A tour around the boardroom: Some reflections on how to design boardrooms*

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Abstract

Purpose: This short reflective paper based on my keynote speech that I delivered at the 2024 African Accounting and Finance Association's (AAFA) Annual Conference at the University of Zimbabwe, Harare, aims to explore how specific boardroom characteristics influence sustainable corporate governance. It seeks to demonstrate that traditional "best practices" in corporate governance are highly context-dependent and may not be universally beneficial, particularly in emerging and entrepreneurial environments such as those found in Africa.

Design/methodology/approach: This reflective paper draws on a synthesis of prior empirical and theoretical research by the author and others to examine the roles of CEO duality, board independence, and board diversity (gender and age) in shaping sustainable governance. The discussion is enriched through a series of contextualised research insights, with a focus on applicability to both developed and emerging market settings.

Findings: This reflective paper finds that board characteristics such as CEO duality, independence, and diversity do not have uniformly positive or negative effects on firm performance or sustainability. Instead, their effects depend on the organisational context, including firm size, industry type, ownership structure, and market volatility. For instance, CEO duality can be positively perceived in innovative or volatile environments, while board independence may be undermined by hidden social or structural ties. Gender and age diversity may also generate value depending on the governance environment and firm lifecycle stage.

Originality/value: This reflective paper provides a critical reflection on the universal application of corporate governance codes. It emphasises the need for flexible and context-aware governance frameworks, particularly in African and emerging market contexts where entrepreneurial activity and early-stage firms are more prevalent. It challenges one-size-fits-all assumptions embedded in many governance codes and encourages policymakers and boards to adapt governance designs to their specific contexts.

Keywords: Corporate governance; board of directors; CEO duality; board independence; board diversity; sustainability; emerging markets; contextual governance

Paper type: Reflective commentary

*This paper contains reflections from Professor Marc Goergen, IE Business School, IE University, Spain, and European Corporate Governance Institute, Belgium, keynote speaker's speech from the 2023 African Accounting and Finance Association (AAFA) Annual Conference held at the University of Zimbabwe in September 2024, Harare, Zimbabwe. This is the second in the series of keynote speaker speeches to be published in the *African Accounting and Finance Journal* (AAFJ).

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1. Introduction

My keynote focused on how firms can become more sustainable via improving their governance. I defined sustainable corporate governance (Goergen, 2022) in a broad sense, i.e., encompassing environmental sustainability but also making firms more resilient to economic shocks. A firm with sustainable governance would be better able to face the two big societal challenges of climate change and a more volatile global economy. In what follows, I focus on how board characteristics – more specifically CEO duality, board independence and board gender and age diversity – can enable or impede sustainable governance.

2. Body

CEO duality consists of one person assuming the roles of the CEO and chair of the board of directors. CEO duality has been discouraged by codes of best practice across the world. While the first such code was the UK Cadbury Report, the codes of best practice of Ghana, Kenia, Mauritius, Nigeria, South Africa and Zimbabwe also discourage CEO duality. As a result, CEO duality nowadays tends to be the exception in many countries. For example, less than 15% of UK firms combine the two roles (Mira et al., 2019). This percentage is even lower for Ghana as it barely exceeds 6% (Ofori-Sasu et al., 2019). In contrast, in the United States about half of the S&P 500 firms have CEO duality (Spencer Stuart 2019).

Peter Limbach, Meik Scholz and I (Goergen et al., 2020) investigated the reasons S&P 500 firms reported for combining or separating the two roles. We studied the market reaction to the first-time disclosure of these reasons. The market did not react to the disclosures made by firms following the best practice of separating the two roles. However, it reacted either negatively or positively to the disclosures made by firms with CEO duality. The type of market reaction depended not only on the rationale that firms stated but also on the firms' characteristics. We found that the market reacted positively to the rationale of "unified leadership" for small firms, tech firms, firms with high R&D intensity and those with high stock price volatility. In contrast, it was negative for all other firms. This suggests that investors perceive CEO duality to be optimal in certain contexts.

Another important characteristic of boards is independence; the argument goes that more independent boards are better at monitoring the executives. Board independence is typically measured as the number of independent directors expressed as a percentage of board size. The main research question has been whether more independent boards improve firm performance. An extensive body of studies (see Solarino and Boyd, 2023, for an overview) suggests that there is typically no such link. A reason why most studies have failed to find a link is that this research is fraught with endogeneity issues. Indeed, if a firm goes through a bad patch, shareholders may call for the appointment of additional independent directors. The direction of causality would then flow from performance to board independence.

Nevertheless, independent directors have been shown to affect specific events or decisions. For example, Mira et al. (2019) investigated whether the UK labour market for non-executive directors rewards good directors, while penalising the bad ones. The study focused on acquisitions, a salient event that affects the bidder's future performance. The study found that this market worked well as the non-executives of bidders that performed well post-acquisition were rewarded with additional board seats in other firms, whereas the non-executives of bidders that experienced a drop in their performance ended up holding fewer future directorships.

Another reason for the absence of a link between board independence and firm performance is that independent directors are often independent in name only. For example, the CEOs of US firms tend to have a major influence on new board appointments (Hermalin and Weisbach, 1998). So-called co-opted directors, that is directors who have been appointed after the CEO joined the board, have been shown to weaken the monitoring conducted by the board (see e.g., Lim et al., 2020).

Research I conducted with Iram Ansari and Lana Mira (Ansari et al., 2014) on family firms studied the potential links that existed between the independent directors and the controlling family. When controlling for these links, board independence fell from 55% to about 24%. We found that this mattered when the family CEO came up for reappointment or retirement. While reported board independence did not increase the likelihood of the firm transitioning to a non-family CEO, adjusted board independence did.

In a related study, Salim Chahine and I (Chahine and Goergen, 2013) studied the social ties between the top management team (TMT) and the board of directors. This study was inspired by Hwang and Kim (2009), who focused on the social ties of the CEO with the board of directors for Fortune 100 firms. They found that such ties resulted in the CEOs leading quieter lives, as reflected by a higher fixed salary and lower pay-performance sensitivity. In contrast, our study focused on how young firms performed in the aftermath of their initial public offering (IPO). We found that social ties improved rather than worsened IPO performance. We concluded that better connected TMTs of young firms may find it easier to attract experienced board members to their firms, which in turn helps their firms perform better during a critical stage in their lifecycle.

Research on board gender and age differences also suggests that the context matters. Similar to the above literature, studies investigating the link between board gender diversity and firm performance have typically failed to find such a link (see e.g., Hoobler et al., 2018). Still, an emerging literature suggests that female directors put more emphasis on monitoring (Adams and Ferreira, 2009). They are also more active during board meetings (Schwartz-Ziv 2017). Furthermore, Chen et al. (2017) found that firms with female directors, but otherwise weak governance, paid higher dividends. Again, this suggests that context matters. Chen et al. (2019a, 2019b) also found that female directors reduced male CEO overconfidence. This positive effect was particularly pronounced in firms operating in industries where male CEO overconfidence was more prevalent. Finally, Atif et al. (2021) found that US firms with female directors consumed relatively more energy from renewable sources, suggesting that female directors are key to the transition towards a sustainable society.

Finally, when studying the age difference between the CEO and the chair in German firms, Peter Limbach, Meik Scholz and I (Goergen et al., 2015) found that a generational age difference, i.e., a difference of 20 or more years, between the CEO and chair increased the monitoring conducted by the board. This created value in more mature firms but destroyed value in smaller firms.

3. Concluding remarks

To conclude, board characteristics do matter, but their impact depends heavily on context. What may be promoted as best practice in one setting could be counterproductive in another. Given Africa's greater proportion of startups and vibrant entrepreneurial activity, local regulators should recognise that best practices designed for mature companies from developed economies may not necessarily suit their early-stage firms.

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