CORPORATE GOVERNANCE MATTERS

A Closer Look at Organizational Choices and Their Consequences

Third Edition

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adoption of many of these attributes. Although this might be surprising to some, it is characteristic of the current debate on governance that is insufficiently grounded in empirical research. (We discuss this in more detail in Chapter 16.)

Table 5.4 Summary of Performance Effect for Selected Board Structural Characteristics

Board Attribute	Explanation	Research Findings
Independent chair	The chairman of the board meets NYSE standards for independence	No evidence this matters.
Lead independent director	The board has designated an independent director as the lead person to represent the independent directors in conversation with management, shareholders, and other stakeholders	Modest evidence that this improves performance.
Number of outside directors	Number of directors who come from outside the company (non-executive)	Mixed evidence that this can improve performance and reduce agency costs. Depends primarily on how difficult it is for outsiders to acquire expert knowledge of the company and its operations.
Number of independent directors	Number of directors who meet NYSE standards for independence	No evidence that this matters beyond a simple majority.
Independence of committees	Board committees are entirely made up of directors who meet NYSE standards for independence	Positive impact on monitoring committees. Negative impact on advising committees.
Bankers on board	Directors with experience in commercial or investment banking	Negative impact on performance.
Financial experts on board	Directors with experience either as public accountant, auditor, principal financial officer, comptroller, or principal accounting officer	Positive impact for accounting professionals only. No impact for other financial experts.
Politically connected directors	Directors with previous experience with the federal government or regulatory agency	No evidence that this matters.
Employees	Employee or labor union representatives serve on the board	Mixed evidence on performance.
"Busy" boards	A "busy" director is one who serves on multiple outside boards (typically three or more). A busy board is one that has a majority of busy directors.	Negative impact on performance and monitoring.
Interlocked boards	An executive from Company A sits on the board of Company B, while an executive from Company B sits on the board of Company A	Positive impact on performance, negative impact on monitoring.

Board Attribute	Explanation	Research Findings
Board size	The total number of directors on the board	Positive impact on performance to have smaller board if company is "simple," larger board if company is "complex."
Diversity	The board has directors that are diverse in background, ethnicity, or gender	Mixed evidence on performance and monitoring.

Source: Authors.

Endnotes

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