteria development, evaluation, and leadership. Logical concepts could be related to each other in the context of discussion (Toulmin, Rieke and Janik, 1979). Thus, the Figure 1 shows the mapping of the relationship between cognitive tasks and the more manifest variables such as strategy, advice and monitoring in the context of the tasks of the NEDs found in this survey. Straight lines show the direct relationship between the cognitive tasks. Dashed lines show that the cognitive tasks themselves are moderated by the manifest tasks or the results brought by the particular action in relation to strategy, monitoring and advice. Therefore, there is action and reaction relationship between cognitive tasks and key roles of NEDs.

Figure 1. Testable relationships between cognitive Tasks and Key NED roles



This drawing is a result of logical reasoning (Reynolds, 1971; Toulmin, Rieke and Janik, 1979) and mental

mapping (Farrand, Hussain and Hennessy, 2002), based on the results of content analysis.

7 Conclusion and recommendations

We aimed at exploring the roles of NEDs in implementing NRCCG in SMEs and examining their characteristics and relationships by adopting content analysis of annual reports. The findings revealed that NEDs perform a multiple number of roles, tasks and cognitive functions to meet the expectation of several stakeholders simultaneously, such as the CEO, regulatory authorities, and shareholders. This reflects the fact that NEDs are a special kind of bees in the bee hive of board. Therefore, for proper understanding of roles of NEDs in SMEs, researchers may consider all these roles, tasks, and functions as an integrative system (e.g. Gnan et al., 2013). As such, the realities of NEDs role of SMEs cannot be understood by relying only on quantitative analysis and summarised roles. The content analysis methodology we adopted provided us with the opportunity to use quantitative, qualitative and descriptive information for exploring the realities of NEDs roles in SMEs. For example, when NEDs play their roles in a situation where the implementation of NRCCG is not compulsory, cognitive functions such as positive attitudes, appropriate beliefs and considerations are found to be important as they are associated NEDs key roles such as advice, strategy, and monitoring. Such explanation cannot be made by relying only on quantitative and summarised information presented Table 6. As such, the possibility of looking at the issue from different perspective is another advantage of the content analysis approach adopted in this study. Accordingly, we found that tasks can be identified as dimensions of roles. This view of NEDs role is consistent with previous research findings as well. For example, a number of previous studies have indicated and have indicated that tasks can be identified not only as just roles but also as specific roles (Gnan et al., 2013; Sciascia et al., 2013; Heuvel, Gils and Voordeckers, 2006). Another key finding of this study is that the role of NEDs is conditioned by NEDs own cognitive tasks such as beliefs, assumptions and expectations of NEDs and by the expectations of the stakeholders. One of the implications of this finding is that NEDs and CEOs of SMEs can use these insights in the formation of expectation on job descriptions and person specifications relevant to recruitment, training & development, and performance management purposes.

This study also provides ample insights into the adoption of content analysis on exploring roles of boards and actions in corporate boards by using information recorded in annual reports. Further research is required to understand the distinctive processes involved in each tasks identified. For examples, roles such as recommendation, decision making, approval etc. have their own processes despite the fact that they contain closely related meaning. Such process studies are yet to come into the reality of board work (Gnan et al., 2013;

Pettigrew, 1997). Further, based on quantitative, qualitative and descriptive information presented in this study, we could also develop a model depicting conceptual and testable relationships between cognitive tasks and key roles of NEDs for future studies. As indicated in a number of previous researches, this study reflects the difficulty of developing a general theory on the role of NEDs to satisfy the expectations of stakeholders such as the CEO, shareholders, and regulatory authorities due to a number of limitations. First, researchers have largely focused on the role of NEDs in AIM companies. Therefore, the results could be more of relevance to the AIM companies. Second, selection of a set of annual reports for the content analysis was done on a random basis from the annual reports collected from the Annual Report Service in the UK. Third, declarations of annual reports are assumed to be true despite the fact that there are arguments on the accuracy of information (Atkinson and Coffey, 2004, Abeysekera, 2006). However, χ^2 test analysis of this study proved the randomisation of the categories in the content analysis. Therefore, it is an assurance of the reliability of the content analysis. Fourth, when there are semantic differences, understanding the meaning of a particular term could become difficult. This might be addressed in future studies by selecting methodologies that support looking at issues from different perspectives.

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Appendices

Table 1. Type of chair

Type of Chairman	Number of firms	Per cent
Chairman	19	25.3
Executive Chair	17	22.7
Non-Executive Chair	39	52.0
Total	75	100.0

Source: Content analysis data

Table 2. Number of NEDs

Number of NEDs	Number of firms	Per cent
0	6	8.0
1	11	14.7
2	24	32.0
3	22	29.3
4	11	14.7
5	1	1.3
Total	75	100.0

Source: Content Analysis data

Table 3: Sub committees of the board

Committee	Number of firms	Per cent (out of 75)
Audit	56	74.7
Remuneration	55	73.3
Nomination	31	41.3
All three of above committees	26	34.7
Two committees	25	33.3
Only one committee	5	6.6
No sub committees	19	25.3

Source: Content analysis data

Table 4. Tasks of board members

	Total	272	245	703	1220
NED shares	1	1	7	9	
Substantial shareholders	3	6	12	21	
Specific matters related of board	5	1	8	14	
Strategic Alignment of Interests	12	3	10	25	
Strategy	7	2	8	17	
NED Evaluation by Chairman	0	4	1	5	
Monitoring	6	7	16	29	
Fiduciary Care	2	1	7	10	
Consensus	1	0	1	2	
Confidence	0	0	1	1	
Commendations	2	1	0	3	
Revisions	12	7	29	48	
Responsibilities	15	9	30	54	
Recommendations	2	3	22	27	
Proposals	7	6	9	22	
Organisation of board	10	11	44	65	
Objectives	4	9	8	21	
Meetings	10	17	24	51	
Leadership	1	2	5	8	
Input Sources	4	3	22	29	
Guidelines	1	0	0	1	
Expectation of future events	6	6	11	23	
Endorsements	1	0	2	3	
Evaluation	3	0	8	11	
Document preparation	4	0	9	13	
Delegation	12	6	15	33	
Decision taking	1	5	4	10	
Criteria formation	1	0	2	3	
Considerations	3	3	19	25	
Communications	0	4	11	15	
Belief formation	9	4	20	33	
Authorization	6	2	14	22	
Attitude formation	4	1	6	11	
Approvals	13	10	44	67	
Announcements	15	17	45	77	
Appreciation	50	46	95	191	
Advice	39	48	134	221	
Tasks of the Boards(number of sentences as per the tasks)					
Type of Chair	Chair	Eye Chair	NED Chair		
Chairmanship				Total	

Table 5. Relationship between number of NEDs and the number of coded sentences

	Total number of sentences						Total
	35	200	425	367	171	22	
NED shares	0	1	4	2	2	0	9
Substantial shareholders	1	4	9	3	4	0	21
SMRB	0	2	3	5	4	0	14
Strategic Alignment of Interests	2	4	9	4	6	0	25
Strategy	1	1	8	4	3	0	17
NED Evaluation by Chairman	0	0	1	3	1	0	5
Monitoring	0	3	12	10	4	0	29
Fiduciary Care	0	2	6	1	0	1	10
Consensus	0	1	1	0	0	0	2
Confidence	0	0	0	1	0	0	1
Commendation	0	0	2	1	0	0	3
Revisions	0	7	18	16	7	0	48
Responsibilities	3	8	19	16	8	0	54
Recommendations	1	7	5	6	6	2	27
Proposals	5	2	8	2	4	1	22
Organisation	0	11	21	20	11	2	65
Objectives	1	2	7	5	6	0	21
Meetings	1	9	13	21	7	0	51
Leadership	0	0	3	3	1	1	8
Input Sources	0	2	16	5	5	1	29
Guidelines	0	0	1	0	0	0	1
Expectations	0	5	7	6	5	0	23
Endorsements	0	0	3	0	0	0	3
Evaluation	0	1	5	5	0	0	11
Documents	0	2	6	2	3	0	13
Delegation	1	3	11	9	8	1	33
Decisions	0	2	5	2	1	0	10
Criteria	0	1	1	1	0	0	3
Considerations	1	5	10	7	2	0	25
Communications	0	0	6	7	2	0	15
Beliefs	1	7	13	8	4	0	33
Authority	0	2	8	6	4	2	22
Attitudes	0	1	5	5	0	0	11
Approvals	0	6	26	25	9	1	67
Announcements	1	14	33	23	6	0	77
Appreciation by chairman	11	50	56	51	23	0	191
Advice	5	35	64	82	25	10	221
Tasks and Number of NEDs	0	one	two	three	four	five	
	Total Number of NEDs						Total

Table 6. Calculated expected values for Chi Square test

Chairmanship	Advice	Appreciation by chairman	Board Announcements	Board Approvals	Board Delegation	Board Expectations	Board Meetings	Board Organisation	Board Proposals	Board Responsibilities	Board Revisions	Monitoring	Total
Count	39	50	15	13	12	6	10	10	7	15	12	6	272
Expected Count	49.3	42.6	17.2	14.9	7.4	5.1	11.4	14.5	4.9	12	10.7	6.5	272
% within Chairmanship	14%	18%	6%	5%	4%	2%	4%	4%	3%	6%	4%	2%	100.00%
% within Category	18%	26%	20%	19%	36%	26%	20%	15%	32%	28%	25%	21%	22.3%
% of Total	3%	4%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	22%
Count	48	46	17	10	6	6	17	11	6	9	7	7	245
Expected Count	44.4	38.4	15.5	13.5	6.6	4.6	10.2	13.1	4.4	10.8	9.6	5.8	245
% within Chairmanship	20%	19%	7%	4%	2%	2%	7%	5%	2%	4%	3%	3%	100%
% within Category	22%	24%	22%	15%	18%	26%	33%	17%	27%	17%	15%	24%	20%
% of Total	4%	4%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	20%
Count	134	95	45	44	15	11	24	44	9	30	29	16	703
Expected Count	127.3	110.1	44.4	38.6	19	13.3	29.4	37.5	12.7	31.1	27.7	16.7	703
% within Chairmanship	19%	14%	6%	6%	2%	2%	3%	6%	1%	4%	4%	2%	100%
% within Category	61%	50%	58%	66%	46%	48%	47%	68%	41%	56%	60%	55%	58%
% of Total	11%	8%	4%	4%	1%	1%	2%	4%	1%	3%	2%	1%	58%
Count	221	191	77	67	33	23	51	65	22	54	48	29	1220
Expected Count	221	191	77	67	33	23	51	65	22	54	48	29	1220
% within Chairmanship	18%	16%	6%	6%	3%	2%	4%	5%	2%	4%	4%	2%	100.00%
% within Category	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
% of Total	18%	16%	6%	6%	3%	2%	4%	5%	2%	4%	4%	2%	100.00%

Table 7: Chi-Square tests

Chi-Square Tests							
	Value	Df	Asymp. Sig. (2-sided)				
Pearson Chi-Square	112.299a	72	0.002				
Likelihood Ratio	117.293	72	0.001				
Linear-by-Linear Association	0.835	1	0.361				
N of Valid Cases	1220						
a 51 cells (45.9%) have expected count less than 5. The minimum expected count is .20.							