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An Exploration on the Involvement of BOD in Business Management

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Abstract

The goal of this essay is to investigate the current discussion surrounding the function of a board director. Design, methodology, and approach: A thorough analysis of the corporate governance (CG) literature is conducted, with a focus on the contribution of directors to board effectiveness. Findings - The analysis of the literature uncovered a number of problems with the CG literature that highlight the necessity of defining the duties of board directors and paying more attention to the procedures required for directors to carry out their duties successfully. These problems can be roughly divided into four categories: conceptual problems with board effectiveness and director contributions; methodological problems with the level of analysis (board as a whole versus director as an individual); failure of much of the literature to take into account the external environment in which the board directors operate; and prescriptive nature of the literature.

Keywords: Corporate Governance, Board of Directors, Business management

1. Introduction

Numerous studies on "leadership" and "boards of directors" have been conducted from a number of theoretical angles. A potentially beneficial cross-fertilization between these two domains, which should ideally be closely related, has unfortunately not taken place because research within each of these areas has generally advanced independently from the other. In this essay, we examine how research on leadership might be applied to boards of directors and highlight some methodological concerns that arise from the research. At the top of the organisation is the board of directors. They are responsible for both internal and external tasks, such as overseeing top management and participating in the enterprise's strategic direction. The development of numerous methods and frameworks aimed at helping boards improve their performance has been spurred by the fact that, despite high normative expectations from boards, their actual performance frequently falls short of those expectations. We start by briefly discussing the legal obligations of directors. After that, we explore the normative standards and the actual performance of boards, showing how frequently the latter falls well short of the former. The major leadership research strands are then examined to identify which ones seem most promising for next research on boards. Since it has been firmly established that the presence of specific qualities can distinguish effective leaders from ineffective ones, it is proposed that the study stream on traits is especially promising. The related strategy of creating competency profiles for effective directors using behavior-based competencies is particularly encouraging. Similar flaws are observed in studies on boards of directors and leadership, specifically the emphasis on static relationships rather than the longitudinal examination of process. In order to solve these issues and provide reliable measures based on in-depth qualitative data that might be employed in quantitative research to assess relationships, it is suggested that additional longitudinal process studies be conducted. As an illustration, the idea of "board vigilance" is explained.

Literature Review

From the standpoint of agency theory, the main concern has been the board's ability to effectively carry out its "control role," and consequently, whether the board's makeup affords enough director independence from management to safeguard the interests of shareholders (Sundaramurthy and Lewis, 2003). Agency theory hypothesises that boards with a higher number of NEDs would perform better than those with a lower proportion because outside directors, who are cut off from management and day-to-day operations, make it easier for the board to remain objective in its control role (Sundaramurthy and Lewis, 2003). However, a number of authors have questioned whether this "traditional," inside/outside director distinction accurately captures the independence of the outside director (Hopt and Leyens, 2004). This is because, as will be covered in more detail below, a number of factors may reduce the degree to which an outside director on the unitary board is truly independent of the company and its management. As a result, although there is a trend towards more NEDs on corporate boards (as indicated, for example, in the UK revised Combined Code of 2003; provisions of the US Sarbanes-Oxley Act of 2002; and the New York Stock Exchange and NASDAQ requirements) (Schmidt and Brauer, 2006), this does not necessarily mean that there is greater independence (Hopt and Leyens, 2004). Additionally, Langevoort (2001) notes that a board's excessive "independence" in the form of a large number of NEDs can undermine the effectiveness of the board because designating two distinct groups of directors with distinct roles reduces trust between board members and prevents the NEDs from sharing crucial information that they would otherwise provide in a more trusting environment.

The temptation for the executive directors to manipulate the information provided to NEDs about the company's operations exists in this situation, according to Langevoort (2001), because the full information disclosure may be perceived as having a negative impact on the executives' compensation or prospects for continued employment. Prescriptions for independence may not be the solution for the effectiveness of the board because this has a detrimental impact on how the board directors interact with one another. Furthermore, using firm performance as a proxy for board effectiveness often ignores the individual-level and group-level "outputs" of a board, in addition to the absence of consistent evidence between board composition and firm success (Schmidt and Brauer, 2006). (Nicholson and Kiel, 2004). Directors are a social group that is a part of a very dynamic system, and studies that focus on board composition in connection to board effectiveness have generally been criticised for this oversight. The effectiveness of boards is likely to depend heavily on social-psychological processes, particularly those pertaining to group participation and interaction, information exchange, and critical MD 46,9 1376 discussion, as noted by Forbes and Milliken (1999, p. 3). Because boards are not involved in strategy implementation, the "output" that boards produce is cognitive in nature. As a result, "no board can give meaningful value to an organisation unless its members actually operate as a team." According to a number of experts, board dynamics—or how board directors interact with and collaborate with one another to shape a company's future—is a more crucial determinant of a board's effectiveness than board composition. Therefore, this body of research contends that a functional social structure, rather than rules and regulations, is what makes boards effective.

The board as leaders: duties and tasks of the board

A range of stakeholders, including institutional investors, politicians, and the general public, have recently expressed their unease and displeasure with board processes and performance, placing increased pressure on boards of directors. Investors are getting more engaged in observing governance concerns and are willing to pay a premium for what they believe to be effective corporate governance (Felton, Hudnut, and van Heeckeren 1996). (Useem et al. 1993). There are several media reports about corporate governance reform (e.g. Business Week 1997, Economist 1997). Directors must have a better awareness of their legal responsibilities in order to build their governance abilities because failing to do so could result in harsh penalties. The laws and penalties that pertain to directors' positions are frequently unknown to directors. In accordance with sections 6 and 2 of the Company Directors Disqualification Act of 1986, several directors have already been removed from office in the UK for reasons of being unfit to serve as directors or after being found guilty of an indictable offence (National Audit Office 1993). According to case law, directors have a fundamental fiduciary obligation to behave honestly and in good faith in the company's best interests, as well as a duty to use reasonable skill and care when interacting with third parties. Additionally, directors must adhere to the legal requirements set forth by the several Companies Acts and the Insolvency Act of 1986. The Companies Act of 1985 has about 200 offences that could be committed (Souster 1991). It is important to note that a director's delegation of responsibility or ignorance of the company's transactions are insufficient defences (a point that is particularly relevant for nonexecutive directors), and that courts have the discretion to order directors to contribute to the company's assets without any liability cap. In addition, if the company directors are used to acting on that person's orders, they may be considered a "shadow director" and subject to liability under this Act even if they have not been formally appointed as directors (ibid.). According to the normative view of what a board of directors should do, it should supervise and discipline top management, participate in matters like executive compensation, executive succession, and takeover defences, and be actively involved in formulating strategies for things like diversification, resource management, and strategic change (Finkelstein and Hambrick 1996). According to UK data, directors themselves are serious about their strategic responsibilities. They consider that their duties should include establishing and influencing the company's mission, vision, and values; directing the organization's strategy and structure; assigning and supervising management's implementation of strategy; and meeting their obligations to shareholders and other parties (Dulewicz, MacMillan and Herbert 1995).

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