Department of Economics and Marketing
Discussion Paper No.20

Board Structure of New Zealand Listed Companies: An International Comparative Study

Mark A Fox

September 1996

Department of Economics and Marketing
PO Box 84
Lincoln University
CANTERBURY

Telephone No: (64) (3) 325 2811
Fax No: (64) (3) 325 3847
E-mail: foxm@lincoln.ac.nz

ISSN 1173-0854
ISBN 0-9583485-7-X

Table of Contents

List of Tables

1. Introduction

Remarkably little is known about the boards of directors of New Zealand companies. The most recent research in this area was conducted by Turner (1985) who examined CEO duality among listed companies for 1984, and Chandler and Henshall (1982) who examined board size, incidence of executive chairmanship and the proportion of outsiders on the boards of listed companies. In section two of this paper, I seek to expand on these earlier studies and, in particular, identify what changes in board structure have subsequently occurred. This analysis should give us a sense of the responsiveness of New Zealand companies to pressures to reform corporate governance and the current state of corporate governance with respect to board structure characteristics. In the terminology of Boyd, Carroll, and Howard (1996), this analysis is *micro* and *descriptive* in nature. Micro, because I examine board variables, and descriptive because I am focusing on a single country, New Zealand.

The approach taken in section two of this paper is not dissimilar to much previous corporate governance research. As Boyd et al. state, "much prior work has taken a descriptive rather than a comparative or explanatory focus" (1996, p.16). In fact international comparative research on board structure is a neglected area, with Boyd et al. (1996) commenting that: "... international research on corporate governance appears surprisingly scarce" (p.3); and "... much remains to be done to understand the function and effectiveness of international boards, and to provide comparisons across nations" (p.16).

That international corporate governance research is so scarce it is somewhat surprising, especially when several studies indicate that there are in fact marked differences in board structure between some countries (Dalton, Kesner, and Rechner, 1988; Dalton and Kesner, 1987). As Daily and Dalton (1994) demonstrate, these differences in board structure may have important implications for the performance and, ultimately, the very survival of corporations. Section three this paper examines previous international studies of board structure, making comparisons with the available New Zealand data. Section four of this paper contains a discussion and conclusions.

2. Changes in Board Structure in New Zealand

2.1 Introduction

Past studies of board composition in New Zealand have typically focused exclusively on board size (Laurent, 1971; Fogelberg and Laurent, 1974; Firth, 1987; Chandler and Henshall, 1982; Turner, 1985). Two previous studies have looked at CEO duality (Chandler and Henshall, 1982; Turner, 1985) with one of these studies (Chandler and Henshall, 1982) also looking at the proportion of outsiders on corporate boards.

I add to the existing data in two ways. First, I look at more board structure variables than previous local studies (refer Table 1 for a summary of the board structure variables of interest). Second, I update our knowledge of board structure variables, and changes in board structure, by including data for the years 1980, 1985, 1987, 1990, and 1993.

Previous studies of board structure in countries with large numbers of listed companies have usually examined the largest listed companies, e.g. the *Fortune 500*. Given the association between company size and some board composition variables, such studies do not provide an accurate portrayal of corporate governance in the countries of interest. Take, for example, board size which has found to be correlated with two measures of firm size, namely sales (Pfeffer, 1972) and total assets (Dalton and Kesner, 1987). Given these correlations we would expect any sample of companies drawn from a group of very large companies to have a larger mean board size than would a randomly chosen sample of all, for example, listed companies. Therefore, samples of very large companies will not accurately represent the average board size for all listed companies.

Table 1
Board Structure Variables

Variable	Definition	Illustrative Studies
CEO duality	Occurs when an individual is both CEO and board chair	Turner (1985)
Executive board chair	Occurs if the board chair is also the CEO or another executive	Donaldson and Davis (1991)
Board size	Total number of directors (excluding alternative, or deputy, directors)	Pfeffer (1972) Barnhardt, Marr, and Rosenstein (1994)
Number of Outsiders	The number of directors who are not current executives of the company	Dalton and Kesner (1987)
Proportion of Outsiders on Board	Number of outsiders divided by board size	Dalton and Kesner (1987)
Majority of Outsiders	Binary variable. Coded as "1" if greater than 50 per cent of directors are outsiders; "0" otherwise	Kesner, Victor, and Lamont (1986)

Table 2 summarises the findings of past studies in New Zealand along with those findings for the years I have added. I will now proceed to identify and examine any changes which have occurred in the board structure of New Zealand listed companies since 1962.

Table 2
Summary of New Zealand Board Structure Studies

	1962[a]	1970[a]	1972[b]	1980	1981[c]	1984[d]	1984[b]	1985	1987	1990	1993
Board size	7.21	6.96	6.66	7.24	6.95		7.12	7.45	6.14	5.70	6.07
CEO duality (%)				17.83		11.14		10.81	17.81	15.38	14.29
Exec. chairpersons (%)				20.16	20.30			14.19	18.49	17.48	16.54
No. of outsiders				5.45				5.60	4.48	4.15	4.57
Proportion of outsiders				0.75	0.72			0.76	0.73	0.73	0.74
Percentage of companies with a majority of outsiders				86.82				87.16	81.16	82.52	82.71
No. of companies	58	160	247	129	208	184	221	148	292	143	133
Representation*			100	53			100	66	100	100	100

Sources: [a]Laurent (1971) and Fogelberg and Laurent (1974); [b]Firth (1987); [c]Chandler and Henshall (1982); [d]Turner (1985).
*The percentage of listed companies represented.

2.2 Board Size

There has been a significant change in board size between 1962 and 1993. There is, however, little apparent change in board size over the most recent period from 1987 to 1993, but there does appear to have been a reduction in board size (from seven to six directors) between the period up to 1985 and the later period, 1987 to 1990. To test the significance of this change the available data on board size were subjected to an analysis of variance. Full information was available for board data for all years except 1962 and 1981 (in these years only the mean board size statistic was available). Conducting an analysis of variance on the available data we find an F ratio of 14.62 ($p<0.01$). An examination of the means and standard deviations of the data for the years analysed indicates that board size is, generally speaking, higher in the earlier years and lower in more recent years (refer Table 3). A Scheffe test reveals significant differences between several years of data. To confirm the direction and level of significance of these differences, t-tests were then conducted for the pairs of years identified as having significant differences by the Scheffe test (refer Appendix Table 1). As expected these t-tests indicate that, compared to earlier years, board size is significantly smaller in more recent years.

On the whole this analysis points to a reduction in the board size of New Zealand listed companies. In 1970 the mean board size was around 7 members, whereas in 1993 the mean board size was around 6 members. Board size was significantly smaller in each of the years 1987 and 1990 compared to 1970; and in 1990 compared to 1972. Board size was also significantly smaller in each of the years 1987, 1990, and 1993, compared to each of 1980, 1984, and 1985.

There are two possible explanations for the reduction in board size in more recent years. First, the lowest mean board size of 5.69 in 1990 perhaps reflects the levels of insolvency, bankruptcy, resignations, and the loss of legitimacy of some directors as a consequence of the 1987 stock market "crash". Second, the rapid deregulation of the New Zealand economy and the stock market crash led companies to "give primary emphasis to their own survival" (Hamilton and Shergill, 1993, p.104). Companies in survival mode do not have the luxury of excess and unproductive directors, and are likely to alter their board structure accordingly.

Table 3
Sample Characteristics for Board Size

Year	No. of Companies	Mean	Standard Deviation
1970	160	6.96	1.99
1972	247	6.66	1.98
1980	129	7.24	1.91
1984	221	7.12	2.21
1985	148	7.45	2.11
1987	292	6.14	2.17
1990	143	5.69	2.27
1993	133	6.07	2.20

2.3 Number of Outside Directors

The mean number of outside directors in five years is shown in Table 4. There has been a significant change in the number of outsiders on New Zealand boards. An ANOVA for the years of data available found a significant F ratio of 14.33 ($p<0.01$). A Scheffe test found that there were significant differences in the number of outside directors between each of the years 1980 and 1985 and each of the more recent years 1987, 1990, and 1993. t-tests show that the number of outside directors was significantly lower for each of these more recent years compared to the earlier years (refer Table 4.6).

Table 4
Number of Outside Directors

Year	Mean	Standard Deviation
1980	5.45	2.05
1985	5.60	1.94
1987	4.48	2.09
1990	4.15	2.12
1993	4.57	2.13

2.4 Proportion of Outside Directors

An analysis of variance on the available data (i.e. 1980, 1985, 1987, 1990, and 1993) revealed no significant change occurred in the percentage of outsiders on New Zealand boards ($F=0.88$; not significant). The mean proportion of outsiders remained within the range 0.73 to 0.76 over the 1980 to 1993 period (refer Table 5). That no significant change occurred can be explained by the changes

I observed in the two variables which determine the proportion of outside directors, namely the number of outsiders and board size. These variables declined together, having no significant impact on the proportion of directors which were outsiders.

Table 5
Proportion of Outside Directors

Year	Mean	Standard Deviation
1980	0.75	0.19
1985	0.76	0.18
1987	0.73	0.22
1990	0.73	0.22
1993	0.74	0.19

2.5 Outsider Dominance

Between 1980 and 1993, outsider dominance of boards of directors was very high with over 80 per cent of New Zealand boards being dominated by outside directors. Appendix Table 3 shows the results for tests of difference in proportions between the various years for which data were available. From this analysis we observe that for no two years was there a significant difference in the proportion of companies being controlled by a majority of outside directors.

2.6 CEO Duality/Executive Board Chairs

Between 1980 and 1985 the percentage of companies having CEO duality declined significantly (from 17.8 to 10.8 per cent). However from each of the years 1984 and 1985 to 1987 there was a significant increase in the incidence of CEO duality.

In contrast to the changes observed in CEO duality, statistical analysis reveals no significant difference in the proportion of companies having executive board chairs between any of the years for which data was available.

3. International Studies of Board Structure

3.1 Introduction

Only two previous papers have attempted to integrate the literature concerning board structure in different countries (Dalton, Kesner, and Rechner, 1988; Dalton and Kesner, 1987). Each of these papers neglects much of the relevant research. For example, the research on determinants of board structure (e.g. Pearce and Zahra, 1992) and performance consequence of board structure (e.g. Rechner and Dalton, 1986; Mallette and Fowler, 1992) contain a wealth of data on board structure that, to date, has not being brought together.

Dalton and Kesner's (1987) is the only attempt that has been made to compare board structure variables between countries at a given time. This study compared board composition variables for 50 large companies in each of the United Kingdom, United States and Japan. Dalton and Kesner concluded that there were differences in CEO duality between these three countries and that Japanese companies had a lower proportion of outside directors than either their U.S. or U.K. counterparts.

Given the lack of integration of previous research on board structure in different countries, and our interest in board structure in New Zealand, I decided to seek answers to the following research questions:

Q1: Does board structure in New Zealand differ from that in the United States, United Kingdom, Japan, and Australia?

Q2: What factors account for any differences in board structure between New Zealand, the United States, United Kingdom, Japan, and Australia?

3.2 Data and Method

One of the major difficulties in conducting international comparative research in the area of corporate governance is that:

> International governance is not a research stream per se, but rather a loosely integrated set of studies. Consequently, there is little consistency in the choice of theoretical perspectives, or countries and variables being studied. Because these papers are also written from a broad array of disciplines, they can be difficult to identify through an article search. This difficulty in identifying and locating international governance studies likely serves as a disincentive for other researchers to enter this area (Boyd et al., 1996, p.3)

Having decided to conduct an international comparative study, there were two approaches I could take. First, I could elect to collect relevant board structure data from other countries, which I could then compare to our New Zealand data. Alternatively, I could draw upon existing studies of board structure and make comparisons to New Zealand from these. The first option (collecting the data myself) was eliminated because of the inherent difficulties and time-consuming nature of collecting detailed board structure data in any country. I chose the second method, namely a literature review of existing data, because no comprehensive comparative literature review has previously been undertaken in this area. I, therefore, hoped that some interesting insights would be gained from an investigation of this literature.

For comparative purposes I collected published board structure data for the United States, United Kingdom, Australia, and Japan. The United Kingdom and the United States were selected for comparison because I believed more studies touching on board structure would be available for these countries than anywhere else. Australia was chosen because of its close ties with New Zealand and, in particular, its status as our largest trading partner. Japan was chosen because companies from this country are believed to have vastly different governance structures than those apparent in western countries (Dalton and Kesner, 1987). It is also important to note that the four countries selected for comparison with New Zealand are our major trading partners.

The data on overseas board structure was obtained primarily from studies relating to board structure alone, board structure and corporate performance, and company interlocks. In an attempt to obtain as many studies as possible I searched abstracting databases (ABI-Inform, Econlit, Social Sciences Index). In addition the references in each paper I obtained were examined to identify any further papers that may be of use; literature review papers were especially useful in this regard.

I will now proceed to compare the board structure of New Zealand listed companies with those of Australia, Japan, the United States, and United Kingdom. In making these comparisons it is important to be mindful of the relationships observed between firm size and board structure which may - by virtue of sampling biases (towards larger companies) - lead to otherwise erroneous comparisons being made. For example, if we find larger boards in American compared to New Zealand companies - then this may be a function of the data sources used (we would expect, say, *Fortune 500* companies to be very much larger than New Zealand Stock Exchange listed companies). Given this concern, I am only attempting to obtain a *prima facie* understanding of international board structures.

3.3 Country Comparisons

3.3.1 Comparisons with Australia

Table 6 shows board size for Australian Companies and comparisons with New Zealand companies. The Australian data is not strictly comparable to that for New Zealand because of their bias towards larger Australian companies. Nevertheless, examination of the available data highlights some differences. New Zealand listed companies appear to have lower mean board sizes than large Australian companies. Around 1980 this difference was about one director. However, by around 1990, the Australian companies have approximately two more directors than do New Zealand companies. This situation appears to have arisen because the mean board size of New Zealand listed companies has declined between 1980 and 1990 (from 7.24 to 5.70), whereas the mean board size for larger Australian companies has remained relatively stable over a similar period (8.33 in 1979 and 8.37 in 1991).

Table 6
Board Size of Australian versus New Zealand Companies

	Australia			New Zealand	
Year	Sample	Basis for Selection	Average Board Size	Year	Average Board Size
1959[a]	Top 250	Assets	6.60		
1979[a]	Top 251	Assets	8.33	1980	7.24
1986[b]	Top 250	Assets	8.62	1987	6.14
1991[b]	Top 250	Revenue	8.37	1990	5.70

Sources: [a]Stening and Wan (1984); [b]Alexander and Murray (1992).

The only other board structure variable that has been given research attention for Australian companies is CEO duality. Kiel and Blannerhasett (1984) in their study of the top 50 Australian listed companies and found that 8 companies (16 per cent) had a board chair that was also CEO. Unfortunately, these authors do not give the year they obtained their data for, making a comparison with New Zealand data impossible.

3.3.2 Comparisons with the United Kingdom

As with Australia, most of the available board composition data for the United Kingdom relates to board size (refer Table 7). Hiner (1967) found that the mean board size of 345 randomly selected British listed companies was 5.9 directors in 1962. This compares to 7.21 directors in Laurent's (1971) study of 58 large New Zealand listed companies in the same year.

More recently, Dalton and Kesner (1987) in their sample of 50 large U.K. companies for the year 1986 found an average board size of 11.44 directors. This compares with a mean board size of only 7.45 directors for our 1985 sample of New Zealand listed companies. However, this difference may be attributable to the size bias in Dalton and Kesner's (1987) sample.

Table 7
Board Size and Duality in United Kingdom Companies

Study	Year	No.	Mean Board Size	Duality
Hiner (1967)	1955	510	8.31	33.92
Hiner (1967)	1960	704	8.07	36.80
Hiner (1967)	1962	345	5.90	
Dalton and Kesner (1987)	1986	50	11.44	30.00

Both Dalton and Kesner (1987) and Li (1994) examined the proportion of outsiders on the boards of U.K. companies. Dalton and Kesner (1987) found this statistic to be 0.64 for 50 large companies in 1986, whereas more recently Li (1994) found it to be 0.36 for 60 U.K. based multinationals in 1987. On the face of it these two statistics appear incompatible. In any event it appears that New Zealand companies have a higher proportion of outsiders on their boards at this time (0.76 in 1985 and 0.73 in 1987).

3.3.3 Comparisons with the United States

More studies have touched on various aspects on board structure in the United States than anywhere else. However, these studies have typically focussed on very large companies (Boyd et al., 1996).

Board size

Large U.S. companies appear to have a mean board size of around 12 directors (refer Table 8). Only one study (Schellenger, Wood, and Tashakori, 1989) examines a random sample of U.S. listed companies. That study found a mean board size of 6.58 directors for 1986. This compares to 7.45 directors in 1985 and 6.14 directors in 1987 for New Zealand listed companies. It appears that, around 1986 anyhow, New Zealand and U.S. listed companies had similar board sizes.

Table 8
Board Size in United States Companies

Study	Sample	Year(s)	Mean Board Size
Gordon (1945)	155 largest U.S. corporations	1935	13.5
Kaplan (1994)	146 companies with the highest sales on Fortune's list of the largest industrials in 1980	1980	14.88
Rosenstein and Wyatt (1990)	324 U.S. listed companies who appointed an outside director	1981-85	12.2
Kesner (1987)	250 randomly selected Fortune 500 companies	1983	12.48
Lee et al. (1992)	58 MBOs, 1983 to 1989 U.S. listed companies	1983-89	11.45
Brickley et al. (1994)	247 firms listed on the NYSE between 1984 and 1986	1984-86	11.96
Dalton and Kesner (1987)	50 large U.S. corporations	1986	12.96
Schellenger et al. (1989)	526 randomly selected U.S. listed companies	1986	6.58

Table 9
Proportion of Outside Directors in United States Companies

Study	Sample	Year(s)	Proportion Outsiders
Kesner and Dalton (1985)	266 companies listed in Forbes from 1970 to 1980	1970	0.46
Kesner and Dalton (1985)	266 companies listed in Forbes from 1970 to 1980	1980	0.57
Rechner and Dalton (1986)	30 companies from the Top 100 Fortune 500	1980	0.68
Kesner et al. (1986)	Average for 1980-84 of proportion of outsiders on 384 companies listed in the Fortune 500.	1980-84	0.70
Rosenstein and Wyatt (1990)	324 U.S. listed companies who appointed an outside director	1981-85	0.66
Kesner (1987)	250 randomly selected Fortune 500 companies 1983	1983	0.64
Lee et al (1992)	58 MBOs, 1983 to 1989 U.S. listed companies	1983-89	0.59
Brickley et al. (1994)	247 firms listed on the NYSE between 1984 and 1986 that	1984-86	0.69
Dalton and Kesner (1987)	50 large U.S. corporations	1986	0.70
Schellenger et al. (1989)	526 randomly selected U.S. listed companies	1986	0.65
Li (1994)	192 U.S. firms taken from the Directory of Multinationals	1987	0.74
Baysinger, Kosnik and Turk (1991)	176 Fortune 500 companies	not given but appears to be early 1980s	0.60

Table 10
Number of Outside Directors in United States Companies

Study	Sample	Year(s)	Number of Outsiders
Kaplan (1994)	146 companies with the highest sales on Fortune's list of the largest industrials in 1980	1980	9.57
Rosenstein and Wyatt (1990)	324 U.S. listed companies who appointed an outside director	1981-85	8.0
Lee et al. (1992)	58 MBOs, 1983 to 1989 U.S. listed companies	1983-89	7.50
Dalton and Kesner (1987)	50 large U.S. Corporations	1986	9.02

Proportion of outside directors

There is no indication that the proportion of outside directors on boards is associated with company size. This was shown in Dalton and Kesner's (1987) study of 50 large companies in each of the U.K., U.S., and Japan. Given this results relating to differences in the proportion of outside directors between countries should be informative.

Results of studies on the proportion of outsiders on U.S. boards do not show any trend (refer Table 9). However, it appears that between 1980 and 1990 mean proportion of outsiders on the boards of large U.S. companies was between 0.60 and 0.70. This is somewhat lower than in New Zealand companies where the average proportion of outside directors over the same period was between 0.73 and 0.76 per cent (refer Table 2).

Number of outside directors

The only studies which have looked at the number of outside directors on the boards of American companies have examined large corporations (refer Table 10). Hence, no meaningful comparison can be made between New Zealand and United States companies with regards the number of outside directors. These studies found that large U.S. corporations had on average about 8 outside directors (refer Table 10).

CEO duality

In contrast to New Zealand companies, American companies appear to have a significantly higher incidence of CEO duality (refer Table 11). Estimates of CEO duality for U.S. companies vary widely, from 46 per cent in 1980 (Boyd, 1994) to 89 per cent for 1980 to 1984 (Kesner et al., 1986). The most recent study indicates that 76 per cent of American companies had a dual CEO structure in 1987. This compares to only 10.81 per cent for 1985 and 17.81 per cent for 1987 among New Zealand listed companies. It therefore appears in any event that New Zealand listed companies have an extremely low incidence of CEO duality compared to American companies.

Table 11
CEO Duality in United States Companies

Study	Sample	Year(s)	% with CEO Duality
Rechner and Dalton (1991)	141 companies listed in the *Fortune 500* between 1978 and 1983, with stable governance structures	1978-83	78.7
Boyd (1994)	192 U.S. corporations	1980	46
Dalton and Kesner (1987)	50 large U.S. corporations	1986	82
Donaldson and Davis (1991)	321 U.S. corporations	1987	76
Kesner, Victor, and Lamont (1986)	384 Fortune 500 companies listed between 1980 and 1984	1980-84	89

3.3.4 Comparisons with Japan

Each of the studies examining board size in Japanese companies has used very large companies (Kaplan, 1994, Dalton and Kesner, 1987), so once again any comparisons with New Zealand are of dubious value. It is however interesting to note that the two studies just mentioned found board sizes of 22.5 and 21.0 members respectively, which are extremely large by any standards (refer Table 12). The large size of Japanese boards has not been explained by previous researchers.

Table 12
Board Structure in Japan

Study	Sample	Year	Mean Board Size	No. of Out-siders	Proportion Out-siders	CEO Duality
Kaplan (1994)	119 Japanese companies included in the 1980 list of Fortune 500 largest foreign industrials	1980	22.49	0.86		
Dalton and Kesner (1987)	50 large Japanese companies	1986	21.04	10.17	0.51	10.9%

The only study to examine CEO duality in Japanese companies is that of Dalton and Kesner (1987) who found that only 10.9 per cent of their sample of large Japanese companies had this board characteristic in 1986. This compares with a similar figure of 10.8 per cent for New Zealand companies in 1985, but a considerably higher figure for New Zealand companies of 17.8 per cent in 1987. The difference that is indicated for this later year may be due to the adoption of a board leadership structure by New Zealand boards leading up to the 1987 stock market "crash".

The findings of previous studies with regards the number of outsiders on Japanese boards are confusing (refer Table 12). Kaplan (1994) found that only 0.86 outsiders were represented on the average board during 1980. In contrast, Dalton and Kesner (1987) found that 10.2 outsiders were represented on the average Japanese board in 1986. There is no sound explanation for a massive increase in outsider representation over the 1980-85 period, leading us to conclude that the difference may be attributable to sampling bias. Given this possibility I elected not to compare Japanese and New Zealand boards on this variable, as I believed that any differences observed would in all likelihood be dubious.

Only one study has investigated the proportion of outsiders on Japanese boards is that of Dalton and Kesner (1987) who found this statistic to be 0.51 for 1986. This compares to somewhere around 75 per cent at the same time for New Zealand listed companies. It therefore appears that New Zealand companies have a higher proportion of outsiders on their boards than Japanese companies. Insight into why this may be the case is provided by Dalton, Kesner and Rechner (1988):

> In Japan ... the role of the director appears to be less the steward of the stockholder than would be expected in either the United Kingdom or the United States. The "watchdog" model of outside directorship, then, may be largely unnecessary for the typical Japanese corporation ... (Dalton, Kesner and Rechner, 1988, p.101).

4. Discussion and Conclusions

The analysis undertaken in section two of this paper indicates several key changes in board structure in New Zealand. First, board size has declined from around 7 members between 1962 and 1985 and 6 members more recently (1987 to 1993). As mentioned previously this reduction may be a result of the stock market crash and the pressures of economic deregulation.

Interestingly, the number of outside directors declined from around 5.5 per board in 1980 and 1985 to around 4.5 per board in the more recent period of 1987 through 1990. Thus, it appears that the reduction in board size that we have observed is due to fewer outsiders being represented on boards. Following the previously outlined argument, this may indicate that such directors were more likely to constitute "dead wood" than were insiders, and are more likely than insiders to have suffered legitimacy problems following the sharemarket "crash".

With regards representation by non-executive directors, New Zealand boards were found to typically be dominated by outsiders. The Cadbury Report (1992) in the United Kingdom prescribed a "Code of Best Practice". Among the features of boards seen as desirable in this Code was that, "... the representation of non-executive [i.e. outsider] directors on the board should be sufficient in number to carry weight in the board's deliberations ...".

In this respect New Zealand boards appear well equipped to perform their governance role effectively, with over 80 per cent of our boards having a majority of outside directors. Furthermore, by 1993, approximately three-quarters of the members on the average board were outside directors.

The Cadbury Report (1992) also recommends that, "... there should be a clear division of responsibilities at the top of any large company between the chairman and the chief executive officer ...". Only 14.3 per cent of New Zealand listed companies had chief executives who were also board chairperson, indicating that such companies, *prima facie*, have an effective board leadership structure.

The findings in section three of this paper are indicative of some differences in board structure between New Zealand and each of Japan, Australia, the U.K., and the U.S. Ideally, future research in this area should take care to study representative samples of companies in different countries, rather than just very large companies, thereby giving researchers the opportunity to make more generalisable observations about differences in board structure between countries.

Some explanations as to why governance structures in the U.K., U.S., and Japan may be different have been provided by previous research. The corporate structure of Japanese companies in particular is seen to differentiate such companies markedly from those of most western countries. In particular it has been noted that, "... the typical Japanese firm is comprised of very few owners whose financing comes from large financial institutions who work very closely with top management" (Dalton, Kesner, and Rechner, 1988, pp.100-1). In a similar vein Prevezer and Ricketts (1994) note that, in comparison to U.K. companies (and presumably U.S. companies too):

> ... [shareholders of Japanese firms] are largely insiders, having some kind of commercial contact with the company. Thus, although the structure of shareholding ... the nature of institutional shareholding is very different ... The institutions are not independent pension funds and insurance companies with their own interests and obligations ... They are instead institutions such as banks who may have provided loan finance; supplying companies who may have a long-running association; or other companies linked by cross-shareholdings.
>
> The second important feature of Japanese shareholding is that tradeability of rights is more constrained than in the U.K. It is estimated that nearly two-thirds of equity is held in the form of stable shareholding-*antei kabunushi*-which is distinct from interlocking shareholding-*kabushiki mochiai* (Prevezer and Ricketts, 1994, pp.245-6).

In addition to shareholding differences in Japanese (compared to western companies), it has been observed that corporate boards in Japan are more "consensus orientated and less CEO-dominated" than their U.S. counterparts (Kaplan, 1994, p.520). This may also help account for the apparently low incidence of CEO duality among Japanese companies and the apparently large boards of Japanese boards (presumably consensus decision-making involves the participation of many relevant parties, which may be represented on the board)

The discussion just outlined indicates that Japanese companies may have different board structures than those of their western counterparts by virtue of differences in the nature of corporate ownership and decision-making. It is less clear why differences in board structure of western countries occur. It would be instructive for future international comparative studies to track board structure in different countries on an historical basis. Hence, any differences in board structure which may be present between countries today could be attributed to, say, how industry and corporate control has evolved in different countries. Take for example the following:

> ... the British tradition of corporate accountability has been traced to the philosophical writings of Bentham. Bentham applied utilitarian principles to management, with the idea that there is a concept of accountability for management actions which should result in beneficial consequences (Boyd et al., 1996, p.7).

However, despite the calls made for international comparative research on corporate governance, one must remain somewhat sceptical of its value. It is inevitable that the variables of interest to academics (such as those I have used) provide only vague indicators of whether or not a board is in fact effective. Academic research on boards of directors has largely been driven by convenience of data collection, with variables such as board size, outsider representation and CEO duality being readily observable and, typically, easily obtainable from secondary data sources, hence their use, and the theories revolving around these variables.

It would be more productive for researchers to focus on what makes some boards more effective that others. For example, to say that a larger board is likely to be more effective that a smaller board is somewhat simplistic. The quality and the diversity of the directors on the board is what one is more likely to be really talking about, and board size may only provide a proxy for these factors. Some research on the effectiveness of boards has been conducted. for example Bradshaw, Murray, and Wolpin (1992), Cook and Brown (1990) and Kovner (1985). However, research in this area has typically focused on organisations in the health care sector. More general observations on effectiveness have been made by some (Leighton and Thain, 1993; Thain and Leighton, 1988; Weidenbaum, 1986), but empirical research appears more-or-less non-existent. This appears the most promising area for international governance research.

References

Alexander, M. and G. Murray (1992). Interlocking directorships in the top 250 Australian companies: comment on Carroll, Stening and Stening. *Company and Securities Law Journal*, 10, 6, pp. 385-395.

Barnhart, S.W., M.W. Marr, and S. Rosenstein (1994). Firm performance and board composition: some new evidence. *Managerial and Decision Economics*, 15, 4, pp. 329-340.

Baysinger, B.D., R.D. Kosnik, and T.A. Turk (1991). Effects of board and ownership structure on corporate R&D strategy. *Academy of Management Journal*, 34, 1, pp. 205-214.

Boyd, B.K., W.O. Carroll, and M. Howard (1996). International governance research: a review and agenda for future research. *Advances in International Comparative Management*, 11, forthcoming.

Boyd, B.K. (1990). Corporate linkages and organisational environment: a test of the resource dependence model. *Strategic Management Journal*, 11, 6, pp. 419-430.

Boyd, B.K. (1994). Board control and CEO compensation. *Strategic Management Journal*, 15, 5, pp. 335-344.

Brickley, J.A., J.L. Coles, and R.L. Terry (1994). Outside directors and the adoption of poison pills. *Journal of Financial Economics*, 35, 3, pp. 371-390.

Bradshaw, P., V. Murray, and J. Wolpin (1992). Do nonprofit boards make a difference? an exploration of the relationships among board structure, processes, and effectiveness. *Nonprofit and Voluntary Sector*, 21, 3, pp. 227-249.

Cook, R.S. and N.W. Brown (1990). Most effective and least effective boards of nonprofit human service agencies. *Group and Organisation Studies*, 15, 4, pp. 431-447.

Chandler, R.F. and B.D. Henshall (1982). *Corporate directorship practices in New Zealand public companies*, Working Paper No 8, The Department of Management Studies, University of Auckland.

Daily, C.M. and D.R. Dalton (1994). Corporate governance and the bankrupt firm: an empirical assessment. *Strategic Management Journal*, 15, 8, pp. 643-654.

Dalton, D.R. and I.F. Kesner (1987). Composition and CEO duality in boards of directors: an international perspective. *Journal of International Business Studies*, 18, 3, pp. 33-42.

Dalton, D.R., I.F. Kesner, and P.L. Rechner (1988). Corporate governance and boards of directors: an international comparative perspective. *Advances in International Comparative Management*, 3, pp. 95-105.

Donaldson, L. and J.H. Davis (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, 16, 1, pp. 49-64.

Firth, M. (1987). Multiple directorships and corporate interlocks in New Zealand. *Australian and New Zealand Journal of Sociology*, 23, 2, pp. 274-281.

Fogelberg, G. and C.R. Laurent (1974). Boards of directors in New Zealand companies. *Research Paper*, No.1, Dept of Business Administration, Victoria University, Wellington.

Hamilton, R.T. and G.S. Shergill (1993). *The logic of New Zealand business: strategy, structure and performance*. Auckland: Oxford University Press.

Hiner, O.S. (1967). The Size of Company Boards. *Management International Review*, 4, 5, pp. 69-81.

Kaplan, S.N. (1994). Top executive rewards and firm performance: a comparison of Japan and the United States. *Journal of Political Economy*, 102, 3, pp. 510-546.

Kaplan, S.N. and B.A. Minton (1994). Appointments of outsiders to Japanese boards: determinants and implications for managers. *Journal of Financial Economics*, 36, 2, pp. 225-258.

Kiel, G. and P. Blennerhasett (1984). The board of directors in large Australian companies. *Management Decision*, 22, 1, pp. 40-44.

Kesner, I.F. (1987). Directors' stock ownership and organisational performance: an investigation of Fortune 500 companies. *Journal of Management*, 13, 3, pp. 499-507.

Kesner, I.F. and D.R. Dalton (1985). The effect of board composition on CEO succession and organisational performance. *Quarterly Journal of Business and Economics*, 42, pp. 3-20.

Kesner, I.F, B. Victor, and B.T. Lamont (1986). Board composition and the commission of illegal acts: an investigation of Fortune 500 companies. *Academy of Management Journal*, 29, 4, pp. 789-799.

Kovner, A.R. (1985). Improving the effectiveness of hospital governing boards. *Frontiers of Health Services Management*, 2, 1, pp. 4-33.

Laurent, C.R. (1971) *Interlocking directorates in New Zealand*, Unpublished thesis, Department of Accountancy, Victoria University of Wellington.

Lee, D.I., S. Rosenstein, N. Rangan, and W.N. Davidson (1992). Board composition and shareholder wealth: the case of management buyouts. *Financial Management*, 21, 1, pp. 58-72.

Leighton, D.S.R and D.H. Thain (1993). Selecting new directors. *Business Quarterly*, 57, 4, pp. 17-25.

Li, J. (1994). Ownership structure and board composition: a multi-country test of agency theory predictions. *Managerial and Decision Economics*, 15, 4, pp. 359-368.

Mallette, P. and K.L. Fowler (1992). Effects of board composition and stock ownership on the adoption of "poison pills". *Academy of Management Journal*, 35, 5, pp. 1010-1035.

Pearce, J.A. and S.A. Zahra (1992). Board composition from a strategic contingency perspective. *Journal of Management Studies*, 29, 4, pp. 411-438.

Pfeffer, J. (1972). Size and composition of corporate boards of directors: the organisation and its environment. *Administrative Science Quarterly*, 17, 2, pp. 218-228.

Prevezer, M. and M. Ricketts (1994). Corporate governance: the UK compared with Germany and Japan. In N. Dimsdale and M. Prevezer (eds). *Capital markets and corporate governance*. Oxford: Clarendon Press.

Schellenger, M.H., D.D. Wood, and A. Tashakori (1989). Board of director composition, shareholder wealth, and dividend policy. *Journal of Management*, 15, 3, pp. 457-467.

Rechner, P. and D.R. Dalton (1991). CEO duality and organisational performance: a longitudinal analysis. *Strategic Management Journal*, 12, 2, pp. 155-160.

Rechner, P. and D.R. Dalton (1986). Board composition and shareholder wealth: an empirical assessment. *International Journal of Management*, 3, 2, pp. 86-92.

Rosenstein, S. and J.C. Wyatt (1990). Outside directors, board independence and shareholder wealth. *Journal of Financial Economics*, 26, 2, pp. 175-191.

Stening, B. and W.T. Wai (1984). Interlocking directorates among Australia's largest 250 corporations 1959-1979. *Australian and New Zealand Journal of Sociology*, 20, 1, pp. 47-55.

Thain, D.H. and D.S.R. Leighton (1988). The board of directors: key to effective governance. *Business Quarterly*, 53, 1, pp. 77-80.

Turner, R. (1985). Board of directors leadership. *New Zealand Journal of Business*, 7, pp. 59-62.

Weidenbaum, M.L. (1986). Updating the corporate board. *Journal of Business Studies*, 7, 1, 77-83.

Appendix Table 1
t-tests for Board Size*

Year	1987	1990	1993
1970	4.063	5.153	
1972		4.268	
1980	5.222	6.109	4.670
1984	5.023	5.935	4.422
1985	6.070	6.821	5.409

* All significant at 1% level; blank cells denote no significant difference between years

Appendix Table 2
t-tests for Number of Outsiders*

Year	1987	1990	1993
1980	4.444	5.135	3.408
1985	5.572	6.081	3.226

*All t-tests are significant at 1% level

Appendix Table 3
Test of Difference in Proportions (p-values)

1980				
1985	-.084			
1987	1.421	1.589		
1990	.981	1.106	-.342	
1993	.926	1.046	-.381	-.041
Year	**1980**	**1985**	**1987**	**1990**

Appendix Table 4
Duality: Test of Difference in Proportions (p-values)*

1980					
1985	1.675[a]				
1984	1.608	0.173			
1987	0.005	-1.886[a]	-1.918[a]		
1990	0.542	-1.054	-1.158	0.632	
1993	0.782	-1.316	-0.881	0.903	0.256
Year	1980	1984	1985	1987	1990

*All p-values are significant at 10% level

Appendix Table 5

Executive Board Chairs: Test of Difference in Proportions (p-values)

1980					
1981	-0.029				
1985	1.320	1.359			
1987	0.401	0.440	-1.314		
1990	0.564	0.598	-0.770	0.257	
1993	0.756	0.791	-0.547	0.487	0.208
Year	1980	1981	1985	1987	1990