

Graduate School of Business

**Directors' Perceptions of Best Practice in Corporate
Governance in Australia**

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the award of the degree of Doctor of Philosophy
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Declaration

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgement has been made.

Signature:

Date:19-12-2002.....

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Abstract

In this study directors of public listed companies around Australia gave their perceptions of best practice in corporate governance. A qualitative methodology within the constructivist paradigm was used along with a questionnaire thus making it a linked study. Mechanisms to assist in demonstrating rigour in the research process were developed and implemented as part of the research. The findings presented a description of best practice in corporate governance and a definition of corporate governance. Emerging from the findings was a model of best practice that was consistent with complex adaptive systems theory. Stakeholder theory was seen to provide the mechanism for developing activities that support the best practice model.

Chapter 1 Introduction

...we must look for the [Directors] who will stick most firmly to the principle that they must always do what they think best for the [organisation] (Apologies to Plato (1955 p. 158).

This study examines directors' perceptions of best practice in Corporate Governance in Australia.

Developments during the nineteen nineties within corporate governance in Australia demonstrate changes in attitudes within corporate governance that left many of the old traditions behind. It was considered that a more disciplined and regulated approach to corporate governance was necessary. In 1991 the first edition of *Corporate Practices and Conduct* (Bosch 1993) was published and then revised in 1993. In 1995 AIMA published a set of guidelines, *Corporate Governance: A Guide for Investment Managers and Corporations*. More commonly known as the 'Blue Book', a revised version of the guidelines was released on July 24, 1997.

With more legislative and regulatory controls being introduced there were concerns that governance would be focused more on avoidance of regulatory compliance requirements than performance. Changes to Australian Stock Exchange (ASX) Listing Rules in 1996 (Factor 1996) were designed to avoid a prescriptive corporate governance program for member companies by adopting a reporting approach. This approach was meant to discourage a 'tick-the-box' approach to governance reporting. Organisations were encouraged to approach disclosure in a descriptive manner so justifying the position taken on reporting issues. In 1997 the Department of Treasury (The Treasury 1997) released the third in a series of proposals for reform under the Government's Corporate Law Economic Reform Program (CLERP) examining the duties of directors within the context of corporate governance. Developments such as these gave a clear signal to the Australian corporate world that 'best practice' in corporate governance was sought after and boards of directors were being asked to demonstrate a measure of accountability.

1.1 Operational Definitions

The title of the research contains terms that could have various and/or ambiguous meanings. These terms are 'best practice' and 'corporate governance'. The terms 'corporate governance' and 'best practice' are defined for this study as generalised

concepts removed from a specific context. The definitions below provided the broad conceptual framework in which the interviews took place. They reflect the generally adopted position at the beginning of an interview.

Corporate governance ‘... the whole system of rights, processes and controls established internally and externally over the management of a business entity’ (Lanoo 1995) as quoted by (Van den Berghe & De Ridder 1999 p. 22).

Best practice ‘Practices which can be regarded as benchmarks.’ (Van den Berghe & De Ridder 1999 p. 55).

In keeping with the methodological approach described in Chapter 3 it was judged not useful to provide definitions of these terms for participants. To do so would have the effect of possibly restricting respondents to a framework they perceived to be held by the researcher. This would result in participants’ responses being restricted to a context set in the interview rather than given in the context of their broader experience of corporate governance. Research outcomes included arriving at a constructed definition-in-use for both terms, within the context of corporate governance in Australia, as well as commenting on both definitions. None-the-less it was necessary to use these terms within a framework that would facilitate discussion to this end.

1.2 Other Definitions

<i>Director</i>	Where the word is used with no descriptor it is assumed to be inclusive of both executive and non-executive directors. Any distinction between types of directors is specified in the text.
<i>Board of Company Directors(BOCD)</i>	In the context of this study the term and abbreviation refer to the group of Directors, both executive and non executive, making up the board of a public listed company
<i>Fund Managers</i>	The term used to identify the people in senior management positions within fund management institutions.
<i>Funds Management Institutions</i>	Other terms such as Investment Management Organisations, Investment Management Institutions and Institutional Investment Companies were used interchangeably among interviewees with the researcher’s preferred terms, Funds Management Institutions or Funds Managers. These terms cover the broad group of companies that accepts money as

savings or investment and in turn provides funds to borrowers. (Butterworth 1997 p. 197).

1.3 Corporate governance as an issue

Developments within the legislative framework and the regulatory controls addressing corporate governance in Australia resulted as part of the recognition by Australian business that its reputation on the world scene needed to be improved (Bosch 1993). Among the various responsibilities of the board, the Organisation of Economic Co-operation and Development (OECD) includes compliance with applicable law and taking into account the interests of shareholders (Directorate for Financial Fiscal and Enterprise Affairs 1999 p. 9). By way of contrast an earlier description of directors' responsibilities that lists the company, shareholders, its employees, customers and creditors 'and in some degree the State' (Institute of Directors London 1961 p. 13) is a reminder that the shift to a stronger emphasis within corporate governance, on the prevailing legal framework and regulatory controls is not peculiar to Australia.

In the United Kingdom the path to reform in Corporate Governance was ratified with the Cadbury Report (1992) with much of what was proposed being sourced from the Funds Management Industry. On the world stage the Caux Round Table (1994) established a universal standard for conducting business internationally. In the United States it was the pension fund, CalPERS (Valdes 1997) that took on a watch-dog role and applied systematic and ongoing pressure to public listed companies extending the focus of their attention to international organisations as well.

1.4 The Board of Company Directors (BOCD)

In 1991 in the first edition of *Corporate Practices and Conduct* (Bosch 1993 p.5) a recommendation was made that all public companies should include in their annual reports a statement on corporate governance. Such a requirement provided a measure of transparency regarding how directors went about the performance of their corporate governance duties.

Featuring among these principles is a requirement to provide details of the composition of the board. Membership on boards of public listed companies is a mix of executives and non-executives. The model for board membership in Australian public listed companies is that of a majority of Non-Executive Directors (Bosch 1993 p. 12). The executives on a board include the Chief Executive Officer (CEO) and in many instances, the Chief Financial Officer (CFO). The Company Secretary while not a member of the board can be present at board meetings and provide advice to the board. AIMA (1997 p. 20)

proposes that in the appointment of Non-Executive Directors (NEDs) 'international best practice requires that the majority of individuals on the board should be genuinely independent'. Independence on the board provides 'an appropriate mix of skills and experience' (Bosch 1993 p. 12) and 'independent judgement to tasks where there is a potential for conflict of interest' (Directorate for Financial Fiscal and Enterprise Affairs 1999 p. 9).

In Australia the Board of Company Directors (BOCD) in the twenty first century is generally accepted as being accountable to shareholders and regulatory bodies. Baxt (2002) advises that

The yardstick by which a director may safely judge his or her own actions at times of difficulty and conflict is this: Taking account of all the circumstances, is what I propose to do in my honest belief in the best interests of all the shareholders of the particular company of which I am director? (p. 43).

The company's annual report, presented to the regulatory bodies and shareholders at the annual general meeting, is the principal instrument of accountability. The requirements for disclosure are set down in the Corporations Law promulgated as part of the Corporate Law Economic Reform (The Treasury 1997) and the ASX Listing Rules. The Australian Securities Commission (Treasurer 1997) supported change through legislation. Further initiatives of the federal government resulted in the CLERP Act of 1999 (Baxt 2002 p. xii). In July 2001 the enactment of the Corporations Act 2001 saw the referral of individual state powers concerning corporations to the Commonwealth (Australian Federal Government 2001). Baxt (2002 p. xi) comments on these reforms emphasising that 'in addition the Commonwealth Criminal Code which came into effect on 15 December 2001, places a premium on compliance.'

The most recent changes to the ASX Listing Rules were brought into effect June 30th 2002 (Australian Stock Exchange 2002). Principally the amendments addressed foreign entities making provision for the following:

the majority of foreign entities will be treated alike in terms of application of the Listing Rules, including listing rule 3.1, regardless of their home stock exchange; increase the size threshold for admission as an ASX Foreign Exempt Listing to either annual operating profit for the last three years of A\$200 million or net tangible assets of A\$2,000 million; and automatic removal of any entity which does not comply with the new requirements or convert to ASX Listing status by 1 July 2002.

The progression of changes in the regulatory and legislative requirements as they apply to corporations reflect expectations of shareholders in particular and society in general. The trend is to seek greater levels of transparency, accountability and credibility within corporate governing bodies.

1.5 Introducing the Research Question

The significance of this study is its contribution to the ongoing dialogue surrounding what constitutes 'best practice' in Corporate Governance.

Findings from the preliminary study (McCabe & Nowak 1997a) that marked the beginning of this research effort showed that among practitioners, i.e. directors, there was a desire to be informed by research. Research done in the area of corporate governance generally views the topic through the lens of a particular discipline (Tricker 1997b; Turnbull 1997a). The findings of this study make use of the lens provided by organisational theory, in particular complex adaptive systems theory.

1.5.1 Motivation for the study

Much of the literature on corporate governance makes the claim that for the greater part the failures in corporate governance are not the result of the acts of dishonest men. Hilmer (1993 p. 11) states, 'our starting point is that the vast majority of directors and managers are honest, and act in good faith'. How then do they see the whole question of corporate governance as it is performed currently. It was this question coupled with a front page news item in the *West Australian* highlighting the impact of shareholder activism (Loxley & Prior 1997 p. 1) on the proceedings of the Annual General Meeting for BankWest in Perth, June 1997, that prompted an exploratory study conducted in the latter part of 1997.

Findings from this study were presented in a conference paper (McCabe & Nowak 1997b) at the ANZAM Conference December 1997 and later published in a Working Paper (McCabe & Nowak 1997a). The exploratory study was grounded in the responses

of directors to questions about the changes that had occurred up to that time in the area of corporate governance, as well as the implications for boards in the future. Findings revealed that directors saw the wave of legislation and regulations as addressing and controlling corporate governance in a reaction to the excesses of the nineteen eighties (McCabe & Nowak 1997a). In this exploratory research, the directors surveyed, claimed that because of the legislative framework in which they found themselves operating, personal liability had overridden key factors such as informed and calculated risk-taking, along with cultivating shareholder wealth.

The findings highlighted the fact that among directors there is a wealth of experience and information that bears studying. Van den Berghe and De Ridder (1999) call for further study of corporate governance to be carried out analysing the relevant factors that are appropriate to particular contexts. Grounding this study (Glaser & Strauss 1967) in the perceptions held by practitioners, i.e. directors, was a response to such a need.

Questioning practitioners within corporate governance allowed for findings relating to best practice to be grounded in current practice. The research question was set within the combined contexts of 'corporate governance' and 'in Australia.'

1.5.2 Justification for the Study

Current study of the topic Corporate Governance has given rise to many ideas that are conflicting and ambiguous (Francis 1997; Tricker 1997b; Turnbull 1997a). Competing theoretical ideas and a great deal of disquiet from the financial press and practitioners have combined to emphasise the need for further study. The proactive moves on the part of the Fund Management Industry in promoting 'best practice' in corporate governance in the mid nineteen nineties (AIMA 1997) also highlighted the need for further study. Existing research does not deal with the clarification of issues that keep emerging in the literature (Van den Berghe & De Ridder 1999), nor is there an abundance of literature grounded in the arena of the practitioner (Turnbull 1997a).

The corporate governance issues discussed in the literature study in Chapter 2 include historical perspectives, the links between ownership and control, governance and management issues and theoretical perspectives including conformance and performance issues. These, combined with the preliminary findings, highlighted the need for further study.

1.5.3 The Research Question

What are directors' perceptions of 'best practice' in corporate governance in Australia?

1.5.4 Assumptions

There are a number of assumptions on which this study is based.

- (i) There is no one universal theory of organisational structure to inform Corporate Governance models (Charkham 1995).
- (ii) Models of Corporate Governance are more or less suited to different contexts (Van den Berghe & De Ridder 1999).
- (iii) Corporate governance will occur within the prevailing legal framework (Wymeersch 1998).
- (iv) Corporate governance operates in a market driven economy (Hilmer 1993).

1.5.5 Objectives

Objectives of the study are:

- (i) To identify 'best practice' corporate governance activities as perceived by directors of public listed companies.
- (iii) To identify behaviours within 'best practice' activities that make them best practice.
- (iv) To compare the perceptions regarding 'best practice' activities and 'best practice' behaviours in relation to the literature.
- (v) To elicit a definition of Corporate Governance from responses given by directors of public listed companies.

1.5.6 Limitations and Scope

The study has limitations that are brought about through the chosen methodology and the chosen topic. Methodological limitations are discussed in Chapter 3. The context of the study is limited to corporate governance in Australia. Data collection from among directors was limited to directors of public listed companies. There were some directors included in the study whose experiences on boards included overseas boards. In all instances the references to overseas experience was by way of comparison or contrast.

This information was not used to adjust the categories of meaning emerging from the interview data that related to the Australian context.

The data collection and data analysis for this research predates the events of 2001 and 2002 that have given rise to governance issues in both Australia and the United States. It is not the intention of this research to analyse these events or the responses that have occurred in the form of legislative and regulatory changes. Where the discussion of the findings are relevant reference is made to some of these events in order to demonstrate the point under discussion but not to analyse the event itself.

In the course of the preliminary study the findings based on interview data indicated that for the main study distinguishing between executive and non-executive director perceptions was not meaningful. The preliminary study was conducted among a group of fifteen directors of public listed companies based in Perth. Some were executive directors. Some were non-executive directors. Many held both types of directorships across various companies. At the beginning of the interview directors were asked to indicate in their responses when their role of executive director or non-executive director would alter their perspective of how corporate governance is best conducted. In spite of some detailed discussions at the beginning of the interview with regard to this distinction no director made any attempt in the course of the interview to adjust his thoughts according to one or other of the two types of directorships. This led to the conclusion that while there may be a difference in how a particular director behaves in these various roles within the board context, directors perceived no difference in how the functions of the board overall are undertaken. For the purpose of this study it was decided that making a distinction between executive and non-executive did not serve a purpose. However, as a precaution, the information on individuals and their organisations did make provision for this information to be given (see appendix A). If, in the course of the study, it became apparent that the distinction should be made there was information available to facilitate this. This was not the case. Consequently the original premise that the distinction was not necessary remained the operating model for the study.

1.5.7 Methods

The study used a variety of data collection methods within a single paradigm. This qualitative study was conducted within the constructivist paradigm using a modified grounded research approach (Glaser & Strauss 1967; Strauss & Corbin 1990; Whiteley 2000). The principal body of data was qualitative and gathered by means of interviews. Categories of meaning emerged from the interview data and from literature collected from the financial press. Content analysis, an adaptation of Glaser and Strauss (1967)

based on theoretical rules, was used to establish the categories. A questionnaire described as a construct generated questionnaire was developed from categories deemed to be robust. The questionnaire was then used to gather quantitative data for the purpose of further consolidating the robustness of the established categories. Because the assumption was of qualitative categories of meaning, the counting activity was linked to interpretive rather than empirical epistemology.

1.5.8 Ethical Issues

The interview schedule developed for the purpose of gathering the qualitative data was not designed to seek company sensitive data. However, mindful of the fact that in the course of the interviews participants may draw on information and examples that were company sensitive, confidentiality was assured in writing and in conversation prior to the interview. The letter of approach and the letter of confirmation (Appendix A and Appendix B) both address this matter. In the course of writing up this study every effort was taken to ensure that the identity of individuals and their organisations were not disclosed.

1.6 Outline of the Thesis

Chapter 1 provides an introduction to the study.

Chapter 2 is the literature review.

Chapter 3 is a detailed study of the methodological issues relating to this study.

Chapter 4 examines the methods used for data collection and data analysis.

Chapter 5 presents the findings based on the qualitative data.

Chapter 6 provides a discussion of the findings and their relationship with the stated objectives of the study. Findings are discussed in the light of the interview data, the quantitative data and literature considered in chapter 2 as well as the newly introduced body of literature.

Chapter 7 provides a discussion of the implications that are drawn from stakeholder theory, complex adaptive systems theory, the quantitative data as well as policy implications. Recommendations arising from the study are considered followed by a conclusion.

Chapter 2 Literature Review

The increasing globalization of corporations is creating a need for business leaders who can operate in a multi-cultural, constantly changing, and highly competitive business environment. Already, in some companies, the scarcity of qualified executives to fill international assignments has become a major constraint on the speed with which they can expand their global reach. Executives with global leadership capabilities will, in turn, constitute the pool from which corporate boards will recruit new board directors, given that international experience is becoming a key selection criterion (Burke & Mattis 2000 pp. 6-7).

While the study is set in the context of corporate governance in Australia it is proposed that there is a need to deal with relevant literature in a broader setting than this. The role of the corporate director is acted out in the context of global economic competition (Burke & Mattis 2000; Van den Berghe & De Ridder 1999; Hill 1997). This chapter deals with a body of literature that is relevant to corporate governance in this broader context.

The chapter will examine those issues pertaining to the governance of corporations that directly refer to the research topic. Literature informing the topic of corporate governance includes writings that deal with the governance concepts of ownership and control, agency and stakeholder theories, performance and conformance in governance and current definitions of the term corporate governance. With the focus of the research being on 'best practice' in corporate governance a section of this chapter will also examine a selection of 'best practice' literature.

2.1 Antecedents of Modern Governance

The phenomenon that has come to be called corporate governance has been practiced much longer than the term has been in use. Tricker (1997b) considers that Plato's dialogue dealing with Guardians of the Republic and the governance of the Greek City States (Plato 1955) describes activities associated with the contemporary concept of corporate governance. Francis (1997) suggests that the corporate form of business enterprise, with multiple owners of a structured entity, can trace its origins back to Roman times at least. Others (Berle & Means 1932) view the growth of corporate enterprises in the seventeenth and eighteenth centuries as the precedent for modern corporate governance. The lack of unanimity regarding its historical emergence combined

with the generally adopted assumption that in practice it has been around longer than the term, gives further support to the idea that most of the beliefs underpinning corporate governance practices were based on 'taken-for-granted' views that later took on the form of institutionalised thought (Whiteley & McCabe 2001).

Over time a multitude of entrepreneurial efforts brought together a range of resources for the purpose of sharing in trade and profits. Colonial expansion in the eighteenth and nineteenth centuries and the advent of the industrial revolution were significant influences in the development of the corporate enterprise of the twentieth century (Berle & Means 1932). The trend towards multiple owners in the ever widening physical sphere of the corporate enterprise contributed to recognition of the requirements of governing and directing as part of the corporate structure (Fayol 1916; Smith 1776). The organising principles that underpin the governance of the modern corporate entity have come to be identified as corporate governance (Francis 1997; Bosch 1995; Hilmer 1993).

The term, corporate governance, appears to emerge in the literature of the nineteen eighties, becoming an established field of literature in the nineteen nineties. The results of a comprehensive literature search described here do not provide conclusive proof of Monks' and Minow's claim (1996) that the term does not appear in literature until around 1985, but they do support the claim. A comprehensive literature search for book titles with the term 'corporate governance' yielded 'zero finds' for the period prior to 1988. From 41 items for the period between 1989 and 2000 all except one item was published after 1991. A similar search strategy of journal literature yielded 'zero finds' for the period prior to 1979 and only one between 1979 and 1983. The number of finds gradually increased as the search period was extended into the late nineteen eighties. The highest yield occurred in the mid to late nineteen nineties.

2.2 Modern Governance

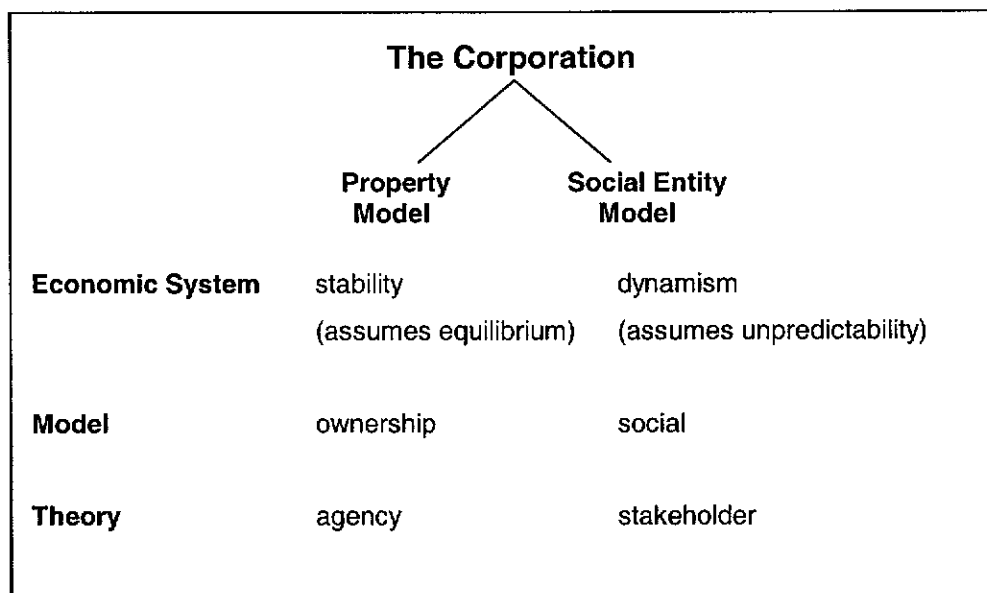
Rumelt, Schendel and Teece (1994) describe the established paradigm for organisations and their internal systems as featuring characteristics of control, predictability and measurability. Francis (1997) describes this model as the ownership model (see Table 2.1). Francis (pp. 37-38) claims that 'British, American and Australia courts are challenging the view that a company is the private property of its shareholders.' He quotes William T Allen, Chancellor of Delaware County as proposing that there are two inconsistent views of the corporation being applied.

In the first conception, the corporation is seen as the private property of its owners (stockholders); its purpose is to advance the purpose of its owners (usually to increase their wealth) and directors are seen as the agents of owners whose function is faithfully to advance the financial interests of owners.

The second conception sees the corporation not as the private property of the stockholders, but as an institution; a form of social compact among various constituencies. This social entity conception sees the purpose of the corporation as not individual but social (Francis 1997 p. 37).

The two views (see Table 2.1) have differing theoretical orientations. The concept of the organisation as a social entity (Francis 1997) assumes diversity that is readily open to new influences. The social model is oriented around stakeholder theory (Freeman 1999 ; Frooman 1999; Donaldson & Preston 1995; Freeman 1984). This is distinct from the property view of the organisation dependent on the tenets of agency theory (Worsham, Eisner & Ringquist 1997; Gomez-Mejia & Balkin 1992; Holmstrom 1979).

Table 2.1: Two contrasting models of the corporation



Source: (Adapted from Francis, 1997 pp. 21-23; 37-40).

Francis (1997) explores implications of the social model quoting further from William T Allen.

Surely contributors of capital (stockholders and bondholders) must be assured a rate of return sufficient to induce them to contribute their capital to the enterprise. But the corporation has other purposes of perhaps equal dignity: the satisfaction of consumer wants, the provision of meaningful employment opportunities and the making of a contribution to the public life of its communities. Resolving the often conflicting claims of these various corporate constituencies calls for judgement, indeed calls for wisdom, by the board of directors of the corporation. But in this view no single constituency's interest may significantly exclude others from fair consideration by the board (Francis 1997 p. 37).

Francis (1997) talks about the property model (agency theory) and the social entity model (stakeholder theory) being in competition with each other.

We do not know which conception - the entity or the property model - will prevail in the future. On the one hand, the growth of the global company, virtually stateless, with a diffuse constituency may push the pendulum towards a property model... On the other hand, the growth of public pension funds, such as CalPERS and industry or union funds, where trustees directly represent the beneficiaries' long term objectives, may push the pendulum towards the entity model (Francis 1997 p.40).

2.3 The Watershed Era

Corporate governance writers (Francis 1997; Useem 1996; Bosch 1995; Renton 1994; Pease & McMillan 1993) refer to the nineteen eighties as the catalyst or turning point for corporate governance. This is particularly so for Australia, the United Kingdom and the United States. The 'excesses of the eighties' (Pease & McMillan 1993 p. 3) is a term used to describe various corporate governance behaviours of the nineteen eighties. Behaviours ranged from the unchallenged sovereignty of the executive class (Useem 1996 p. 15) to excessively high rewards, in the form of executive salaries and returns on shares that were inconsistent with levels of performance (Bain & Band 1996 p. 1). These excesses and unchallenged indiscretions were often generated and even justified by the 'boom' characteristic of the stock markets around the globe (Hilmer 1993 p. 4). Hilmer sees the poor corporate governance of the time as both a product of the boom times and the principle underlying cause of the losses of that period. The watershed era of the nineteen-eighties is identified by the events more than by the writings.

In reaction to the excesses of the nineteen-eighties legislative and regulatory controls concerned with boards and their activities were revisited. This resulted in a swing towards promoting a greater emphasis on conformance to legal and regulatory requirements. By the mid nineteen nineties writers (Francis 1997; Bosch 1995; Bosch 1993; Hilmer 1993) claim that the preoccupation with conformance issues was exacted at the expense of an equally important feature of governance, that of performance. A closer examination of the elements of governance and how it works produced ideas that provided a diversity of thinking that had not previously been experienced in the field of corporate governance literature.

2.4 Diversity in the Nineteen Nineties

At the beginning of the nineteen nineties the emphasis was placed on responsibilities of due care and diligence. This was demonstrated in the type of regulatory controls and legislation (Factor 1996) that were introduced at that time. In Australia this emphasis was further demonstrated in 1995 with the first printing of the Blue Book (AIMA 1997). The Corporate Law Economic Reform (The Treasury 1997) then followed by the Corporations Act 2001 (Australian Federal Government 2001) were further efforts to continue the process of review, assessment and revision of corporate governance practices throughout the decade of the nineteen nineties and into the new millennium.

At the same time there was a reassessment of the need for boards to focus on performance issues (Hilmer 1993) rather than allowing conformance issues and 'black letter' law mentality to drive the board's processes and functions (Pease & McMillan 1993). There was a call for directors to cease the cycle of preoccupation with mainly conformance or mainly performance and bring the pendulum to a steady holding pattern in which the two functions could be given their place in corporate governance activities (Hilmer 1993).

In the same period attention is also focussed on the two differentiating models of the corporation, the property model and the social model. While Francis views them as opposing models he (1997) evaluates the situation claiming that the decision will ultimately be made by society on a political platform and refers to Drucker (1986).

As Peter Drucker has observed, the most spectacular defeat of a hostile takeover bid was not achieved by a management with a strong performance record. It was the defeat of a bid for Phillips Petroleum in Bartlesville, Oklahoma, when the directors and management organised a 'constituency' by mobilizing the employees and the community, and the town itself rallied to the defense of its major employer (Francis 1997 p. 40).

Unlike Francis, Eisenhardt (1989) and later on Donaldson and Preston (1995) propose that the two theories can support and inform each other. Eisenhardt (1989 p. 71) argues for the use of agency theory along with complementary organisational theories in order to better capture the greater complexity of the issues involved. Donaldson and Preston (1995 p. 65) argue that stakeholder theory is best understood by viewing it as a convergence of theories that can be normatively based on the evolving theory of property, on the basis that property rights and human rights are intrinsically linked. Freeman (1999) argues against the idea of developing convergent theories and promotes the use of divergent narratives in order to understand organisations better in stakeholder terms.

Toss out the Donaldson and Preston typology, and you do not need convergent stakeholder theory. Understand the central role of instrumental claims, and you do need a kind of philosophical pragmatism laid out by Wicks and Freeman (1998) that avoids the old distinctions between "true by definition" and "true by experience," between normative and descriptive, and between deontological and consequentialist. Instrumental stakeholder theory per Jones (1995) is here to stay - if we do not fit together narratives that are better understood when they are left alone (Freeman 1999 pp. 1-4).

As another indicator of the diversity of the corporate governance literature written during the nineteen-nineties, a range of definitions of corporate governance emerged in this period. Despite being a global issue the local context influences the way it is handled. One definition may reflect the ways of operating that prevail in Germany or Japan - for example the type of relationships that banking institutions have with organisations (Van den Berghe & De Ridder 1999; Turnbull 1997b). Other definitions can be based on the prevailing unitary model as in Australia or alternatively the dual model as in the continent. For directors who are also on boards of companies in other countries where a different definition prevails such diversity requires an ability to recognize the prevailing model or definition at work and a capacity to adapt readily.

2.5 Ownership and Control

Bosch (1995) describes The Hudson's Bay Company, formed in 1670, as the oldest joint-stock company still trading in the English speaking world. In the seventeenth century the assumption was that ownership of business enterprise generated control. It was assumed that stockholders were the decision-makers.

When limited liability was introduced in Britain in 1855 this practice was reflected in the new legislation. The active participation of shareholders in the affairs of their companies was assumed, and the law formalised their substantial role and considerable responsibilities. The Joint-Stock Companies Act of 1844 had called on directors to 'conduct and manage the affairs of the company' but it was presumed that the directors would be selected from among the shareholders and that the secretary, clerks and servants that they employed would perform subordinate roles (Bosch 1995 p. 2).

In 1776 Adam Smith, recognised that there was in fact a separation of ownership and control in the way corporations were owned and managed. His writing signals the emergence of an issue that would become the focus of much of the twentieth century writings.

The trade of a joint stock company is always managed by a court of directors. This court, indeed, is frequently subject, in many respects, to the control of a general court of proprietors. But the greater part of those proprietors seldom pretend to understand any of the things of business of the company... The directors of such companies, however, being the managers rather of other people's money than their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partner in a private co-partnery frequently watch over their own (Smith 1776 p. 323).

The industrial revolution played a significant part in the evolutionary process for companies. At the same time, in the context of colonization, global expansion occurred. Developments in communications and transport gave some companies the competitive edge (Bosch 1995). Technological advances in the latter two spheres were significant enough to contribute to the expansion of corporate empires. However, they were not sufficiently advanced to solve the administrative challenges that immediately arose with widespread and diverse locations for operations.

By the turn of the [19th/20th] century the leading companies needed the investments of thousands of shareholders to support them and inevitably the new investors were geographically spread and most could not be personally known to each other. It became physically impossible for the shareholders of major companies to assemble in the same place, and even if they had they would have been too numerous for an effective meeting to be conducted (Bosch 1995 p. 4).

With entrepreneurial interests spread across the globe it was often left to those in the role of policy making and administration of the enterprise to make decisions while others were absent in remote areas of the globe. The corporation with a small number of investors in control of the company and the strategic decisions made within the enterprise, evolved into the large multi-national corporation of the late twentieth century, with investors spread geographically across the globe (Bosch 1995).

Tricker, (1997a) claims that Fayol (1916) also wrote about the distinction between management (*Administration Industrielle*) and governance (*Administration Generale*) in 1916 in his *Administration Industrielle et Generale - Pervoyance, Organization, Commandement, Coordination et Controle*. Tricker explains that administration ‘in-the-industry’ or ‘in-the-company’ (management), as distinct from administration ‘over-the-industry’ or ‘over-the-company’ (governance) was a distinction in meaning that was lost in the translation to English.

Berle and Means (1932) claim proxy voting to be a direct legacy of the diversification of shareholding. The ‘proxy vote’ was introduced as a way of dealing with problems associated with the multiplicity and diversity of owners (Bosch 1995). The view that ownership equated with control gave weight to the belief that power of representation was an important part of retaining that control. The practice of voting by proxy allows individual shareholders to allocate their vote(s) to an assigned person. The power of the proxy vote is in the hands of the individual holding the proxy, to vote at his/her discretion (White 2000 p. 36).

Berle and Means (1932) argued that in effect it was the right to vote by proxy that weakened the shareholder power. For example a chairman holding a substantial number of proxy votes can secure a vote in favour of the board, even on the most contentious of issues. Berle and Means (1932) saw voting power as being relinquished into the hands of a small number of individuals or groups, thus rendering the remaining group relatively powerless.

.... For the most part the stockholder is able to play only the part of the rubber stamp ... The separation of ownership and control has become virtually complete. The bulk of the owners have in fact almost no control over the enterprise, while those in control hold only a negligible proportion of the ownership (Berle & Means 1932 p. 83).

The separation of ownership and control was a key issue in the events that have come to be recognised as typifying the 'watershed era' of the nineteen eighties. In these instances the principal shareholder was often originally the owner of the corporation. Here the notion of ownership equating with control overrode the custodial role of the director. A disastrous consequence of this was evidenced in business transactions that involved misappropriation of shareholder funds or severe losses incurred by other shareholders to offset board decisions. In Australia Coles Myer corporation was the focus of what became known as the Yannon incident involving the then Coles Chairman, Solomon Lew (Price 2000).

The Yannon deal involved an indemnity given by Coles Myer to Yannon (a shelf company owned by investment bankers Credit Suisse First Boston, which advised Coles Myer on the deal) to cover any losses from Yannon's purchase of \$25 million worth of preference shares in Premier Investments, a company holding Coles Myer shares controlled by Mr Lew (Price 2000).

Multiple and diverse ownership models removed ownership as a dimension from the function of decision making. Decision making was in the hands of the executive. The outcome was an apparent paradox where owners were no longer in a position to exercise control in any decisive way (Berle & Means 1932). It was this phenomenon that gave rise to the 'science of management' (Weber 1978; Taylor 1929) bringing with it what Bosch (1993 pp. 6-14) calls the managerial revolution.

An attempt to segregate directors and their functions from managers and their functions ignores the phenomenon of the board that has a significant membership of those who are company executives. This is the phenomenon of the executive director and is distinguished from non-executive directors. In handing down his famous decision on the AWA case The Honourable Justice Rogers made this observation:

The division of responsibility between Directors, and auditor and senior management, is not sufficiently clear. The focus is almost entirely on defining the responsibilities of directors. Yet the commercial reality is that, in these days of conglomerates and perhaps trans-national conglomerates at that, the opportunity for non-executive directors to exercise meaningful control over management is as slight as the ability of ministers to control a vast bureaucracy (Rogers 1992 p. 274).

Walters and Halliday (1997), along with Reimann (1989) argue that while corporate philosophy statements uphold the principle of commitment to foster shareholder wealth, in practice corporations employ management policies which are directed to outcomes promoting short term profit maximisation as opposed to long term shareholder wealth. Short term profit maximisation results in actions to invest when the price is low and exit as the price rises. This strategy is opportunistic and typically described in the investment world as the 'penny dreadful'. The long term shareholder typically remains a shareholder with the corporation throughout the various phases of the business cycle.

Institutional investors add a layer of complexity to the issue of determining shareholder interests and they are in a position to influence policy decisions (Finkelstein & Hambrick 1996). Van den Berghe and De Ridder (1999) see the smaller private pension funds as being more likely to look for short term profits while the larger public pension funds are more likely to exercise policies displaying investment loyalty over the long term.

The rise of shareholder activism as evidenced by groups such as CalPERS in the USA, the Australian Shareholders Association (ASA), Investment Services and Financial Association (ISFA), and Institutional Shareholders Services in Australia could suggest that there is a relationship re-emerging between ownership and control. However Bosch (1995 pp. 86-87) is of the opinion that it is more likely to be a brief romance rather than a lasting remarriage. The here-to-stay status of a third party, in the form of management significantly alters the relationship. Attempts to explain the dynamics of the management-governance-shareholder relationship gave agency theory a place in governance literature (Holmstrom 1979).

2.6 Agency Theory

An agent relationship is one in which a principal party makes use of a second party for the purpose of utilising the specialised skills or knowledge of the second party (Gomez-Mejia & Balkin 1992). Agency theory addresses this relationship as in a contract (Eisenhardt 1989).

Literature dealing with the moral hazard associated with inequitable distribution of information in the principal-agent relationship was explored in the 1960s and 1970s under the label of risk sharing (Holmstrom 1979; Wilson 1968). Building on the risk sharing literature and underlying assumptions that the rational individual will act from a position of self interest and seek to maximise material returns (Worsham, Eisner & Ringquist 1997), agency theory included the problem associated with co-operating parties having differing goals (Jensen & Meckling 1976). These assumptions are the basis of the two problems agency theory purports to address (Eisenhardt 1989). The first problem occurs when the goals of the two parties are in conflict. The second problem is the difficulty associated with monitoring the activities of the contracted specialist.

Agency theory coming from the economics literature that dealt with risk sharing has been transported into organisational theory (Buchholtz, Young & Powell 1998). Worsham critically examines the core assumptions of agency models.

In an attempt to model political activity, agency theorists borrow from economics concepts such as rationality, a focus on individuals striking bargains and effecting exchanges in a market-like setting, and notions of equilibrium (Worsham, Eisner & Ringquist 1997 p. 3).

The adoption of agency theory, grounded in positivism, was a further reinforcement of the scientific management approach. Eisenhardt describes agency theory thus,

From its roots in information economics, agency theory has developed along two lines: positivist and principal-agent ... Positivist researchers have focussed on identifying situations in which the principal and agent are likely to have conflicting goals and then describing the governance mechanisms that limit the agent's self-serving behavior (Eisenhardt 1989 p. 59).

Those aspects of the corporate organisation that attract the application of agency theory typically include any aspect of the organisation where interaction reflects the basic two party agency relationship with common activities but differing goals and attitudes towards risk (Eisenhardt 1989). Some such areas are compensation, ownership and financing structures as well as board relationships. Eisenhardt (1989 p. 72) argues that perspectives provided by agency theory grounded in economics are empirically valid when combined with other perspectives that are grounded in the 'more mainstream empirical work of organisational scholars'.

Within agency theory there are implications for both management and BOCDs. Berle and Means (1932 p. 125) described the management of the corporation as a 'set of agents running a business for a set of owners'. Managerial power was legitimised with the burgeoning of managerial theories. The BOCD was also viewed as the agent for shareholders acting on their behalf in dealings with management. Never-the-less with effective power vested in the hands of management the board was relegated to the role of an acquiescent rubber stamp (Buchholtz, Young & Powell 1998; Gomez-Mejia & Balkin 1992; Mace 1971; Berle & Means 1932). This was the predominant operational framework for large organisations in the watershed period of the eighties, to which Hilmer (1993) refers when he talks about poor corporate governance being the principal cause of continuing poor performance. Hilmer explains,

*Three factors in particular appear to contribute to many boards' continuing acceptance of marginal corporate performance. These are: *Confusion over board role and responsibilities, in particular a failure to balance the duty of the board to ensure high levels of performance with its duties to oversee conformance by management with an increasing body of rules and regulations.*

**Weak director selection processes.*

**A lack of processes to keep performance at the centre of the board's agenda (Hilmer 1993 pp. 4-5).*

Such a view of managerial power is concerned with the information and control architecture of the organisation (Bruton, Fried & Hisrich 2000) and is dependent on an analysis of power (Guthrie & Turnbull 1995). This perspective is dealt with in literature as far back as Shannon (1949) and then Ashby (1968) writing on information theory. Turnbull (1997b) developed what he termed cybernetic analysis. Stakeholder theory (Freeman 1984), emerging in the nineteen eighties challenged the tenets of agency theory.

2.7 Stakeholder Theory

Rowley (1997) claims there is evidence of stakeholder concepts in the orthodox theories of systems theorists and corporate planners. He describes stakeholder theory as a 'handmaiden theory' whose concepts are used to support the arguments for other theories. The break with established thinking comes with Freeman's (1984) seminal work on stakeholder theory. Freeman integrated stakeholder concepts into a coherent construct giving stakeholder theory a focus for its own development. The term 'stakeholder' was

originally used to describe the 'stockholder' as the only group to whom management needed to be accountable (Freeman 1984). The current use of the word, based on Freeman's work (1984) includes all those who have a stake in the objectives of the company (Sternberg 1997). This has resulted in the theory being adopted or refuted by the range of disciplines informing the business context. Writing in 1995 Donaldson and Preston (1995) refer to Freeman's work in 1984 as a landmark and identify 'about a dozen books and more than 100 articles with primary emphasis on the stakeholder concept.' They list specifically several significant examples published in the period 1989 through to 1992. They observe that multiple forms of the theory have since been presented and applied using different methodologies, evidence and criteria for evaluation.

Unfortunately, anyone looking into this large and evolving literature with a critical eye will observe that the concepts stakeholder, stakeholder model, stakeholder management, and stakeholder theory are explained and used by various authors in very different ways and supported (or critiqued) with diverse and often contradictory evidence and arguments. Moreover, this diversity and its implications are rarely discussed - and possibly not even recognised (Donaldson & Preston 1995 p. 1).

An assumption underpinning stakeholder theory is that persons or groups with intrinsic and legitimate interests in substantive aspects of the corporate activities of an organisation are stakeholders (Donaldson & Preston 1995) even though Freeman (1984) proposed that there are situations where one can identify illegitimate stakeholders. The ability of stakeholder groups or individuals to take action is the over-riding concern in the power theory proposed by Pfeffer (1972; Pfeffer & Leong 1977; Pfeffer & Salancik 1978) and is also reflected in Hawley and Williams' (1997) political model. Further development of the power/dependence concepts within the framework of stakeholder theory has allowed for the integration of network analysis with resource dependence theory (Rowley 1997). Implementation of any of the four types of stakeholder influence strategies - direct withholding, indirect withholding, direct usage and indirect usage - (Frooman 1999 p. 191) is determined by the power relationship that exists between the stakeholders and the firm.

Donaldson and Preston (1995 p. 65) propose that stakeholder theory contains three distinct but mutually supportive theories i.e. descriptive/empirical, instrumental and normative. These theories ask the questions: 'what happens? what happens if? and what should happen? respectively (Jones 1995). Donaldson and Preston claim that of these three theories it is the normative base that is fundamental. Jones takes the instrumental theory as identified by Donaldson and Preston and further examines the underlying

assumptions of the instrumental theory as a synthesis of the stakeholder concept, economic concepts, behavioural science and ethics. The normative ethics approach to the stakeholder theory emerges consistently as fundamental to stakeholder theory (Jones 1995).

Freeman (1999) argued against the idea of stakeholder theory presented as a convergent stakeholder theory (Jones & Wicks 1999) based on the Donaldson-Preston typology (Donaldson & Preston 1995) of normative/instrumental/descriptive theories. Freeman [, 1999 #1252 p. 3] proposed that stakeholder theory, viewed as a form of instrumental analysis would naturally be embedded in the real world where there are many narratives. In making this point he says,

Consider the following theses:

**The instrumental thesis of stakeholder theory: To maximize shareholder value over an uncertain time frame, managers ought to pay attention to key stakeholder relationships.*

**The normative thesis of stakeholder theory: Managers ought to pay attention to key stakeholder relationships.*

While Eisenhardt (1989) argues for compatibility between agency theory and stakeholder theory, Francis (1997) sees the differences between the two as being located in the foundational paradigm of each. Debate continues with writers such as Jones (1995), Donaldson and Preston (1995), Jones and Wicks (1999) and Freeman (1999) contributing to the further exploration of ideas that flow from the implications of stakeholder theory.

2.8 Conformance and Performance Issues

Entering the nineteen nineties a range of literature was published dealing with the conformance/performance dimensions of governance (Useem 1996; Bosch 1995; Charkham 1995; Hilmer 1993; Carver 1990). Regardless of which model or theory of governance is invoked there are two operating principles that need to be consistently applied. The two operating principles concern directors' obligations that are *conformance issues* and others that are *performance issues*. Conformance issues promote a regulatory model of operation for directors and focus on the way in which things are done. Performance issues promote a less legalistic view and focus is on the output or overall performance of the corporation.

As a result of events of the 'watershed era' there is evidence that corporate governance was being driven primarily by concerns for performance issues. Reaction among BOCDs to the excesses of the nineteen eighties brought conformance to the fore. At the beginning of the nineteen nineties, the tendency was for attention to conformance issues to dominate the activities of BOCDs at the expense of attention to performance issues (Francis 1997; Bosch 1995; Hilmer 1993). Hilmer (1993 p. 14) claimed that the cause of many corporate disasters is the failure of governance processes to impact positively on the performance of an organisation. Calls for a refocus on performance were expressions of a desire among directors to return to a more performance driven approach to governance (McCabe & Nowak 1997b).

The board's key role is to ensure that corporate management is continuously and effectively striving for above-average performance, taking account of risk. This is not to deny the board's role with respect to shareholder protection (Hilmer 1993 p. 33).

Donaldson (1999) has examined this 'three-period shift' from the perspective of organisational portfolio theory. He claims that 'corporate governance is primarily driven by performance and this, in turn, is driven by the portfolio properties of the organisation in its interaction with the economic environment.' In linking this to the changes in board dependence and independence throughout the nineteen eighties and nineteen nineties he suggests that these changes will be a constant reflection of the extent to which the organisation is seen to be performing or not performing. When organisational performance is high the executives of the organisation are seen to be trustworthy hence we have executive boards. When the organisational portfolio is performing poorly as a result of economic risk factors there is a swing to the independent board.

Another argument arising from this perspective suggests that independent boards are more likely to be risk averse and so prone to be driven by conformance issues. Similarly, executive boards operating in an upward moving economy are more prone to be driven by performance issues. The basis of this entire approach is the claim that corporate governance is driven by organisational portfolio performance (Donaldson 1999 p. 139).

Renton (1994) sees the shifting focus to performance as being linked to shareholder activism and the shareholders obvious interest in shareholding values. On the other hand Francis (1997) points to the various stock exchange listing rules around the world as the prime mover in shifting the emphasis to conformance issues.

The black-letter regulatory approach to corporate governance - reflected in the listing rules and in the focus of the many recent conferences on corporate governance - ignores the primary responsibility of corporate governors in creating value to enhance their company's and their country's competitive position. As a result, boards will become driven even more by conformance, rather than by performance (Francis 1997 p. 6).

The import of the debate for this study is that neither the conformance nor the performance perspective can be taken for granted. While the pendulum may swing from one point of focus (performance) to another (conformance) and back again (Donaldson 1999) neither can be ignored. Portfolio properties of the organisation interacting with the economic environment (Donaldson 1999), shareholder activism (Renton 1994) and changes in regulatory control mechanisms (Francis 1997) are considered here as affecting the conformance/performance issue. The discussion is not conclusive but Donaldson's arguments take into account a range of issues consistent with the argument put forward for diversity evidenced in the nineteen nineties.

2.9 Definitions of Corporate Governance

Van den Berghe and De Ridder (1999 pp. 20-21) have explored a range of contemporary definitions. They claim that it is not easy to define the term without ambiguity. However the range of definitions that they provide can be broadly organized into two groups. One group defines corporate governance in terms of processes and outcomes. The second group is broadly focused on relationships.

Both of these perspectives are reflected in Van den Berghe and de Ridder's (1999 p. 21) claim that 'corporate governance has to do with the governance of companies and the responsibility for this governance.' Governance of companies implies the processes are at work while taking responsibility implies that relationships are at work. A definition such as this does little to throw light on the contextual application of governance (Finkelstein & Hambrick 1996).

It is the context in which corporate governance operates that provides the diversity of definitions. Even when the definitions that Van den Berghe and de Ridder provide are grouped there is ample evidence of this diversity within each of the groupings.

2.9.1 Definitions with a process/outcomes focus

Focusing on the processes and/or outcomes is the basis for grouping the definitions below. The context within which each operates demonstrates different applications of the

principles being expressed. Sources used by Van den Berghe and De Ridder (1999) that provide definitions with the processes and/or outcomes focus are the Belgian Banking and Finance Commission (1997), and Gomez (Gomez 1997). Other writers whose definitions fit within this category include Carver (1990), Hawley and Williams (1997) and Francis (1997).

The definition provided by the Belgian Banking and Finance Commission (Belgische Commissie Corporate Governance van de Beurs van Brussel 1997) is not limited to public listed shareholding companies but it does limit the corporate governance concept to shareholding companies. Bain and Band (1996) and Carver (1990) do not support a definition that limits governance to a function within a share capital company. Carver (1990), working principally but not exclusively from a 'not-for-profit' perspective, describes all boards as bearing ultimate accountability for organisational activity and accomplishment.

Gomez (1997) describes the European two-tiered governance model that more effectively separates and distinguishes between management and governance.

Management ... the more or less rationalised mechanical organisation of the hierarchies and powers to achieve efficiency once the objectives have been defined ...; governance ... the choice of objectives and the means to achieve them in order to check that they have actually been achieved in the interests of the parties of the enterprise (Gomez 1997) as quoted by (Van den Berghe & De Ridder 1999 p. 21).

Corporate governance in Australia is based on the United Kingdom model as distinct from the European model. The single or unitary board is the operational model for companies listed on the Australian Stock Exchange (ASX). Gomez' definition of corporate governance in supervisory terms may suit a European styled two tiered board but is more likely to be rejected by a single tiered or unitary board where the division between policy and governance is not always clear (Van den Berghe & De Ridder 1999).

Hawley and Williams (1997 p. 208) describe governance from a finance view of the modern corporation as 'the rules and institutions by which agents are constrained to act'. The principal concern is with processes but by implication the outcome is generation of wealth.

Francis (1997 p. 4) describes the term governance using its Latin derivative 'to steer' (a ship). Writing principally about an Australian and New Zealand context he elaborates and discusses the term with reference to two of the governance functions. He describes how it

is necessary to prevent the ship (the company) from straying into dangerous waters (concerned with conformance - processes), while at the same time guiding it to its chosen destination (ensuring performance - outcomes).

2.9.2 Definitions with a relationship focus

Returning to the sources used by Van den Berghe and De Ridder (1999) the group of definitions focusing on relationships include Verbeke (1996), Lanoo (1995) and Cadbury (1996). Other sources providing definitions that demonstrate a focus on relationships include Wolfson (1984), Bosch (1993), Nexia International (1996) and Tricker (1997b).

Verbeke (Van den Berghe & De Ridder 1999 p. 21) describes corporate governance as 'the structured interplay between the various players in a company.' There is an assumption that processes are in place but the emphasis is on the exchanges between the various 'players' with an even deeper assumption at work that all members of the company are connected in some way to the board. Lanoo (Van den Berghe & De Ridder 1999) is even more explicit as to the nature of this connection.

... the whole system of rights, processes and controls established internally and externally over the management of a business entity with the objective of protecting the interests of all the stakeholders (Van den Berghe & De Ridder 1999 p. 22).

It is this definition that has been used to provide the broad conceptual platform for interviews and the operational definition (see 1.1) at the beginning of this study.

Forster (1996) quotes Wolfson (1984), writing around the time that corporate governance begins to appear in the literature, and describing governance as dealing with 'how best to control corporate management'. Bosch (1993 p. 9) working within the Australian context also describes the relationship as principally one of exercising control. The control aspect of the relationship is also at the foundation of Cadbury's (1996) definition provided by Van den Berghe and De Ridder (1999 p. 22). Nexia International (1996) expands on this 'control' definition and is specific about where these relationships are developed within the company.

corporate governance is the way in which companies are directed and controlled, and encompasses issues such as the responsibilities of directors, and the relationship between shareholders, directors and auditors (Nexia International 1996 [i]).

Tricker (1997b) provides the definition used by the editorial board of *Corporate Governance An International Review*. It is predicated on a view of the organisation that is consistent with Francis' (1997) view of the organisation as a social entity.

We define corporate governance broadly as being concerned with the exercise of power over every type of corporate entity – whether in private or public ownership, large or small, simple or complex; whether family firm, subsidiary or associate company, joint venture in a strategic alliance, government business enterprise, or non-profit enterprise (Tricker 1997b p. 179).

Grouping these definitions as focused on processes and outcomes, and then relationship, does not diminish the variations that are evident from one definition to another. The contextual settings provide the variety and diversity and ensure relevance. Bain and Band (1996) suggest that the virtual organisation style of operating and networking will possibly require a new type of corporate governance so providing new definitions. This does not necessarily mean that old definitions will be lost. However as in all evolutionary processes there is a tendency for the philosophy that underpins the principles of organising to be disassociated from the newly developed way of doing things (Whiteley 1999). The range of definitions currently used point the way to a future where there may very well be definitions that cannot be grouped as readily.

2.10 Best Practice

The conventional view of the concept of best practice as being synonymous with benchmarking or measuring one's processes, products and services against those deemed to be the best. Van den Berghe (1999 p. 55) describes best practice as 'practices which can be regarded as benchmarks.' The ASX (Australian Stock Exchange 1998) used the same concept of best practice when referring directors to the publications *Corporate Practices and Conduct* (Bosch 1993) and *Corporate Governance: A Guide to Investment Managers and Corporations* (AIMA 1997) as providing guidelines for best practice in corporate governance in Australia. The purpose of both publications was to set standards or benchmarks.

The AIMA Guidelines were written to 'establish the framework for a sound approach to corporate governance from the point of view of the investment community' (1997 p. 7). Bosch's *Corporate Practices and Conduct* was published to provide advice 'as to what is acceptable conduct and practice and to spread and reinforce high standards of corporate conduct' (1993 p. 5). The Cadbury Report's Code of Best Practice (Cadbury 1992) used a

benchmark approach to best practice (Francis 1997). In the United States CALPers included among the six global principles for corporate governance a requirement that boards develop codes of best practice that define the director shareholder relationship (Valdes 1997). The operational framework adopted for the purpose of interviews for this research used this conventional interpretation of best practice as a starting point for discussions (see 1.1). Both the AIMA Blue Book (1997) and Bosch's (1993) *Corporate Practices and Conduct* were used as a point of reference when required.

Within the conventional approach to best practice there is an underlying assumption that exemplary results achieved by one organisation can be replicated by another organisation using the same processes, products, and services (Evans 1994). Evans (1994 p. 36) advises that self-knowledge and self analysis are necessary before examining and analyzing the methods of another organisation.

The conventional view of best practice as a benchmarking exercise begins to break down once it is agreed that what has been effective in one context will not be equally effective in another context (Evans 1994; Warburton 1993). Francis (1997) develops this argument even further;

It would be foolish, therefore, for one country to import another country's practices, or to declare that certain practices were best practice, without regard for the historical and cultural background and the accepted roles of directors (Francis 1997 p. 50).

At the beginning of his book *Future Direction, The Power of the Competitive Board*, Francis (1997 p. 4) asks the question: 'What constitutes best practice for our directors?' The question is inclusive of directors' activities, 'right conduct', skills and experience and reward systems. Francis links 'desirable, if not best, practice' to performance-oriented directors. Donaldson's (1999) portfolio theory is consistent with this focus. The implication is that best practice in the board room can only be evaluated in the context of the overall organisational performance.

Moving even further away from the benchmarking concept of best practice, Warburton (1993) argues for a best practice concept that is constantly changing and pushing new boundaries.

... a successful best practice program involves a fundamental acceptance of the need for continuous improvement, the need for international competitiveness and the need to be better than best (Warburton 1993 p. 61).

The need 'to be better than best' assumes that best practice is not a static phenomenon. There is always somebody endeavouring to do 'better' than those who have already been determined as 'the best'. Warburton claims that for such best practice to be achieved there needs to be a best practice culture permeating the entire organisation.

The approach that the OECD has taken in developing the principles of corporate governance reflects a view of best practice that assumes a state of ongoing change. The principles themselves are developed to provide guidance for those involved in developing good corporate governance. However the writers of the document point out that these guidelines 'are not intended to substitute for private sector initiatives to develop more detailed best practice in governance' (Directorate for Financial Fiscal and Enterprise Affairs 1999 p. 2).

In spite of the benchmark nature of the guidelines that are available, questions about best practice in corporate governance in Australia continue to be raised. The objective of this research is to examine the perceptions of best practice held by directors of public listed companies in Australia. It is anticipated that one of the outcomes of the research will be to make a contribution to the field of literature focusing on this aspect of governance.

Chapter 3 Research Methodology

This chapter contains a study of the methodological issues in this study. The research design and methods used in the study are presented. There is particular emphasis placed on rigour as the 'criteria of goodness for qualitative research' (Marshall & Rossman 1995 p. 146). This researcher claims to make a contribution to the development of the methodology by examining what Marshall refers to as the criteria of 'goodness', or alternatively what Guba (1990) calls 'soundness' in qualitative research, as it applies to this research. A range of criteria for establishing 'goodness' or 'soundness' of qualitative research is discussed. Criteria selected for application to this research are further discussed with regard to the ways in which it is claimed they are demonstrated.

The methodological issues dealt with in this chapter include assumptions underlying qualitative research, limitations, methodological considerations, the grounded research approach used in the study and aspects of the research design. The discussion of rigour as applied to the interview process includes an examination of the exploration process, the development of the interview schedule, use of a mapping instrument for the approach to the interview and a self-debriefing strategy for the interviewer. Criteria for establishing the trustworthiness and authenticity of the study are also discussed. The discussion concerning criteria for qualitative research considers a range of approaches to the task. These various approaches were developed in the literature during the nineteen eighties and nineteen nineties. A case is made for the position that is taken in dealing with the criteria for 'goodness' applied in this research. A construct generated questionnaire is discussed its place in the research making this a linked study that uses both qualitative and quantitative methods.

3.1 Assumptions Underlying Qualitative Research

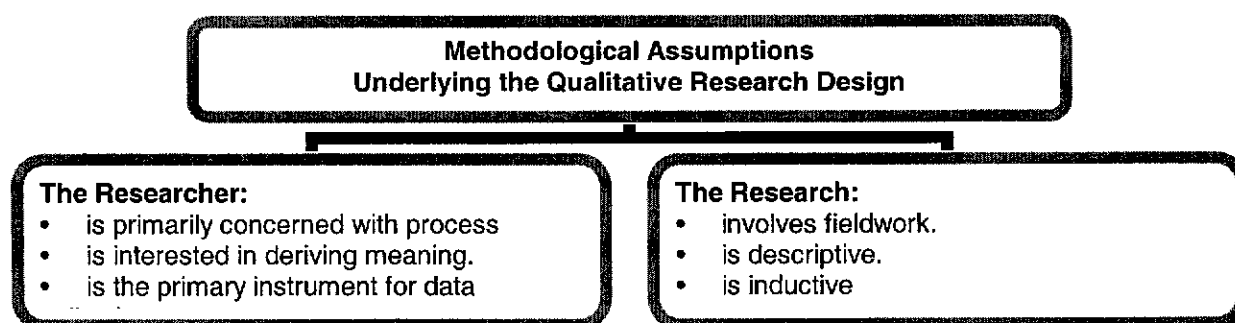
All research design is based on methodological assumptions that have their origins in the philosophical underpinnings of a research approach (Manning 1997 p. 94). One way of identifying this is to present the paradigm assumptions that drive the research and use examples to illustrate the paradigmatic assumptions.

The following set of assumptions are developed from Charmaz (2000), Lincoln and Guba (2000), Smith (1990) and Glaser and Strauss (1967). The themes that recur when these theorists write about constructivist enquiry are; emergence and the rejection of a priori theory as a basis for deductive analysis, systematic procedures that recognise both co-

construction of reality and researcher-as-instrument of data collection, an orientation to inductive and generative analysis and, importantly, evaluative procedures for judging the value and rigour of research.

Assumptions are first and foremost about the methodology of the research (Kincheloe & McLaren 2000; Creswell 1994; Eisner 1991). Merriam (1988 pp. 19-20) proposes six assumptions that apply in this approach (see Table 3.1). These assumptions enable the hermeneutics of the research design and provide a basis for the subjectivity of the work.

Table 3.1: Methodological Assumptions



(Developed from Merriam, 1988 pp. 19-20.)

3.2 Methodological Considerations

The focus of this research is *directors' perceptions of best practice in corporate governance*. The arguments from the literature (Van den Berghe & De Ridder 1999; Turnbull 1997a; Tricker 1997a) demonstrate that Corporate Governance is not a socially stable phenomenon. Rather it is a set of personal constructs overlaid by legal and regulatory institutions. Furthermore, the study of perceptions held by directors of best practice in corporate governance is clearly subject to a collection of individual perceptions. The researcher is an active agent in the inquiry, conducting interviews and communicating directly with participants.

A constructivist and interpretivist approach such as this requires a qualitative methodology. This has informed the methods of data collection. These are primarily individual interviews supported by relevant literature. The constructivist approach is designed to incorporate multiple views of, and practices within, corporate governance. This assessment of the task indicates that the research falls well within the constructivist paradigm Denzin and Lincoln cite (1994).

The constructivist paradigm assumes a relativist ontology (there are multiple realities), a subjectivist epistemology (knower and subject create the understandings), and a naturalistic (in the natural world) set of methodological procedures. Findings are usually presented in terms of the criteria of grounded theory (Denzin and Lincoln 1994 pp. 13-14).

The **multiple realities** are to be found in the three different data sources. These sources are, directors both executive and non-executive (those who are corporate governance practitioners), managers of institutional investment companies (those who represent shareholder interests more acutely), and the financial press (those who observe and provide critical comment). From within each of these groups individuals view the reality of corporate governance from the context of an operational position, thus providing multiple constructs of reality.

The **knower and subject create the understandings** through the interaction between the researcher (the would be knower) and the participants (subject). The procedures are set in **the natural world of corporations**, without the artificial controls of an experimental setting. There are no controls placed on the events or proceedings that impact on the participants in their natural setting during the course of the research.

Ontologically this study is about the 'nature of being' of corporate governance activities. Epistemologically the task is one of interpretation. The researcher is involved in interacting with the participants and interpreting their perceptions that represent multiple constructs of reality. These multiple perceptions will contribute to a constructivist view where the contradictions emerge, become interdependent and are a unity (Lincoln & Guba 1985).

Interpretive interactionism asserts that meaningful interpretations of human experience can only come from those persons who have thoroughly immersed themselves in the phenomenon they wish to interpret and understand (Denzin 1983). Among writers (Cassell & Symon 1994; Schwandt 1994; Strauss & Corbin 1990; Erickson 1986; Denzin 1983) the term phenomenology is used to locate the interpretivist approach within a context. When Denzin (1983 p. 133) claims that 'interpretive interactionism asserts that meaningful interpretations of human experience can only come from those persons who have thoroughly immersed themselves in the phenomenon they wish to interpret and understand' this reference is to the phenomenological perspective of a study. The phenomenological perspective of this study is established by the claim that the study is set in the phenomenon of corporate governance.

Marshall and Rossman (1995 p. 82) describe phenomenology as 'the study of experiences and the way we put them together to develop a worldview'. This assumption of a commonality within the human experience (Patton 1990 p. 70) is the position taken within a phenomenological study. In this study directors who were interviewed were on more than one public listed board. Their experiences of best practice on boards have been gleaned from past and present board membership. There was an assumption that there was something to be learned from the combined experience of board membership that each director brought to the discussion. Directors, in responding to the interviewing techniques drew on this overall experience, spreading their examples over time and space. Likewise the sought for objective was a shared view of the world of corporate governance as experienced by these directors. In this respect the phenomenological nature of this study is established in the essence of the shared experience that directors contributed to, in their descriptions of what makes for 'best practice in corporate governance'.

A generative inquiry uses the data itself in order to arrive at constructs of meaning (Lincoln & Guba 1985 p. 333). The interpretivist and phenomenological aspects of this study require a research approach that is generative. A generative approach allows this research to develop in response to the data as it emerged from the preliminary study and as the data is gathered. The principles guiding a grounded research approach are well suited to this study. 'The grounded theory approach uses a systematic set of procedures to develop an inductively derived theory about a phenomenon' (Parry 1998 p. 89).

3.3 A Grounded Research Approach

Grounded research was a term coined by Whiteley (2000) to justify a modified grounded theory for the business setting. Grounded theory was developed by Glaser and Strauss in the sixties (Glaser & Strauss 1967). They reacted to the trend among researchers at the time to concentrate on hypothesis testing, validation and verification (Locke 1996). They took an approach which promoted intellectual creativity for the purpose of developing theory (Turner 1981 p. 225). In contrast to grand theory, grounded theory is middle range theory generated from data and demonstrated from within data (Glaser & Strauss 1967 p. 5) that is drawn from a social unit of any size, large or small (p. 21).

Theory generated from data and demonstrated within data can be questioned regarding similarities and differences between the emergent theory and other more general theories in the field. Martin and Turner (1986 p. 143) claim this aspect of grounded theory allows some elements of the locally based grounded theory to 'be applicable to a wider context'.

Conversely, more general theories can be enriched 'as they are evaluated in the light of questions drawn from the new, firmly based, locally grounded theory.'

Locke (1996 p. 243) raises a concern that while many will cite the constant comparison of data there is no reference to theoretical sampling. Locke's main criticism, where Grounded Theory is being cited, is that either there is selective use of limited aspects of the theory or that other methodological sources dominate the analytical process.

Theoretical sampling is the process of collecting data for comparative analysis, and it is especially intended to facilitate the generation of theory. Beyond the decisions concerning the initial collection of data, the process of data collection is controlled by the emerging theory. ... Put differently, the universe of data is gradually delimited through the use of theoretical criteria. ... The basic criterion governing the selection of comparison groups for discovering theory is their theoretical relevance for furthering the development of emerging categories (Conrad 1978 p. 103).

In this research theoretical sampling that occurred when analysing data in the preliminary study guided the selection of data sources that contributed to establishing the triangulation of data sources. During the preliminary study financial managers were identified as a reference group readily used by directors in their discussions about corporate governance. In the same way the financial press was also identified as an added source of information.

Developing theoretical sensitivity allows the researcher 'to generate concepts from data and to relate them according to the normal models of theory in general, and theory development in sociology, in particular' (Glaser 1992 p. 27). Altheide (1999 p. 33) describes the process as selection of material 'based on emerging understanding of the topic under investigation'. Martin and Turner (1986 p. 147) describe this transition from data to concept as a movement across levels of abstraction. It is at this higher level of abstraction that the researcher identifies under a label, an accumulation of incidents. These incidents are then used later to develop a statement of 'the concept's nominal definitions, theoretical meaning, or substantive content.' The pursuit of theoretical sensitivity in the course of this research is explored in chapter 6 (see 6.1).

3.3.1 Guiding Principles of Grounded Research Approach

Turner (1981) and Glaser (1978) both confirm that the 'orthodoxy of approach' should not be imposed on those using grounded theory. Turner (p. 226) makes it clear that in some ways his own use of the theory differs from developments by Glaser. However it is

necessary to be familiar with the guiding principles and to be prepared to adhere to them in principle.

Whiteley (2000 pp. 6-7) argues that in the business setting often the process of institutionalisation has laid the basis for conceptualisation to a degree that contaminates the use of pure Grounded Theory (Glaser & Strauss 1967). In such settings there is still a need to make use of aspects of Grounded Theory (Strauss & Corbin 1990; Glaser & Strauss 1967). Whiteley (2000) proposes as an alternative that a modified *grounded research approach* is more appropriate.

3.3.2 Applying the Grounded Research Approach

This research makes use of the generative aspects of Grounded Theory (Glaser & Strauss 1967) using both theoretical sampling and content analysis. The analytical approach includes the development of theoretical sensitivity and comparison of data allowing for numerous iterations. The iterative process permits meaning to be arrived at via discovery and emergence in such a way as to be 'provisional, capable of reforming and reshaping as interaction proceeds' (Whiteley 2000 p. 5).

3.4 Research Design

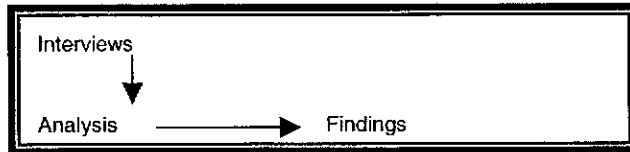
The research design is presented in a schema (Figure 3.1). In the introduction to this chapter (3.0) it is claimed that rigour surrounding the interview process is to be addressed. This discussion is dealt with in this section. In particular the development and exploration of the interview schema (3.5, 3.5.1, 3.5.2, 3.5.3 and 3.5.4), planning of the interview (3.6) and the approach (3.6.1) and debriefing of the interview context (3.6.2) are examined.

Figure 3.1, outlines in schematic form the research process. This study (Stage 2 and Stage 3) emerged from the findings of the preliminary study (Stage 1).

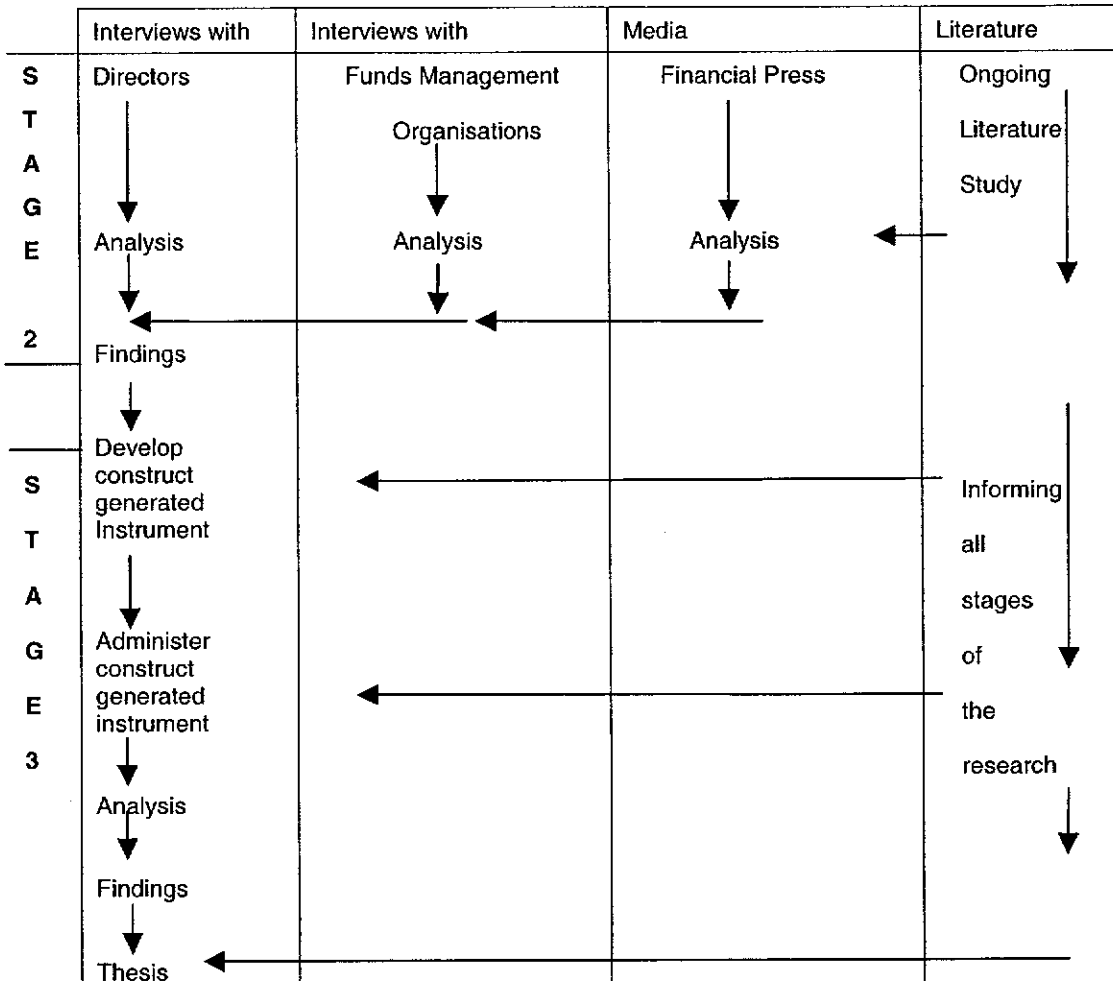
Figure 3.1: Research Design

PRELIMINARY STUDY

STAGE 1



MAIN STUDY



Consistent with the methodological assumptions underpinning this qualitative study, it was set within the constructivist paradigm (Schwandt 1994). The principal data collecting strategy was the qualitative research interview (King 1994). This was supplemented by a quantitative instrument generated from constructs of meaning emerging from the interview data. The interview data came from two sources, directors of public listed companies and senior executives in the fund management industry. Further qualitative data was gathered from the financial press.

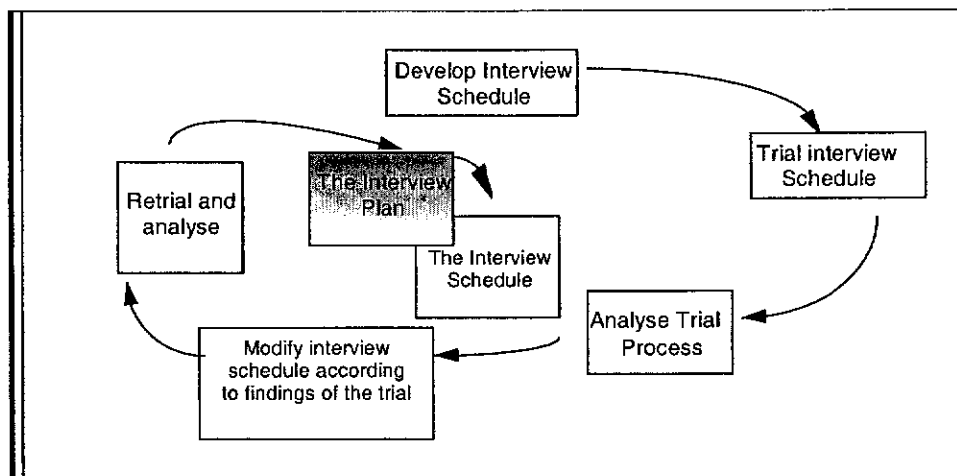
As noted above, another dimension of the study is the use of the questionnaire. This type of quantitative instrument is usually associated with a positivist approach. In such studies the survey instrument is used to test the strength of an hypothesis from a sample of respondents. The purpose and application of the questionnaire in this study differed somewhat from the traditional objectivity of positivism. In the course of analysis the categories of meaning that emerged as robust categories were judged to be 'quasi facts'. The questionnaire was used to gauge to what extent these 'quasi facts' can be viewed as worth considering as 'facts'. A linked study such as this takes emerging categories out of the context of the interviews in which they were originally embedded allowing them to stand as categories of meaning within the broader context of the research.

The construct generated instrument was not designed to be the equivalent of Conrad's (1978) operationalising for the purpose of testing in quantitative research. There is no hypothesis being tested. It is designed to provide a further examination of the categories that emerged from the interview data and gives a clear indication of whether these categories are transferable to the wider community of directors of public listed companies. Testing the strength of these categories in an objective and quantitative study is a focus for a separate and distinctively different study.

3.5 The Hermeneutics of the Exploration Process

In the first instance the development of the interview schedule was produced from the data emerging from the grounding experiences of the researcher. The following hermeneutic diagram (Figure 3.2) presents the exploration process used in this study.

Figure 3.2: The exploration process



The exploration process depicted in Figure 3.2 is one of development, trial, analysis, modification and retrial with the next step dependent on the outcome.

Meaning, appropriateness, language and time were considered to be aspects of the interview conversational exchange that could circumvent the purpose of the interview. This was particularly true of meaning, appropriateness and language if there was any ambiguity or confusion as to the intent of the interviewer. Exploring for these dimensions gave some measure of assurance that in the conversational exchange within the interview process 'shared meaning' was addressed and sought.

The proposed interview schedule was explored for *meaning, appropriateness, language* and *time*. The exploration was done holding a one on one discussion with directors or fund managers who were potentially prospective participants. This was then followed with a debriefing that centred on the way in which the individual anticipated responses and approached the questions posed. Timing was also explored but was not a matter for discussion.

3.5.1 Exploring for meaning

Meaning as part of the verb *to mean* is defined in the *Macquarie Dictionary* (Bernard 1982 p. 647) 'to propose or intend to do or say'. This dimension was examined so as to establish whether or not the interview questions allowed the participant to comment on the aspects of the research question that they thought were important. Participants in the exploration process were asked to comment on whether or not the questions put to them enabled them to say what they wanted to say about the research topic.

3.5.2 Exploring for appropriateness

Appropriateness is derived from the adjective *appropriate*. The definition provided in the *Macquarie Dictionary* (Bernard 1982 p. 46) is 'suitable or fitting for a particular purpose'. The particular purpose or end of the interview was to explore the context of corporate governance from the perspective of directors of public listed companies. This dimension was included in the exploration process to establish whether or not the interview questions and the responses they drew provided appropriate information that contributed to the research context. The participants were asked to comment on how the questions allowed them to talk about what they understood to be the purpose of the interview.

3.5.3 Exploring for language

Language is defined in the *Macquarie Dictionary* (Bernard 1982 p. 586) as ‘a basis of communication and understanding’. This dimension was examined so as to confirm the common usage of the terms used in the interview schedule within the context of corporate governance in Australia. The participants were asked to comment on the language that was used.

3.5.4 Exploring for time

Time was measured by recording how long the exploration interview took. Assessing the time for the interview did not include time given to discussion about *meaning, appropriateness or language* that followed the exploration interview. This assessment would allow the interviewer to indicate how much time would be required when requesting interviews in the future.

3.6 Planning the Interview

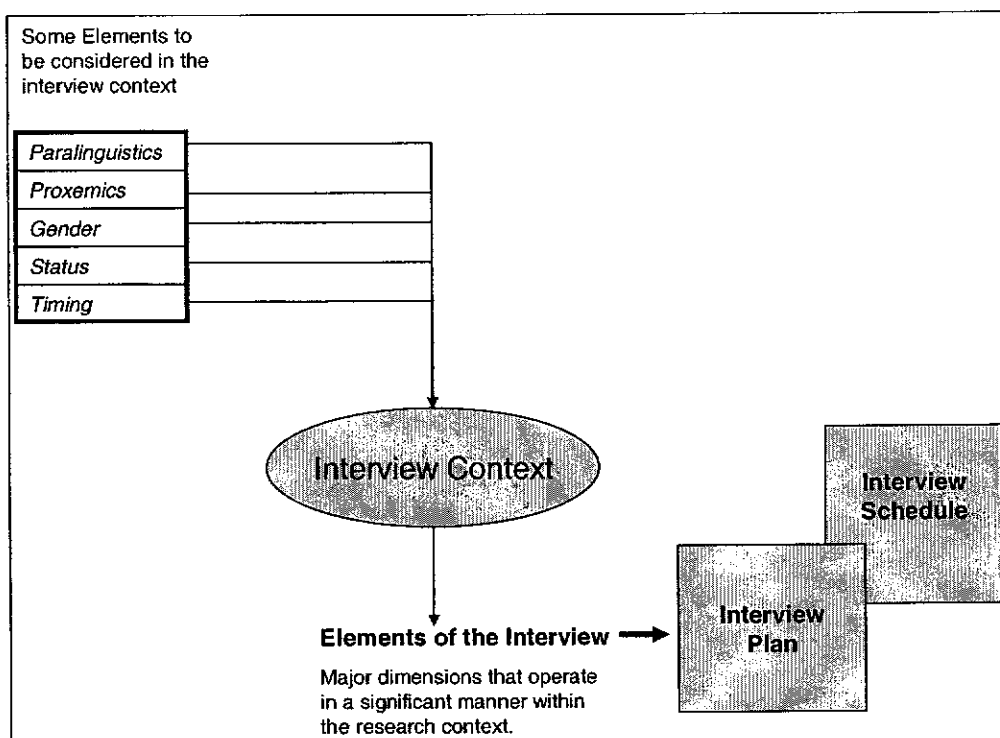
The qualitative researcher seeks to understand both the world as it is, and the social world at the level of subjective experience (Guba & Lincoln 1994; Burrell & Morgan 1979 p. 29). Examining how others view a reality and the subjective meaning (Weber 1978) they apply to that perceived reality requires acknowledging that different individuals will draw that meaning from different experiences. Such an examination is facilitated by what we call conversation or what Brand (1990) terms as communicative action. The qualitative research interview is a communicative action. In the course of the interview there is a responsibility on the part of the interviewer to ensure that the message sent by the interviewee retains its meaning in the message received by the interviewer.

Habermas (1984) views this subject-subject relationship as communicative rationality focussing on achieving a shared understanding.

The focus of investigation thereby shifts from cognitive - instrumental rationality to communicative rationality. And what is pragmatic for the latter is not the relations of a solitary subject to something in the objective world that can be represented and manipulated but the intersubjective relation that speaking and acting subjects take up when they come to an understanding with one another about something. In doing so, communicative actors move in the medium of natural language, draw upon culturally transmitted interpretations, and relate simultaneously to something in the one objective world, something in their common social world and something in each's own subjective world (Habermas 1984 p. 392).

The pursuit of this shared understanding guides the approach to the interview situation. It also requires that explicit and implicit features of the interview context that contribute to the meaning conveyed in the course of the interview be taken into account. These features impact on the message sent in varying degrees. How does the researcher deal with these unspoken dimensions of the interview? Similarly how does the researcher account for the way the interview is then translated into meaning in the light of these added dimensions? These questions are addressed to some extent in the discussion that follows regarding the approach to the interview and the debriefing after the interview.

Figure 3.3: A Model for Approaching the Qualitative Research Interview



Source: Adapted from (Whiteley et al. 1998).

3.6.1 Approach to interview to account for context

The process for approaching the qualitative interview in Figure 3.3 (Whiteley et al. 1998) guided the development of the interview plan and the interview schedule. It was possible to anticipate some of the elements of the interview process that would become evident in the interview context for each participant. It was expected that these would include gender, proxemics, paralinguistics and timing. It was not clear to what extent the element of status would become evident. Given that in the case of the interviews with directors there was an inbuilt propensity for status to be an active element, the researcher was aware of the need to monitor for its impact on the interview dynamics.

As part of the approach to the interview attention was given to the way in which the interview schedule was designed so as to facilitate in depth discussion. The technique of exploring issues in depth is largely dependent on the skill of the interviewer in pursuing parts of the conversation that are ambiguous or in any way unclear or lacking in information. This skill is essentially the ability of the interviewer to get a participant to develop initial thoughts and expand on them. Pursuing a thought and extrapolating it within the interview protects the interviewer from having to make assumptions about the meaning behind a statement. This step in the interview process also requires that the interviewer knows when to 'drop' a line of questioning. Over emphasis on an obscure detail makes it easy for the respondent to lose sight of the real focus of the interview and so begin to interpret questions in a different context from what was originally established at the onset of the interview. It was important to design the interview schedule in a way that would assist in the use of such interview techniques.

3.6.2 Debriefing on interview context

It was not sufficient to approach the interview situation with an awareness of the various non-verbal dimensions that could be at work during the course of the interview. It was also necessary to show, after the event, which dimensions were recognised as being operative, how these had been demonstrated and what impact if any they had on the information received.

To meet this need this researcher developed a strategy of self-debriefing. This usually meant that as soon as the interview was completed the researcher wrote notes addressing the dimensions as needed. A set of dimensions was used as a basic list and if others presented themselves then they were added. Analytical notes were added contributing to

the theoretical sampling process. The debriefing notes addressed the dimensions shown in Table 3.2.

Table 3.2: Dimensions addressed in debriefing notes

Name	
Gender	
Setting	
Proxemics	
Paralinguistics	
Timing	

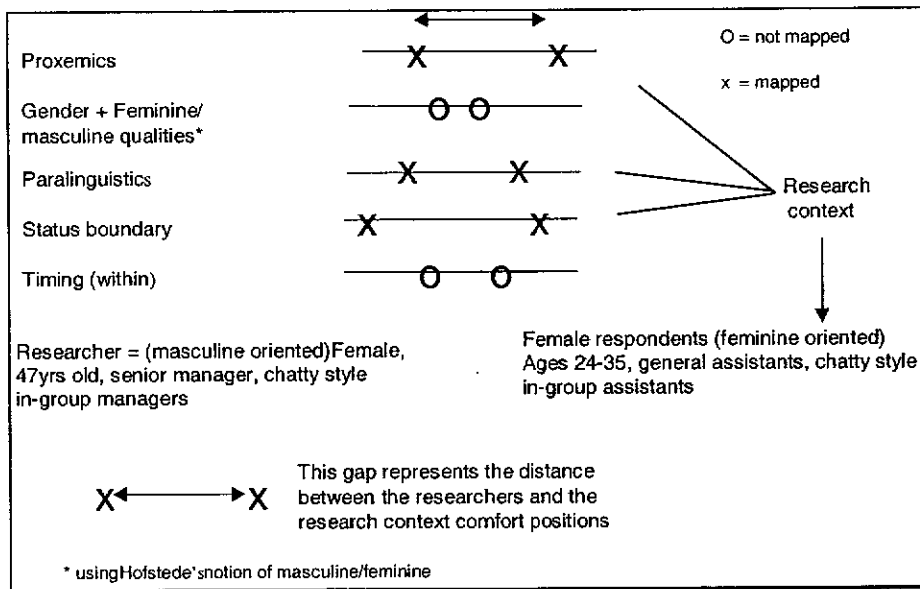
There are several advantages to this strategy. In keeping with the Frierean philosophy (Friere 1985; Friere 1970) that underpins the communal aspect of qualitative research (see 3.7.2) the interviewer needs to cultivate in the participant a ‘sense of special worth.’ It also frees the interviewer from writing up notes during the interview and allows for a fresh approach to the next interview. A third advantage of this strategy was its contribution to attaining the critical subjectivity or reflexivity of which Lincoln (1995) writes.

... such reflexivity is absolutely required to understand ones psychological and emotional states before, during and after the research experience. Such reflexivity or subjectivity enables the researcher to begin to uncover dialectic relationships, array and discuss contradictions within the stories being recorded, and move with research participants towards action (Lincoln 1995 p. 283).

The next question facing a researcher is how to make use of this information once it is recorded. A mapping device was developed by Whiteley (2000) specifically to meet this need. When the interview context contributes to the interpretation of words spoken in the interview the mapping device provides evidence for an apparent alteration to the interpretation the interview text suggests in isolation.

Familiarity with the device can limit the amount of note taking that needs to be done during the debriefing. However it should not be assumed that the mapping exercise is all that debriefing entails. Critical subjectivity and the ‘purging’ effect of a thoughtful debriefing cannot be done within the mapping device. These are matters of self-scrutiny and require deliberation.

Figure 3.4: Mapping the Qualitative Research Interview



Source: (Whiteley, McCabe & Buoy 2000)

3.7 Criteria for Qualitative Research

Criteria for qualitative research is a developing field of literature. Lincoln and Guba (Lincoln 1995; Guba & Lincoln 1989; Lincoln & Guba 1986; Guba & Lincoln 1981; Guba 1981) have explored this aspect of qualitative research both together and separately. In this section these developments are discussed. The criteria that apply to this research are identified. There is also reference to criteria that do not apply to this research.

When the knowledge sought is viewed from the perspective of the interacting individuals (Lincoln & Denzin 1994) it is necessary to transcend 'the restricted horizon of scientific theory and its methodology' (Gadamer 1989 p. 552). When Guba (1981) developed criteria for 'trustworthiness' in naturalistic inquiry it was in response to editors and reviewers of journals wanting to know how to judge the rigour of such studies (Lincoln 1990 p. 70). The new 'trustworthiness' criteria were developed by Guba (1981) and were distinguished from the 'criteria for rigor that were applicable to the conventional paradigm' (Lincoln 1990 p. 71).

Garrat and Hodkinson (1998 p. 515) argue that from a hermeneutic perspective criteria can only be located in the interaction between research findings and the critical reader of those findings. While one can concur with their view that it is both illogical and pointless to predetermine criteria against which qualitative research should be judged, prior to conducting the research, the question of rigour is one with which the researcher should be intimately involved.

Denzin (1989 p. 234) describes sophisticated rigour as a commitment to making 'interpretive schemes as public as possible'. The use of the word rigour that is adopted in this research is in keeping with Denzin's claim for transparency of process (Lincoln 1990 p. 71). Schwandt (1997b p. 4-20) claims that the evaluator makes a value judgement in which the evaluator's values 'become the basis for the judgement'. This researcher argues that in the same way that the researcher is involved in interacting with the participants and interpreting their perceptions (Lincoln & Guba 1985), criteria for rigour can also be demonstrated in the interaction between the research process and the architects of the process, the researcher and the participants. The onus is on the researcher to apply rigour to the process and demonstrate its application with clarity that is devoid of ambiguities (Rodwell & Byers 1997).

The following discussion considers the development of a range of criteria that are proposed as suitable for assessing criteria for 'goodness' or 'soundness' in qualitative research. Two sets of criteria are selected to demonstrate the application of rigour in the course of this research. One set of criteria mirrors the conventional requirements for rigour in research (Guba 1985; Guba 1981) and the other set is described as 'emerging criteria' (Lincoln 1995).

3.7.1 Trustworthiness in the Constructivist Paradigm

There is a view among some qualitative researchers that in order to satisfactorily demonstrate rigour the criteria for qualitative research should approximate positivist terminology (Creswell 1997 p. 197). This strategy is seen to facilitate the acceptance of qualitative research by the positivist community. This is reflected in Guba's (Lincoln 1990; Guba & Lincoln 1989; Guba 1981) earliest attempts in developing the criteria for trustworthiness. In substituting the constructivist ontology and epistemology for that of the conventional paradigm grounded in positivism, the trustworthiness criteria (Guba & Lincoln 1989) were parallel to the conventional criteria (see Figure 3.3). Lincoln and Guba (1985 p. 328) working together have proposed various techniques that were then viewed as evidence of the appropriate criteria.

Table 3.3: Parallel Criteria for Positivist and Constructivist Research

Positivist	Constructivist
Internal validity	Credibility
External validity	Transferability
Reliability	Dependability
Objectivity	Confirmability

Credibility

Techniques for identifying credibility are prolonged engagement, persistent observation, peer debriefing, negative case analysis and progressive subjectivity (Guba & Lincoln 1989 pp. 236-238). In this research member checking and tracking of data are evidence of the prolonged engagement and persistent observation.

Member checking involves the referring back to participants in order to ensure that the research has remained true to the ideas of the primary source. Member checking was done with a request to participants to review the transcript of the interview and indicate their satisfaction with the accuracy of the transcript. At a later stage some interviewees were selected to participate in the exploration process as part of the development of the construct generated questionnaire.

Peer debriefing (Guba & Lincoln 1989) involves consultation with a group of fellow researchers involved in qualitative research. In these sessions emphasis is placed on the process rather than the content. Peer debriefing provides an opportunity to view the research process critically particularly when it becomes progressively more subjective. As a member of a group of researchers conducting constructivist research this researcher was able to make use of the peer debriefing strategy, particularly throughout the analysis stage. Progressive subjectivity is demonstrated as the interpretation of the data focuses on complex adaptive systems theory and by implication excludes other possibilities.

Transferability

The main technique a researcher considers for the purpose of transferability is 'thick description' (Geertz 1973). This is achieved by providing as detailed a description as possible about the time, the place, the context and the culture. When these have been addressed thoroughly it enables other researchers to assess the findings and conclusions that are presented and determine what they can then make use of by transference (Potter & Wetherell 1987).

Dependability

Dependability is best demonstrated by documenting the logic of process and method decisions (Guba & Lincoln 1989 p. 242). Diligent attention to documentation facilitates the setting up of the 'audit trail' (Rodwell & Byers 1997; Guba & Lincoln 1989 p. 243).

The 'audit trail' is the tool for establishing dependability (Table 3.4). Table 3.5 contains reference to the components of the audit trail for this research.

Confirmability

Confirmability is the confirmation of the data and interpretations. This is done by tracking the raw data, documentary evidence, interview summaries, member checking, data analysis and the logic used to arrive at the interpretations. This technique is the 'confirmability audit' as identified in table 3.4 (Rodwell & Byers 1997; Guba & Lincoln 1989). Table 3.5 contains reference to the components of the confirmability audit for this research.

3.7.2 Authenticity in the Constructivist Paradigm

It was always evident that the qualitative research community would not be content with simply satisfying the positivist community. Merriam [, 1988 #1028] comments,

Every researcher wants to contribute knowledge that is believable and trustworthy. Since a qualitative research is based upon different assumptions and a different worldview than traditional research, most writers argue for employing different criteria in assessing qualitative research (Merriam 1988 p.183)..

Guba and Lincoln (1989 p. 245) in their later work on criteria for qualitative study claim that, 'Relying solely on criteria that speak to methods, as do the parallel criteria, leaves an inquiry vulnerable to questions regarding whether stakeholder rights were in fact honored.' They then proposed 'authenticity criteria' on the basis that they have their origins in the basic assumptions of constructivism. These criteria (see Table 3.4) were fairness, ontological authenticity, educative authenticity, catalytic authenticity and tactical authenticity (Guba & Lincoln 1989 pp. 245-250).

Lincoln (1990 p. 72) explains that 'in constructivist inquiry, process is only one means of determining the utility, responsibility, and fidelity of the inquiry. Action and understanding were other components of the judgements regarding the goodness of any given inquiry.' However the basis for judgement is in the afterlife of the research in so far as the understanding and action on the part of respondents/others are products or consequences of the research. In the case of this research these criteria can be adequately addressed after the research has been written up but not in its present form. Dissemination of findings is not part of the process written into this thesis.

Table 3.4: Assessment Criteria for Trustworthiness and Authenticity Within the Constructivist/Naturalistic Paradigm

TRUSTWORTHY		AUTHENTICITY	
CRITERIA	TOOLS	CRITERIA	TOOLS
Credibility	Prolonged engagement Persistent observation Peer debriefing Negative case analysis Progressive subjectivity	Fairness	Stakeholder identification and open negotiation of recommendations and the agenda for subsequent action. Member checking
Transferability	Thick description		
Dependability	Documenting logic of process and method decisions. Audit trail	Ontological Authenticity	Improvement in the individual/groups conscious experiencing of the world.
Confirmability	Tracking data and evidence of analysis. Confirmability audit	Educative Authenticity	Enhancing the understanding and appreciation of others' constructs.
		Catalytic Authenticity	The extent to which action is stimulated
		Tactical Authenticity	Empowerment to act
(Developed from Lincoln 1990 p. 72; Guba and Lincoln 1989 pp. 246-250; Lincoln 1985 p. 328.)			

The basic tool for demonstrating the authenticity criteria is a commitment by the researcher to the respondents. The ethical and moral aspects (Manning 1997; Schwandt 1997b) of this are at times problematic for the researcher (Pitman & Maxwell 1992; Guba & Lincoln 1989). Because the knowledge generated in constructivist research emerges from the shared knowledge of the participants there are claims that there should be a commitment to also share the credit for emergent knowledge. In this research participants sought confidentiality regarding identity and assurance was given. The analysis is done in terms of *aggregate analysis* as described by Denzin (1989) where 'individuals are selected for study, not groups, relationships, or organizations.'

Authenticity also requires a commitment to subsequent action or a political impact (Lincoln 1990 p. 72; Orpwood 1985 p. 298). Lincoln's (1995 pp. 284-285) view is that this is a commitment to altering for the better the respondents' view of the world as well as their appreciation of the view that others hold. The problem for the researcher attempting to implement this commitment, lies in the fact the political impact is not necessarily demonstrated in the course of the research but is a futuristic feature of the research.

Lincoln's Emerging Criteria for Quality

In Lincoln's (1995) later work, a discussion of the *Emerging Criteria for Quality* shifts the focus of evaluation from criteria that 'relate almost solely to the inquiry community' (p. 279) to criteria reflective of the responsibilities the researcher has to those who make themselves vulnerable by participating in the interactive, subjective process of qualitative research. As a result of the ongoing debates concerning methodological issues in general and criteria for evaluation in particular Lincoln (1995 p. 277) proposes a set of three new commitments for the new paradigm. The first commitment is 'to new and emergent relations with respondents'. The second commitment is 'to a set of stances, professional, personal and political - towards the uses of inquiry and toward its ability to bring about action'. The third commitment is 'to a vision of research that both enables and promotes social justice, community, diversity, civic discourse, and caring'. Within the framework that these three commitments provide Lincoln identified emerging criteria as *positionality, community, voice, critical subjectivity, reciprocity, sacredness and sharing of perquisites of privilege* (pp. 280-285).

Positionality

Positionality is an epistemological concern requiring that contextual grounds are fully disclosed viewing 'detachment and author objectivity as barriers to quality, not insurance of having achieved it' (Lincoln 1995 p. 280). Prior to each of the interviews there was communication, both oral and written between the researcher and the participants. Apart from establishing descriptive details that assisted in defining the position of contributors regarding organisations, industries and size of companies there was also the opportunity for participants to demonstrate the distinctive and unique nature of what they had to offer to the research. The more distinctive and unique the offering the more important it was that that particular perspective be included in the research.

Community

Community as arbiter of quality reflects the fact that research takes place in a community and is addressed to a community (Lincoln 1995 p. 280). The nature of the relationship forged between the researcher and those who participate in the inquiry makes for criteria that are both at the same time formal and informal and create a communal dimension of their own. Lincoln (1995 p. 281) and Manning (1997) place this aspect of qualitative research within the Frierean philosophy 'teacher-student with students-teachers ... becoming jointly responsible for a process in which all grow' (Friere 1970 p. 53). In the research interviews the researcher highlighted the role of the participant as the one who is

informed and cultivated the idea that the researcher was there to learn. The iterative nature of the research methodology also meant allowing explanations and discussions that cover material that had been dealt with in other interviews.

Voice

Voice claims Lincoln (1995 p. 282) means giving attention 'to who speaks, for whom, to whom and for what purpose'. It also involves the airing of alternative voices. Triangulation of data sources would be one such strategy. Taking this aspect of the research activity into account implies a willingness on the part of the researcher to deal with the community dimension. In this research three distinct voices are identified in the triangulation of data sources. Within each of these groups multiple voices are heard.

Critical Subjectivity

Critical subjectivity requires a heightened awareness and discernment on the part of the researcher to discriminate between the subtle personal and psychological differences of others and oneself. This is not to be confused with an attempt to claim objectivity. Rather, it is the ability 'to understand one's psychological and emotional states before, during and after the research experience' (Lincoln 1995 p. 283). Self-scrutiny and self-debriefing strategies used during data collection and analysis stages were suitable strategies for assisting the researcher to attain a level of critical subjectivity. Peer debriefing during the analysis stage was another mechanism that assisted critical subjectivity. These debriefings were in the form of regular meetings with an established group of fellow researchers working at similar stages of constructivist research.

Reciprocity

Reciprocity places the qualitative research even more firmly within the Friirian philosophy. Reciprocity assumes that the researcher and the participant come together as equals. This equality is borne out not in the sense that each has the same qualities but that each comes to the research to give something and to gain something. The resulting trust and sense of mutuality in co-creating within the research endeavour bears out the claim for reciprocity. In this research participants saw themselves as providers of information but at the same time readily acknowledged that it was the researcher who would provide them with subsequent information (in the form of findings), as an outcome of their effort.

Sacredness

Sacredness is to be found in the interpersonal respect generated between the researcher and the participants in a qualitative research project. Lincoln builds her arguments for sacredness around the ideas of Reason (1993). 'The spiritual, or sacred, side of science emerges from a profound concern for human dignity, justice, and interpersonal respect' (Lincoln 1995 p. 284). Expressions of human dignity and interpersonal respect were numerous. Observations in the debriefing notes and mapping of the interview context reveal that in the majority of cases these dimensions were evident. The extent to which individual participants were prepared to adjust their travel schedules and business commitments in order to honour the commitment to participate had the effect of making what was provided both precious and empowering.

Sharing of Perquisites of Privilege

Sharing of perquisites of privilege has the political impact of which Orpwood (1985) writes, i.e. a commitment to action as a result of the study. In the examples cited by Lincoln the various researchers have in different ways made a commitment to the investment of human and personal capital poured into their respective research efforts. In these examples the participants have been co-recipients, in different ways, to the monetary benefits generated from the successful research projects and the publication royalties. In this study there are no monetary benefits to be shared. This particular criteria is not demonstrated in this research.

3.7.3 Critical Summary

Manning (1997 p. 93) tells us that within the context of the emergent paradigm principles for authenticity are something that the researcher works towards. There is a warning that high-quality research findings, while a goal, are not prescriptively guaranteed. The questions that a researcher will settle for regarding authenticity are applied contextually (Manning 1997 p. 93; Lather 1995 p. 58). In this research the criteria for authenticity are taken mainly from Lincoln's list of emerging criteria. Guba's original criteria for trustworthiness are also demonstrated.

The claim for rigour being located in the interaction between the research process and the architects of the research, both researcher and participants, is addressed in Tables 3.5 and 3.6. Trustworthiness and authenticity are dealt with separately.

Taking first, the criteria for trustworthiness, as developed by Guba (1981; Lincoln & Guba 1985; Lincoln & Guba 1986; Guba & Lincoln 1989) the various elements of the research design are identified with the components that are a part of that element. These features of the research design are then linked to the array of tools that are proposed as evidence. The tools are then identified with the respective criteria. Components of the research design are identified within the thesis document where appropriate. Some of the components are not located within the thesis itself. Reference is made to where these are located.

Table 3.5: Demonstrating Trustworthiness

Research Elements	Design Components	Establishing Trustworthiness	
		Tools	Criteria
Philosophical foundations.	Constructivist paradigm (3.1 and 3.2)	Documenting logic of processing and method decisions	Dependability
Underlying assumptions	Subjectivist approach (3.1 and Table 3.1)	Progressive subjectivity	Credibility
Data collection strategies	Interviews with directors and fund managers (Figure 4.2, Tables 4.12 and 4.14) Literature from Financial Press (4.3.2) Construct generated questionnaire (4.8)	Audit trail Tracking data Member checking	Dependability Confirmability Confirmability
Analytical Process	Grounded theory approach (3.3) Data Analysis (4.5, 4.6 and 4.7) Diary records, transcripts held by the university, Feedback from peers and supervisors (notes held by the researcher). Diary records and notes taken at regular debriefing sessions (held by the researcher). Computer files and hard copy files stored at the university.	Thick Description Documenting logic of processing and method decisions Progressive subjectivity Audit trail Peer debriefing Tracking evidence of analysis	Transferability Dependability Confirmability Credibility Credibility Confirmability
Presentation of Findings	Written up in thesis format	Subject to examination Confirmability audit available if required	Confirmability

The criteria for authenticity are selected from the emerging criteria for quality as developed more recently by Lincoln (1995). The elements of the research design,

components that contribute to these elements are again identified and linked directly to the tools and criteria but this time for the purpose of establishing authenticity. While for the most part the various components of the research design that are identified for trustworthiness are also identified as demonstrating authenticity, they do so in different ways.

Table 3.6: Demonstrating Authenticity

Research Design		Authenticity	
Elements	Components	Tools	Criteria
Philosophical foundations	Constructivist paradigm (3.1 and 3.2)	Determining an epistemological stance,	Positionality
Underlying assumptions	Qualitative subjectivist approach (3.1 and Table 3.1)	Developing trust and respect between researcher and participants	Positionality and Critical subjectivity
Data collection strategy	Interviews with directors (Figure 4.2, Table 4.12) and fund managers (Table 4.14 and transcripts held by the university). Literature from financial press (4.3.2). Construct generated questionnaire (4.8).	Triangulating data sources Exploration processes Self debriefing Peer debriefing	Positionality Community Sacredness Voice Critical subjectivity Critical subjectivity Critical subjectivity
Analytical Process	Grounded theory approach (3.3). Content analysis (4.6).	Consistent and repeated questioning of the data	Critical Subjectivity
Presentation of findings	Written up in thesis format	Sharing knowledge	Community

Of the three areas of commitment proposed by Lincoln (1995), the commitment of both the researcher and the respondents to new and emergent relationships was the first of the criteria to emerge demonstrably in this study. The commitment of the participants is clearly demonstrated in the ready responses to requests for interviews, efforts to facilitate the conducting of the face-to-face interviews across the continent and the strategy for distribution of the instrument as well as the eventual response pattern. Further demonstration of this commitment is evidenced in the continued engagement of participants through member checking that occurred with regard to reviewing of transcripts, agreement on the significance of the categories used in the construct generated questionnaire, and further discussion with a group of participants on the

findings that emerge from the study. Commitment on the part of the researcher is evidenced in the willingness to facilitate and enable these procedures.

The commitment of the academic to the practitioners of corporate governance to deliver a piece of research that will inform them as practitioners is evidence of the commitment to both professional and personal stances. As discussed earlier there is no claim for political commitment. There is a commitment to the vision held by researchers in common, of adding to an existing body of knowledge. This is Lincoln's third area of commitment (Lincoln 1995 p. 277).

The criteria that are demonstrated throughout this research include, positionality, community, voice, critical subjectivity, reciprocity and sacredness. In most instances the mapping of the proxemics and paralinguistics in the interview situation provided evidence of reciprocity at work (see Appendix C). However there were instances where the combination of proxemics, gender, paralinguistics and timing demonstrated that a strong status boundary was in place. The evidence of the debriefing materials indicates that these instances were in the minority and involved no more than ten percent of the participants.

3.8 Limitations of Qualitative Research

The limitations of a qualitative research design are usually seen in counterpoint to the perceived 'purity' of scientific method. This 'purity' is gained through activities such as identification and isolation of variables, objectification of both researcher and subject and quantification. In constructivist research Guba (1990) replaces claims for 'scientific purity' with an argument for 'soundness' in research. The criteria for this 'soundness' of research are established in the elements of authenticity and trustworthiness (Lincoln 1995; Guba 1990; Guba & Lincoln 1989). It is in this light that the 'limitations' of the research are presented. In a constructivist, interpretivist study the interpretations provided by the researcher are subjective (Sarantakos 1993 p. 20). The findings are subject to the positioning of the researcher within the study and the personal experiences that person brings to the research context (see refinement of the interview schedule 4.4.8). Glaser and Strauss (1967) argue that it is these very features of the research that provide theoretical sensitivity (see 6.2) and enhance the strength of the findings. At the same time this same feature creates the potential for findings to be subject to different interpretations by different people (Creswell 1994 p. 111). However it can also be argued that questions on a survey instrument can be subject to different interpretations. Within the constructivist paradigm replication of the processes is aided by the use of the audit trail but neither the content nor the various contexts can be replicated. This means that elements of the design

such as timing, location and interpersonal interaction with data sources are also altered (Marshall & Rossman 1995).

3.9 Conclusion

This discussion of the methodological issues that impact on this study prepares the way for examining the data collection and data analysis strategies. These are dealt with in chapter four.

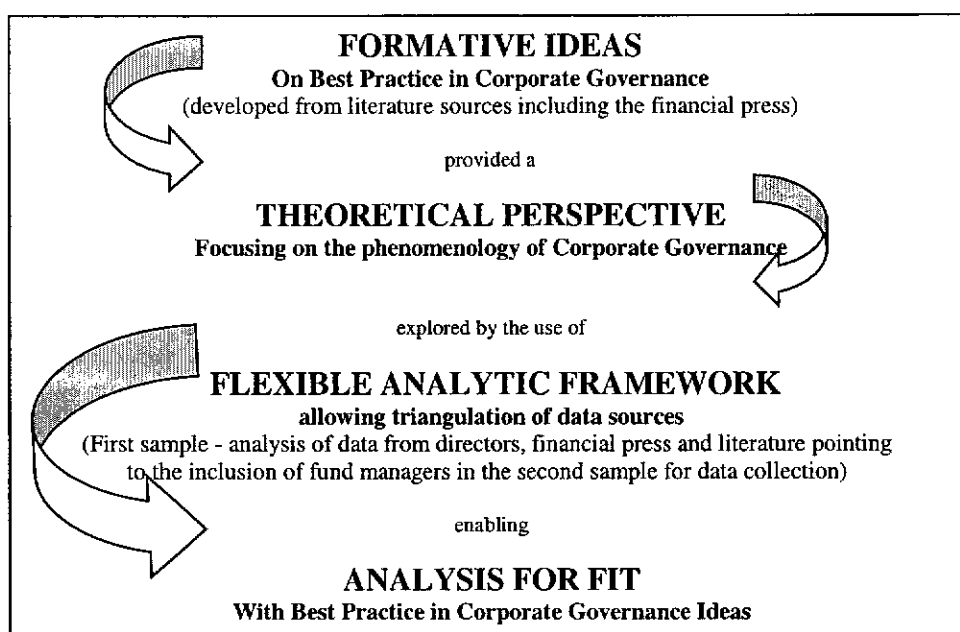
Chapter 4 Data Collection and Data Analysis

In this chapter the data collection and analysis processes are discussed. There are three stages in the data collection process that are detailed in the chapter. The first stage is the preliminary study, the findings of which are linked to this study. The second stage relates to the main study and consists of the gathering of qualitative data by interviews and from the financial press. The discussion includes the exploration process used in developing the interview schedules. The third stage is the data collection by questionnaire. The chapter finally considers the analysis process with reference to the methodological theories that underpin the process.

4.1 Data Collection Plan

The data were collected using an iterative design applying the principles of theoretical sampling (Glaser 1992). A flexible analytical framework (see Figure 4.1) allowed triangulation of data sources.

Figure 4.1: Working within a Flexible Analytic Framework



Adapted from Whiteley (2000)

The theoretical framework in Figure 4.1 is applied in Figure 4.2.

Figure 4.2: Schema for data collection

Data Sources	Directors	Fund Managers	Financial Press	Literature
<p>Stage 1</p> <p>P R E L I M I N A R Y</p>	<p>*Develop instrument *Explore and screen for content, ethics and protocol *Adjust instrument where required *Conduct interviews *Analysis</p> <p style="text-align: center;">↓</p> <p>Outcome: This is an area in need of extensive research.</p>	<p>Not included in the preliminary study</p>	<p>*Continual extraction of data from the Australian financial media: <i>The West Australian, The Australian, The Weekend Australian, The Australian Financial Review, and BRW Media Group Publications</i></p>	<p>Supporting literature</p> <p style="text-align: center;">↓</p>
<p>Stage 2</p> <p>M A I N</p> <p>S T U D Y</p>	<p>*Develop an interview schedule grounded in the preliminary interviews.</p> <p style="text-align: center;">↓</p> <p>*Trial the instrument for meaning, attitude and language. *Revise the instrument. *Trial the instrument for length of time. *Explore further for meaning, attitude, language and time. *Conduct interviews, adjusting as required by methodology.</p> <p style="text-align: center;">↓</p> <p>*Develop and administer questionnaire using categories that emerged from the qualitative data</p>	<p>*Preliminary interview with IFSA personnel *Preliminary interviews to explore for language, approach and contacts</p> <p style="text-align: center;">↓</p> <p>*Develop interview outline grounded in preliminary study data from interviews with directors and preliminary interviews with people in the funds management industry</p> <p style="text-align: center;">↓</p> <p>*Trial the instrument for meaning, attitude and language. *Revise the instrument. *Trial the instrument for length of time. *Explore further for meaning, attitude and language.</p>	<p>*Preliminary interview with BRW journalist aimed at exploring the linkages across the three data sources</p> <p style="text-align: center;">↓</p> <p>*Continual extraction of data from the Australian financial media: <i>The West Australian, The Australian, The Weekend Australian, The Australian Financial Review, and BRW Media Group Publications.</i></p> <p style="text-align: center;">↓</p>	<p>A continuing study of relevant literature</p> <p style="text-align: center;">↓</p>
<p>Stage 3</p>	<p>*Develop and administer questionnaire using categories that emerged from the qualitative data</p>	<p>←</p> <p>←</p>	<p>←</p>	<p>←</p>

Initially literature from the financial press directed the researcher to explore a broad base of literature on the topic of corporate governance. Analysis of data at this stage suggested

exploring the topic further using a first sample of local directors of public listed companies and the financial press. This became the preliminary study for this research.

Findings from the preliminary study showed that directors saw fund managers as a group that impacted on their role as directors. It was decided that the major study would include fund managers as well as directors of public listed companies and the financial press as data sources.

The iterative data collection plan (see Figure 4.2) was designed to provide the type of transparency that Denzin (1989) talks about as demonstrating sophisticated rigour enabling interpretive schemes to be as transparent as possible (discussed in chapter three, 3.7).

In Figure 4.2 the iterative data sources and stages of collection are identified in schematic format. The Grounded Theory approach (Glaser & Strauss 1967) used in this study is demonstrated in the way that each of the data collection instruments is generated. Stage 1 and stage 2 each provide grounding for developing the data collection instrument to be used in the stage that follows it. Findings from the preliminary study (see Figure 4.2 - stage 1) provide the basis for the development of the interview schedule for both directors of public listed companies and fund managers (see Figure 4.2 - stage 2). Categories of meaning that emerge from the data in stage 2 are then used to develop the questionnaire in stage 3 (see Figure 4.2 - stage 3).

4.2 Stage 1 - Preliminary Study

The preliminary study was conducted in Western Australia and all participants were members of the Australian Institute of Company Directors (WA) as well as being directors on the boards of public listed companies. The Australian Institute of Company Directors in Western Australia gave its support.

Findings of the preliminary study (McCabe & Nowak 1997b) confirmed that there was value in further researching issues of corporate governance. The findings identified changes in legislation and regulatory aspects of governance as pivotal to the way in which directors viewed their roles. Directors perceived the prevailing legal framework as impacting strongly on conformance and performance functions of a board. Conformance functions emphasised the legal and fiscal requirements. Performance functions emphasised the capacity for improvement of shareholder value. These two concepts, conformance and performance emerged as possible governance typologies. This view was consistent with Hilmer's (1993) view of conformance and performance.

Boards have two distinct roles, monitoring (or a concern with conformance) and performance enhancement. As a monitor, the board's task is to ensure that management runs the company in the interests of shareholders, other stakeholders and in accordance with the law. As performance enhancer, the task is to act as a constructive partner with top management and especially the chief executive in improving the viability and the value of the enterprise over time (Hilmer 1993 p. 17).

The emerging question that eventually shaped this research concerned what directors believed to be 'best practice' within corporate governance. The notion of 'best practice' in corporate governance (Francis 1997; Valdes 1997; Hawley & Williams 1996; Cadbury 1993) is legitimised in the literature. It was not clearly defined as a universal standard for BOCDs. The decision to further define 'best practice' led to the main study. Other emerging issues included the practice of having non-executive directors on a board and a board's ability to initiate and/or react to change. These were sufficiently linked to the emerging question as to warrant inclusion in Stage 2. This was demonstrated in the final form of the interview schedule.

4.3 Stage 2 - Main Study

The principal objective of the main study was to examine the perceptions held by directors regarding the concept of 'best practice' in corporate governance. Conducting interviews with each of the participants provided the data. Grounding the research in the findings of the preliminary study facilitated this.

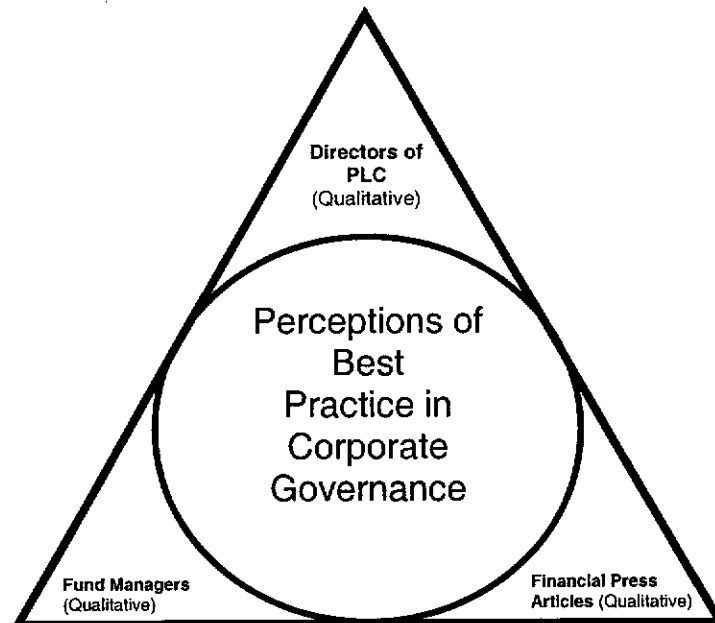
In accordance with theoretical sampling (Glaser 1992) explained in chapter three, analysis of the preliminary data identified the funds management industry as being appropriately positioned to have an impact on corporate governance practices (AIMA 1997; Cadbury 1993). Including the Funds Management Industry in the research strengthened the triangulation of data sources. During the research process literature was continuously reviewed.

4.3.1 Triangulation

Triangulation of data sources was used (Denzin & Lincoln 1998; Schwandt 1997a). Three sets of qualitative data relating to perceptions of best practice in Corporate Governance were gathered. This allowed the perceptions that directors of public listed companies held to be juxtapositioned with perceptions held by investment managers in the Funds

Management Industry and perceptions expressed in the literature gathered from the Australian financial press.

Figure 4.3: Triangulation of data sources



The findings of the research are based on the qualitative data. As a linked study the use of the construct generated questionnaire provided statistical data about important categories of data. The statistical data added to the discussion of the findings but was not considered in the data analysis that produced the findings.

4.3.2 Data Collection from the Financial Press

Data from the financial press was used in the preliminary study. This data source was used in the major study as well. In the major study newspapers were collected daily over eighteen months throughout 1998 and into 1999. Articles were selected using a wider focus than provided by the research topic. This approach included any items that were connected to public listed companies, their governance as well as the funds management industry. This approach meant that all current Australian information impacting on the research context was included for further consideration.

These items were later scrutinised in the light of their relationship to the research question. Items dealing with (a) entities other than public listed companies and (b) aspects of corporations outside corporate governance activities were culled from the collection. This left a total of 230 newspaper articles for this body of data. Sources for these articles were principally The Australian Financial Review but also included The

Australian, The West Australian and The Sydney Morning Herald. In addition to these, information from theoretical literature was useful in designing the interview schedule.

4.4 The Interview Process

The following discussion focuses on the development and the refinement of the interview as a data collection device for this study. The discussion includes strategies for making contact with participants, both directors and fund managers, as well as the procedure for setting up interviews. There is a detailed discussion of the exploration process for both sets of interviews. Various aspects of the development and refinement of the interview process are examined in detail. Adjustments to the interview schedule for directors were the result of theoretical sampling and also assisted in developing theoretical sensitivity (Strauss & Corbin 1990).

A self-debriefing strategy for the interviewer is discussed. Interview dimensions examined in the debriefing process can be seen in Table 3.2. Demonstration of rigour in all aspects of the research was a guiding principle for the researcher. Tables 3.5 and 3.6 in chapter three were developed for this purpose.

Consistent with the application of theoretical sampling in the interviews with directors, interviews with members of the funds management industry were adjusted. As fund managers' interviews proceeded theoretical saturation of categories (Strauss & Corbin 1990 p. 193) was clearly demonstrated by the time the sixteenth interview was completed.

4.4.1 Sampling

In Stage 2 a more eclectic mix of directors was sought, than that demonstrated in Stage 1 (Tables 4.1 and 4.2). For interviews with directors, the sampling adopted was initially a purposive sample. Using the data base *Business Who's Who* (Dun & Marketing 1997) a search of directors of public listed companies resulted in a possible list of contacts.

Table 4.1: Industries represented and demographics of participating directors

Industries	Academic Qualifications	Board Positions	No of Boards	Age Distribution
Finance	None 4	Executive only1	1 only ...1	< 35 0
Construction	Professional 2	Non-exec only24	2-418	35-49 4
Steel	Undergraduate...13	Exec and Non-exec ..5	> 411	50-6516
Mining	Masters/Hons 8			> 6510
Oil and Gas	Doctorate 3			
IT and Communications				
Media				
Retail				
Utilities				
Pharmaceutics				
Transport				
Liquor				
Gaming				

Tapping into personal networks among directors assisted the approach strategy. Directors who agreed to be interviewed in many cases also recommended potential participants. Interviews were conducted in Sydney and Melbourne, Adelaide and Perth (see Table 4.2). The non-referred contacts among the directors had a similar success rate to the referred contacts. Fifty contacts were made and 30 interviews were held. The list of participants was determined opportunistically based on willingness to participate, time and location. Willingness to participate was demonstrated with participants being prepared to alter their schedules repeatedly in order to contribute to the study. Interviews ceased after theoretical saturation of categories (Strauss & Corbin 1990) was demonstrated.

Table 4.2: Table of distribution of gender and location for directors

	Sydney	Melbourne	Adelaide	Perth
Female	3	2	-	-
Male	12	3	2	8

A demonstrated interest in corporate governance issues and the organisation's profile in the investment community were the determining criteria for approaching funds management organisations. Membership of the organisation previously known as the

Australian Investment Managers Association (AIMA) was seen to be a strong indicator of demonstrated interest in corporate governance. Profile was determined by examining data in the financial press as well as ASX listings. Not all high profile fund management organisations are listed on the Australian Stock Exchange but listing was added weighting in determining the profile of the organisation. Size of investment capital was not a determining factor in the selection process. However information on that was sought. (See Appendix B).

Table 4.3: Table of distribution of fund managers

Institution	Academic Qualifications	Age Distribution	Location
Banks 4	Professional only 1	< 35 4	Sydney 7
Non-banks 13	Undergraduate 7	35-49 11	Melbourne 10
	Masters/Hons 8	50-65 2	
	Doctorate 1	> 65 0	

While the initial list of funds management organisations comprised 32 companies the group of participants from the industry was eventually selected opportunistically based on willingness to participate, time and location. The majority of fund management contacts were non-referred contacts. If managers were willing to participate and could then agree to be in a set place within a set time frame they were included in the study. Participants were distributed over two capital cities, Sydney and Melbourne (see Table 4.3). Interviewing ceased after theoretical saturation of meaningful categories (Strauss & Corbin 1990 p. 193) was demonstrated.

Table 4.4: Table of distribution of gender and location for fund managers

	Sydney	Melbourne
Male	7	10

4.4.2 Securing the interview

The procedure for approaching each of the directors of public listed companies and managers in the funds management industry differed from the preliminary study. The initial approach was by letter (Appendix A and Appendix B) to the individual concerned and then followed up with a phone call. Where the contact was by way of referral from another director or fund manager (Appendix A) this was made clear in the initial letter of approach.

For directors and fund managers a phone call served to secure the interview. Once each person agreed to participate in the study, a time and place was agreed upon for the

interview. Biographical and company details were compiled in an information form with data gathered from published sources (Dun & Marketing 1997; Beck 1996a; Beck 1996b; Australian Stock Exchange 1995). A covering letter (Appendix A and Appendix B) provided the interview time and location as agreed to by phone with the request that the details on the information form be checked for accuracy. These sheets were given back to the interviewer, along with any adjustments of details, at the time of the interview.

4.4.3 Developing the Interview Schedules

In a grounded research approach (Strauss & Corbin 1990) it is necessary to ground the interview design in the topic or the environment being studied. The interview schedule designed for the exploration process with directors was grounded in the preliminary study (McCabe & Nowak 1997a) as well as literature on corporate governance.

Grounding in the funds management industry began with interviewing a journalist from Business Review Weekly (BRW) and an executive from the newly formed organisation, Investment Financial Services Association (IFSA). IFSA was formed as a result of a merger in 1998 of the Australian Investment Managers Association (AIMA), Life Insurance and Superannuation Association (LISA) and Investment Funds Association (IFA). These preliminary interviews explored the value of using the investment managers in the study and provided data on how to develop the interview schedule for managers in the industry. They also assisted in targeting the appropriate level of personnel within the organisations

The interview schedule for managers of the funds management industry was designed to allow the managers to discuss their perceptions of best practice in corporate governance. While the interview items did not match or mirror each item in the directors' interview schedule they fell within the same conceptual framework. Both interview schedules were explored for *meaning*, *appropriateness*, *language* and *time* (as discussed in 3.5.1, 3.5.2, 3.5.3 and 3.5.4).

4.4.4 Exploring the Directors' Interview Schedule

The interview schedule for directors of public listed companies contained eleven items with sub sections to some items (see Table 4.4). The questions were designed to seek data on the areas identified as strongly linked to the 'best practice' concept in the preliminary study. Historical data (questions 1-3) would justify the inclusion of the individual director in the study. This was also viewed as an ice breaking exercise that gave some time to establish rapport before discussing the key topics.

The remaining questions sought data on change within the context of corporate governance (questions 4 and 5), perceptions on the value and role of the independent director (question 6) and comparative data that would allow for defining 'best practice' in corporate governance (questions 8-10). The last question (question 11) was designed to act as a safety net and allow participants to contribute anything that they thought needed to be included in the discussion.

Table 4.5: Proposed Interview Schedule for Directors of Public Listed Companies

1	Can you tell me about how you came to take up your first directorship?
2	How did you see boards operating then?
3	What did this mean for you as director?
4	What changes have you experienced in the role of director on a board of a public listed company?
5	What do you think brought about these changes?
6	What do you see to be the value of independent directors on boards? (i) How much access does the independent director have to the company secretary? (ii) How does the independent director access critical information?
7	Can you give some examples of where you perceive that a board has performed well?
8	Can you give some examples of where you perceive that a board has performed dismally?
9	What do you think that we can learn from these examples?
10	As we move into the new millennium what do you anticipate would constitute 'best practice' performance in a public listed company board of directors?
11	Are there any other comments you would like to make on this topic?

Exploratory interviews were conducted together with a debriefing session at the end of the interview. The first participant suggested altering question 8. The main concern was that the question tended to make a respondent guarded about what was said.

In the debriefing stage of the second interview there were some significant concerns aired. The participant was convinced that the interview schedule did not appear to readily recognise the conformance and performance dimensions of corporate governance. The recommendation was that there should be some way of identifying those dimensions in the interview schedule so that participants would not be left to presume that these dimensions were being ignored. The belief was that if they were named in the interview the respondents would give information about these dimensions and not be so concerned about reacting to their obvious absence.

The interview schedule had been developed to allow for emergence of these dimensions but evidence based on theoretical sampling of data in the preliminary study showed that

these dimensions were already strongly identified and could legitimately be built on in the new interview schedule.

Table 4.6: Debriefing notes after the second exploratory interview

Meaning	Appropriateness	Language
<p>Comment that the real issue here was “What are the criteria against which you measure a board’s performance?” and “What constitutes board performance?”</p> <p>Concerns that performance issues do not have room to be given sufficient weighting in the discussion</p> <p>Concerns that the best practice notion will not emerge as distinct from the two dimensions of performance and conformance.</p> <p>The best and worst case scenarios were seen to be probing for company specific information that left the respondent feeling somewhat uncomfortable about the interview.</p>	<p>The term ‘company secretary’ is not definitive for all contexts of governance. Suggestion is that question 6 (i) may not be an appropriate question but rather concentrate on 6(ii) and if the company secretary plays a role in the accessing of critical information then it will surface in this answer. This same question could examine the constraints that the independent directors have placed on how they access critical information.</p>	<p>The only query re the language is the extent to which the emergence of data on conformance and performance dimensions of the board role will be impeded by the present structure of the interview schedule.</p>

In keeping with some of the minor adjustments recommended by the first interviewee the following changes were made to question 6. The discussions confirmed that the role of the company secretary is not definitive for every governance context. It was suggested that question 6 (i) be deleted and 6 (ii) become 6 (i). Probing for further information in 6 (i) could also explore the constraints that independent directors experience in accessing critical information.

The researcher’s reflection on the debriefings and review of the responses prompted two other observations. The responses to the questions on change were embedded in the past and did not ensure a discussion of change for the future would emerge. The interview schedule was revised and trialed again.

Table 4.7: Revised Interview Schedule for Directors of Public Listed Companies

1	Can you tell me about how you came to take up your first directorship and when that was?
2	What changes have you experienced in the role of director on a board of a public listed company? (<i>Probe for information relating to both performance and conformance issues but only in response to the language given to me by the respondent</i>)
3	What do you think brought about these changes? (<i>Probing for the energy and drive for change.</i>)
4	What do you see to be the value of independent directors on boards?
5	How does the independent director access critical information?
6	In the Board Performance Model developed from Biggs' (1989) Learning Performance Model and outlined here, (a) If you were observing a board whose performance could best be described as <i>Accrediting</i> what sorts of things would they be doing? (b) If you were observing a board whose performance could best be described as <i>Performing</i> what sorts of things would they be doing? (c) If you were observing a board whose performance could best be described as <i>Best Practice</i> what sorts of things would they be doing?
7	Willingness to change: (a) What are the qualities that a board needs to have, to show a willingness to change? (b) What are the things that would stop it from being willing to change?
8	Readiness for change (a) What are the qualities that a board needs to have to be in a state of readiness for change? (b) What are the things that stop it from being in a state of readiness for change?
9	Are there any other comments you would like to make on this topic?

The revised interview schedule was directed at the same outcomes as the original schedule but sought to do it in a different way. Questions 1, 2 and 3 were condensed into one question that would achieve the same purpose of establishing rapport and *bona fides*. The questions probing for the data on historical change were retained. Questions dealing with the ways in which boards equip themselves for ongoing change were placed at the end of the interview schedule to avoid the possibility of responses continuing to be embedded in the past. These were questions 7 and 8 in the new interview schedule. These two questions focussed on the willingness and the readiness of the board to deal with change. The question referring to the company secretary was dropped and questions 4 and 5 covered the role of the independent director and provided scope for comment on the board structure. Question 6 in the new schedule replaced 7, 8, 9 and 10 in the old schedule. Question 6 introduced the elements of conformance, performance and best practice as focus for discussion. The last question was retained but was now question 9. Trialing for *time* indicated that the interview in its revised form (Table 4.6) could be

reasonably completed in forty to forty-five minutes. This did not exclude the possibility of some participants taking longer to discuss the matters raised in the interview schedule.

4.4.5 Adapting the Biggs Learning Model

The most significant alteration to the schedule was dropping the questions about ‘best’ and ‘worst’ cases and the attempt to predict the ‘new age’. These were removed and questions were introduced to allow conformance, performance and best practice to be addressed separately. Emerging from these findings of the exploratory data, the Biggs Learning Model (Biggs 1982) presented a suitable design for addressing these three dimensions.

Viewing the BOCD as a learning organisation within the context of the corporation Biggs’ (1982 p. 36) three dimensions were resonant with the three dimensions of governance that were to be used in the interview schedule. The motives and strategies for ‘utilizing’ identified similar motives and strategies for the conformance dimension of governance. The ‘internalizing’ dimension resonated with the performance dimension of governance while ‘achieving’ appeared to be consistent with the notion of best practice. Features of Table 4.7 were used to develop a discussion tool that was used to assist the interview process.

Table 4.8: Motive and strategy components in the context of tertiary study

Dimension	Motive	Strategy
Utilizing	Instrumental: main purpose is to gain a qualification, with pass only aspirations and a corresponding fear of failure	Reproducing: limit target to the essentials given in course outlines and reproduce through rote learning
Internalizing	Intrinsic: study to actualize interest and competence in particular academic subjects	Meaningful: read widely, inter-relate with previous relevant knowledge, discuss academic issues to achieve maximum understanding
Achieving	Achievement: obtain highest grades, whether or not material is interesting; interest in competing and winning	Organizing: follow up all suggested readings, schedule time, behave as a ‘model student’

(Biggs 1982 p. 36)

According to Biggs the learning situation generates three common expectations. At a superficial level the motive for learning is demonstrated by meeting external standards. The expectation is to obtain accreditation with ‘minimal effort’ and to satisfy the requirements. At another more meaningful level the learning motive is about ‘actualising one’s interests’ by improving oneself and one’s performance. At the third level the motivation for learning is about ‘achievement’ and is pursued in a competitive

environment where being the best and being acknowledged for one's excellence is the principal motive.

For the purpose of the interview schedule these three dimensions translated easily into three typologies of BOCDs. Relying on the evidence provided in the preliminary study and literature the conformance oriented BOCD would be expected to focus on the meeting of regulatory requirements for accrediting purposes. This is similar to the 'utilizing' learning dimension where the principal motivation is satisfying external requirements. The performance oriented BOCD would focus on improvement and performance in the same way that the 'internalizing' learning dimension functioned is motivated from a position of self-improvement and self interest. The best practice BOCD would focus on the pursuit of excellence in a competitive environment as in the 'achievement' learning dimension where motivation is about competing for the winning position.

The adapted discussion tool was produced on laminated cards. At the appropriate point in the interview the researcher provided the participant with a copy of the model and used it as a framework for the discussion. It was expected that the discussion would move from the accrediting way of doing things to the performing way of doing things and then to a discussion of best practice. Directors were free to alter this progression if they chose. The advantage of the tool was that it assisted the discussion by providing an external framework that allowed the three questions 6(a), (b) and (c) (see Table 4.6) to move sequentially.

Table 4.9: Tool adapted from Biggs' three dimensions of learning

Accrediting	Performing	Best Practice
Extrinsic	Self-Interested	Competitive

In this form the interview schedule was once again explored for meaning, appropriateness and language. The debriefing of this schedule signalled satisfaction with all three. The only question posed was just how comfortable directors would be with the use of the instrument. This was something that the researcher had to consider in terms of the skills required for talking someone through an unfamiliar presentation of familiar territory. There did not seem to be any reason to believe that this was too difficult a task. The decision was to use the tool.

4.4.6 Exploring The Fund Managers' Interview Schedule

The initial fund manager's interview schedule contained nine items. While it explored the relationship that fund managers have with boards of public listed companies it also reflected the focus of the directors' interview schedule.

Table 4.10: Proposed Interview Schedule for Fund Managers

<p><i>You are looking to invest in a public listed company:</i></p> <ol style="list-style-type: none"> 1. With regard to the board of the company what will you be looking for? 2. Once you have invested in this public listed company in monitoring the performance of the board what are you looking for? 3. What do you see to be the value of independent directors on boards? 4. Do you see your organisation as being in a position to influence what happens on the board of a public listed company in which you invest? 5. Can you tell me about some examples of board activities where you perceive that a board has carried out its responsibilities well? 6. Can you tell me about some examples of board activities where you perceive that a board has carried out its responsibilities dismally? 7. What do you think that we can learn from these examples? 8. As we move into the new millennium what do you anticipate would constitute 'best practice' performance in a public listed company board of directors?
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The exploration process for fund managers was the same as for directors.

Table 4.11: Debriefing Notes after the Exploration Interview:

Meaning	Appropriateness	Language
<p>Q2. What you are really looking for here:</p> <p>* How do you monitor the performance of the board? This question really means,</p> <p>* What measures of performance do you use?</p> <p>* How critical are your judgements about boards to your investment decisions?</p> <p>Q4. Suggest that what you are looking for here is really,</p> <p>* What say might they have in setting up / changing a board?</p> <p>* What ongoing influence do they have?</p>	<p>A reluctance to mention companies by name coupled with initial hesitancy on the part of the respondents combined to suggest that there needed to be some time spent on developing a rapport. In the latter stages of the interview there was, in contrast, a frankness and openness that would have improved the quality of the earlier data.</p>	<p>In communicating with funds managers there is a mutual respect for the way in which you communicate with each other. The relationship is delicate and what is said and not said are of equal importance. Formal level of communication and an informal level communication.</p> <p>Preservation of anonymity is an important part of the dialogue with funds managers.</p> <p>Be aware of managers only communicating with you in the formal language. Answers given off pat in the formal language may well be giving the text book version and not the real version.</p>

The comments referring to 'measures of performance' alerted the researcher to the possibility that both fund managers and directors may very easily discuss the performance of the organisation and the performance of the board interchangeably. This awareness reinforced the decision to revise the directors' interview schedule in the way already demonstrated. In the revised interview schedule where the discussion of performance issues was in juxtaposition with conformance issues, it was evident that the focus of the discussion was on the board. Where responses included reference to the performance of the organisation this would then be more readily recognisable within the revised format.

Funds managers were concerned that among fund managers communication is informal and discrete and anonymity is a major element in this level of communication. There was a belief that as an outsider the interviewer may be hindered in receiving *real* information on one or two levels. On one level there was the possibility that fund managers may communicate in the interview process by giving answers *off pat*, or 'text book' answers, and avoid giving what they perceive or believe. On the other hand, in the event of there being any *discrete* communication it would only be of value if the interviewer could recognise the fact that it had been offered. This discrete communication was often transmitted in *what is not said* rather than *what is said*. Suggestions for framing questions did not call for drastic revisions but the observations concerning the manner in which funds managers communicate caused concern.

The funds managers interview was examined again for *time*. The interview itself ran for twenty five minutes. There was a ten minute debriefing which followed the interview protocol in which the participant then gave views on the issues raised above in the earlier discussion. These views were reinforced and it was readily acknowledged that among funds managers there is a discrete form of communication and that managers may be wary of sharing information with an outsider, in this case the interviewer.

The revised version of the interview schedule for directors meant a similar revision of the interview schedule for fund managers. Questions 1, 2, 3 and 4 were retained. Questions 6, 7, 8 and 9 were replaced by the newly formed questions in the directors interview schedule on board performance and readiness and willingness to change. The 'safety net' question was also added to the fund managers interview schedule. The adapted tool (see Table 4.8) was used as a framework for question 5 in the same way that it was used for directors.

Table 4.12: Revised Interview Schedule for Managers in Fund Management Organisations

<p><i>You are looking to invest in a public listed company:</i></p> <ol style="list-style-type: none">1. With regard to the board of the company what will you be looking for?2. Once you have invested in this public listed company in monitoring the performance of the board what are you looking for?3. What do you see to be the value of independent directors on boards?4. Do you see your organisation as being in a position to influence what happens on the board of a public listed company in which you invest?5. In the Board Model developed from Biggs (1989) and outlined here,<ol style="list-style-type: none">(a) if you were observing a board whose performance could best be described as <i>Accrediting</i> what sorts of things would they be doing?(b) if you were observing a board whose performance could best be described as <i>Performing</i> what sorts of things would they be doing?(c) if you were observing a board whose performance could best be described as <i>Best Practice</i> what sorts of things would they be doing?6. Willingness to change:<ol style="list-style-type: none">(a) What are the qualities that a board needs to have, to show a willingness to change?(b) What are the things that would stop it from being willing to change?7. Readiness for change:<ol style="list-style-type: none">(a) What are the qualities that a board needs to have to be in a state of readiness for change?(b) What are the things that stop it from being in a state of readiness for change?8. Are there any other comments you would like to make on this topic?

The funds managers' interview was explored again with a financial planner who works in the funds management industry. This time the participant examined the questions in terms of 'how funds managers communicate with me on these issues.' This discussion revealed that the issues raised and the nature of the information sought were real issues in the course of communication between the financial planner and the funds managers. There were no areas of concern for this participant. The interview was judged to be meaningful, contain appropriate language and content. Furthermore it was observed that there were no inhibitors to gaining the sought for information.

When exploring the issue of the varying levels of communication that are seen to operate in the way in which funds managers communicate, in particular with directors of public listed companies two observations were made. The first was that while this was something that was present in the communication between directors and fund managers it was unlikely to intrude into the discussions that the researcher would have as the researcher did not belong to either group. The other observation was that with the interviews being conducted in the eastern states there was far less likelihood that this discrete type of communication dominated the industry to the extent that it does in Perth. This participant was of the opinion that the combination of size and isolation gave this aspect of the communication between the two parties greater strength in Perth, than would be experienced in other Australian states.

The first two participants were based in Perth. The interviews were to be conducted in Melbourne and Sydney where a greater concentration of the nation's funds management industry was evident. When discussing their concerns the two participants did not make any reference to other Australian states. The exploratory discussions were contextually bound in the local regional experience of Perth, Western Australia. Having taken into account the input of the participants, the decision was to proceed with the research plan having altered the funds managers' interview schedule to reflect changes to the directors' interview. The final decision took into account the considerations of the third participant who had weighed up the contextual implications of the differing locations in his assessment.

All the documents used in the approach to the qualitative research interviews were screened by designated members of the Graduate School of Business Curtin University of Technology for content and presentation as well as ethical dimensions and signed off as acceptable.

4.4.7 Interview Process

The data collection exercise began using the two instruments in Tables 4.6 and Figure 4.11. Consistent with the grounded research approach, there were adjustments made to these schedules later in the interviewing stage. This is discussed later in this chapter.

Table 4.13: Interview Plan for Major Study

Title of the Study:	<i>Directors' Perceptions of 'Best Practice' in Corporate Governance</i>
Objectives:	<p>To gain data by means of semi structured interviews from Directors of Public Listed companies and from Fund Managers in Fund Management Organisations.</p> <p>To interview Directors in order to establish Directors' perceptions of best practice and how ready and willing directors are to respond to the changing demands placed upon them.</p> <p>To interview Fund Managers in order to provide triangulating data on Directors' perceptions of best practice and how ready and willing directors are to respond to the changing demands placed upon them. These interviews also aim to provide data on the expectations that Fund Managers have of Directors of Public Listed Companies.</p> <p>The interview situation will also be a venue for soliciting the support and participation of fellow directors and fund managers within the same organisations for further data collection exercises for this study.</p>
Outcomes:	There will be triangulation of data using data from both interview sources and the Financial Press.

4.4.8 Adjustments to the Interview Schedule

The generative aspects of grounded theory require that the interview schedule be subjected to adjustment from time to time (Locke 1996). Adjusting the interview schedule is the technique that facilitates theoretical sampling (discussed in 3.3). Strauss claims that 'theoretical sampling ensures the notion of variation and process as well as density. It must retain some degree of flexibility' (1990). Adjustment to the interview schedule allows for density of the data as it gives the researcher the freedom to vary the instrument in order to demonstrate strength of opinion among participants when the unadjusted interview schedule would not.

At the onset of the interviews it was anticipated that directors would reveal in their conversations their ways of thinking about corporate governance. The result would be a set of concepts that would contribute to a definition of corporate governance as used by directors. The very early interviews revealed that there was an assumption on the part of some interviewees that the researcher had a definition of corporate governance and this definition should determine the contextual meaning of the interview. An alternative assumption at work was that the researcher implicitly shared an unstated definition of corporate governance with the interviewee. It became necessary for those assumptions to be offset by direct questioning of the interviewee's own definition. In instances when the natural course of the conversation revealed that one or other of these assumptions was at work the question was asked early in the conversation; otherwise it was asked within the context of the exploration of ways in which boards operate. This information provided a framework for other aspects of the interview, contributing as was intended to the theoretical sampling and the development of theoretical sensitivity.

Other questions were removed from the interview schedule when they proved to inhibit the forward flow of the conversation and rendered that section of the conversation redundant. Another adjustment to the interview schedule was to ask for a definition of the independent director within the context of the other two items that were relating to the independent director. This was prompted by the ways in which people attempted to qualify and modify the discussion on the independent director. By asking for a description it was easier for the respondent to reply within a context that they had helped define and sharpened the focus of the discussion without limiting the respondent in any way.

In the discussion about independent directors the need for diversity and breadth of experience was a dominant feature of the responses. To offset this aspect of emerging categories regarding the structure of the board it was decided to build into the questioning an opportunity for respondents to indicate if there were any essentials that they would

look for in bringing a new member to the board. This allowed for the fact that there may or may not be some ‘absolutes’ in spite of the essential need for diversity. To avoid this dimension of the board structure being clouded by the earlier discussion this question was asked in the closing stages of the interview.

Reference to the source of the interview tool (Biggs 1982) when approaching question 7 and its various parts was deleted from the discussion. The reference tended to take the discussion away from the main issue of perceptions that were held by the respondents. Instead they were inclined to explore explanations of the source material which left them feeling either at a disadvantage in the knowledge base being drawn upon or feeling a need to explore the researcher’s knowledge. Once the focus of the discussion did not hinge on the source material the interview conversation flowed more easily without unnecessary digression.

The following outline of the interview schedule for directors is indicative of the course of the interview once it was adjusted as a result of theoretical sampling and with a view to developing theoretical sensitivity.

Table 4.14: Adjusted Interview Schedule for Directors of Public Listed Companies

-
1. Can you tell me about how you came to take up your first directorship and when that was?
 2. What have you observed about the way in which boards have operated in that time? *(This question was used to probe for a perception that things had changed.)*
 3. What do you think brought about these changes? *(Probing for the energy and drive for change. If the perceptions revealed in question 2 were that things had not changed this question was not probed.)*
 4. (a) How do you describe the independent director?
(b) What do you see to be the value of independent directors on boards?
(c) How does the independent director access critical information?
 5. Using the outline provided as a framework for the discussion:
If you were observing a board whose performance could best be described as Accrediting what sorts of things would they be doing?
 6. If you were observing a board whose performance could best be described as Performing what sorts of things would they be doing?
 7. If you were observing a board whose performance could best be described as Best Practice what sorts of things would they be doing?
 8. How do you describe corporate governance?
 9. Willingness to change:
(a) What are the qualities that a board needs to have to show a willingness to change?
(b) What are the things that would stop it from being willing to change?
 10. Readiness for change
(a) What are the qualities that a board needs to have to be in a state of readiness for change.

- (b) What are the things that stop it from being in a state of readiness for change?
11. What qualities do you consider to be essential in someone you appoint as a director of a public listed board?
 12. Is there anything that I have not asked you that you would like to add to this discussion?
-

4.5 Data Analysis

The research made use of both qualitative and statistical data. The qualitative interview data was analysed using content analysis (Strauss 1987) with the coding process assisted by using electronic tools to manage the data. The generative aspects of the grounded research approach guided the process for content analysis. Strauss' (1987 p. 32) guidelines for open coding provided an operational framework for developing the analysis strategy. Accuracy of the analysis description was aided by two mechanisms discussed in chapter three. One was the establishment of a detailed audit trail (see Table 3.5) during the analysis process (Rodwell & Byers 1997; Guba & Lincoln 1989 p. 243). The other was in the form of notes made during and following regular peer debriefing sessions (see Table 3.6) (Guba & Lincoln 1989 pp. 236-238). The questionnaire, used for the quantitative element of the research was developed as an outcome of the content analysis process.

Table 4.15: Identifying data sources and the appropriate analysis

Qualitative Data		Statistical Data	
<i>Interviews</i>	<i>Literature</i>	<i>Questionnaire</i>	
Directors	Fund Managers	Financial Press	Directors
Content Analysis	Content Analysis	Content Analysis	Statistical Analysis

4.6 Content Analysis

The first step in the generation of theory by comparative analysis, as promoted by Glaser and Strauss (1967), is the development of conceptual categories and their properties. This study uses content analysis (Glaser & Strauss 1967; Sergiovanni 1967) as a non-quantifying process for data analysis. The process is guided by the principles set down by Glaser and Strauss for the generation of theory by the comparative method.

In general, the comparative method combines systematic coding and analysis with theoretical sampling to generate a theory that is integrated, consistent, close to the data, and in a form clear enough to be operationalized for testing in quantitative research (Conrad 1978 p. 102).

Content analysis of the data using a modified Grounded Research approach begins with open coding. The guidelines offered by Strauss (1987 p. 32) were adopted for this research;

1. Ask the data a specific and consistent set of questions
2. Analyse the data minutely
3. Frequently interrupt the coding to write a theoretical code
4. Never assume the analytical relevance of any traditional variable such as age, sex, social class, and so on, until the data shows it to be relevant.

The open coding process, while it provides for minute analysis of the data, is not necessarily exhaustive. Turner (1981 p. 232) cites the example of a single paragraph of text. His own open coding efforts he claims yielded three or four categories. After giving the same paragraph to eighteen different students there are twelve categories. This subjective aspect of the coding process is consistent with the paradigm features discussed in chapter three regarding the subjective nature of the qualitative process (see discussion - 3.1 Assumptions Underlying Qualitative Research).

4.6.1 Preparing Qualitative Data for Analysis

The software package NUD.IST™ (Richards 1996) managed the data in a way that assisted in the generation of categories of meaning. During the process of content analysis the interviews held with directors and fund managers were treated as two separate projects. The media data was treated as yet another project.

One significant requirement of the software package is that a decision be made regarding the 'unit of text'. The 'unit of text' is that part of the data that is assigned to a category of meaning and can be retrieved as evidence of the category. The software provided a wide choice in assigning the 'unit of text'. For the purpose of this research the 'unit of text' was set at a single sentence. This enabled text containing complete sentences to be assigned to categories of meaning. The software also allowed for a sequence of units of text to be linked and assigned to the category of meaning in one block if this was required.

The interview schedule contained a set of questions designed to keep the conversation throughout the interview within the focus of the research topic. The questions within the interview text were arbitrarily assigned numbers sequentially throughout the interview. All the interview text attached to the question was assigned to that number on entry into NUD.IST™. This had the effect of organizing the data into smaller sets of data (see Table 4.15).

As discussed in section 4.4.8, the interview schedule was adjusted during the data collection period in response to theoretical sampling. In the interview schedule questions 5 and 8 as in Table 4.13 did not appear in the original interview schedule (Table 4.6). Question 5 emerged as part of the interview schedule early in the data collection period while question 8 appeared later.

Table 4.16: Assigning numerical labels to the directors' interview schedule.

Numerical Label	Interview Schedule
1	Can you tell me about how you came to take up your first directorship and when that was?
2	What have you observed about the way in which boards have operated in that time? What do you think brought about these changes?
3	How do you describe the independent director? What do you see to be the value of independent directors on boards? What do you look for when appointing a director?
4	If you were observing a board whose activities could best be described as: (a) <i>conformance</i> (b) <i>performance</i> (c) <i>best practice</i> what sorts of things would each be doing?
5	How do you describe corporate governance?
6	What are the qualities that a board needs to have to show a willingness to change? What are the things that would stop it from being willing to change?
7	What are the qualities that a board needs to have to have a readiness to change? What are the things that would stop it from being ready to change?
8	What do you look for in a director?
9	Is there anything that I have not asked you that you would like to add to this discussion?

Interviews with fund managers were prepared for importing into NUD.IST™ in the same way as the directors' interviews. Prior to importing the text into NUD.IST™ the numerical labels were assigned to the text.

Table 4.17: Assigning numerical labels the fund managers' interview schedule

Numerical Label	Interview Schedule
1	What do you look for in company that you are investing in?
2	How do you describe the independent director? What do you see to be the value of independent directors on boards? What do you look for when appointing a director?
3	If you were observing a board whose activities could best be described as: (a) <i>conformance</i> (b) <i>performance</i> (c) <i>best practice</i> what sorts of things would each be doing?
4	What are the qualities that a board needs to have to show a willingness to change? What are the things that would stop it from being willing to change? Willingness to deal with change
5	What are the qualities that a board needs to have to have a readiness to change? What are the things that would stop it from being ready to change?
6	Is there anything that I have not asked you that you would like to add to this discussion?

Details of the media documents were entered first into EndNote 4 ('EndNote 4' 1988-2000). Each entry included the text of the lead paragraph and other relevant quotes from the article as well as the usual bibliography details. A search strategy within EndNote 4, identifying all entries with a call number beginning with 'm', provided the complete record of media data for export to a Word document. This document was converted to a Text Only document and then imported into NUD.IST™ for the purpose of generating categories of meaning.

4.7 Analysis Strategy

The principle guiding the analysis strategy was emergence. Characteristics required by the systematic procedure employed here were consistency and flexibility. Consistency required that the criteria for allocating categories be constantly applied throughout the treatment of interview text. Flexibility required that where more than one idea was included in a unit of text each idea could be labelled and identified. Flexibility also required that repetition of ideas or concepts in different contexts be taken into account. NUD.IST™ was an ideal instrument for supporting these requirements.

The coding process moved through four stages. The four stages required that the researcher *code*, *categorise*, *apply constant comparison*, and *conceptualise* the ideas expressed there. The process of constant comparison accompanied by memo or note taking provided the basis for the development of theoretical sensitivity. Constant re-examining of the categories and the supporting data allowed the researcher to discover

new insights, make new connections and explore previously unconsidered theoretical frameworks. The stages of the coding process are presented and described in Table 4.17. The definitions in Table 4.17 are developed from Strauss and Corbin (1994 p. 61), Glaser (1992 p. 38) and Whiteley (2000).

Table 4.18: Four stages of the coding process

Open Coding:	The process of breaking down the data, examining it and assigning a label to each utterance or construct.
Categorising:	A classification or type of concept that is applied to a group of constructs.
Constant Comparison:	By constantly returning to the data connections are established between categories and theoretical sensitivity is developed.
Conceptualisation:	The conceptual label given to a group of categories that have common or connecting properties.

Prior to the data being imported into NUD.IST™ one question was repeatedly asked of the data.

- (i) What did this person say in response to this question (or these questions) in the interview schedule?

The answer to the question indicated the block of text that was assigned to that particular numerical label.

Consistency of coding was assured by doing the open coding of text across all the sections of each interview text with the same numerical label as opposed to doing the open coding for each interview text in its entirety before proceeding to the next interview.

Once the categories were determined it was clear that broader groupings of these categories fell roughly within the ambit of each of the numerical labels. As could be expected, these groupings reflected the main thrust of the question asked in the interview schedule. At this point in the analysis the numerical labels were allotted appropriate descriptive labels giving them the status of super categories. Where categories within a particular super category were obviously connected to categories that were in other super categories they were either moved to that super category or replicated within it.

In Table 4.18 the descriptive labels assigned to the directors' interviews are identified alongside the original numerical label. The assigning of the super category labels assisted in the management of the data and the way in which it was described.

Table 4.19: Descriptive labels used as super categories for directors' data

Interview Schedule	Super Category	Numerical Label
Can you tell me about how you came to take up your first directorship and when that was?	Personal Data	1
What have you observed about the way in which boards have operated in that time? What do you think brought about these changes?	Historical Changes	2
How do you describe the independent director? What do you see to be the value of independent directors on boards?	Independent Director	3
What do you look for when appointing a director?		
If you were observing a board whose activities could best be described as: <i>(a) conformance (b) performance (c) best practice</i> what sorts of things would each be doing?	Board Activities	4
How do you describe corporate governance?	Definition	5
What are the qualities that a board needs to have to show a willingness to change? What are the things that would stop it from being willing to change?	Willingness to deal with change	6
What are the qualities that a board needs to have to have a readiness to change? What are the things that would stop it from being ready to change?	Readiness for change	7
What do you look for in a director?	Essential Characteristics	8
Is there anything that I have not asked you that you would like to add to this discussion?	Supporting Comments	9

In the same way the numerical labels assigned to the fund managers' interview data were also given descriptive labels. As the coding proceeded it became apparent that among fund managers the *historical changes* that had occurred in the way boards operate figured as important in the way they discussed and viewed board activities generally. This data was given a super category because there was a significant amount of discussion on this topic. Assigning it as a super category gave it the same category status as in the directors' interviews. In Table 4.19 the descriptive labels assigned to the fund managers' interviews are identified alongside the original numerical label.

Table 4.20: Descriptive labels used as supercategories for fund managers' data

Interview Schedule	Super Category	Numerical Label
What do you look for in company that you are investing in?	Investment Criteria	1
How do you describe the independent director? What do you see to be the value of independent directors on boards?	Independent Director	2
What do you look for when appointing a director?		
If you were observing a board whose activities could best be described as: <i>(a) conformance (b) performance (c) best practice</i> what sorts of things would each be doing?	Board Activities	3
What are the qualities that a board needs to have to show a willingness to change? What are the things that would stop it from being willing to change?	Willingness to deal with change	4
What are the qualities that a board needs to have to have a readiness to change? What are the things that would stop it from being ready to change?	Readiness for change	5
Is there anything that I have not asked you that you would like to add to this discussion?	Supporting Comments	6
	Historical Changes	7

4.7.1 Open Coding Process

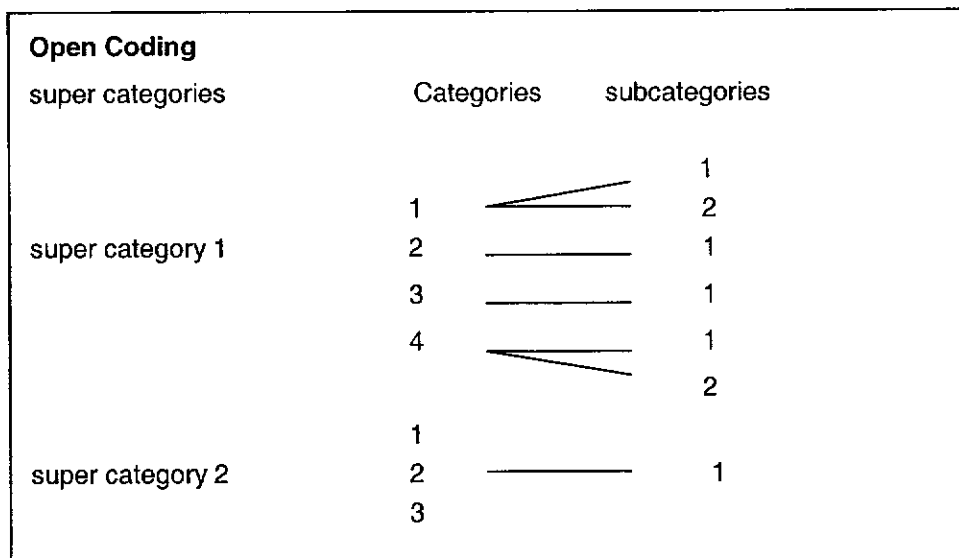
Open coding was the first step in the interpretative aspect of the analysis (Strauss 1987 p. 32). Consistent and intensive questioning of the data yielded constructs of meaning or utterances that contained meaning. The utterances were assigned labels that were indicative of the interpretation given to each of these smaller blocks of text. All the data grouped under the same numerical label were coded at the same time. Categories across a particular numerical label were labeled according to the construct of meaning conveyed. It was not necessary for the category to be justified in terms of the interview question. There were three questions asked of the data in order to establish these categories.

- (i) What does this unit of text tell the researcher?
- (ii) What word(s) used by the participant can be used to label this message?
- (iii) Does this category already exist within this numerical label?

In some instances a label would provide further interpretative data so supporting an existing category (see Figure 4.4). This would take on the status of a sub-category that described aspects or properties of the main category. It was at this point that the need to

do away with numerical labels and substitute descriptive labels became apparent. The descriptive labels became super categories.

Figure 4.4: Schema showing open coding process



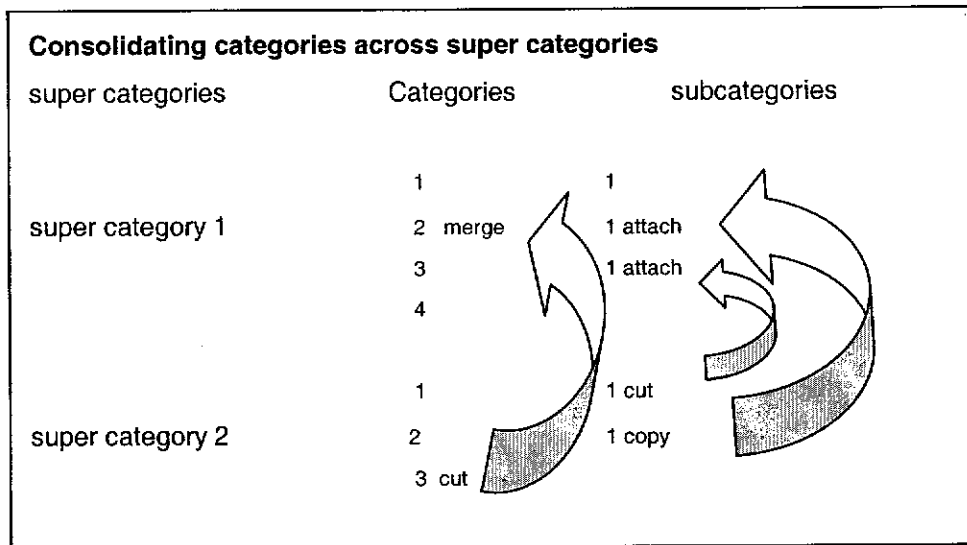
When the text of a category or subcategory in one super category had added meaning for other categories or super categories it was attached to or merged with the similar categories. In some instances it was ‘cut’ or removed from its original location, in others it was ‘copied’ or replicated (Figure 4.5). In doing so there was consistent questioning of the data.

- (i) Is this same topic discussed elsewhere in the data?
- (ii) If so are the same things being said?
- (iii) If they are saying the same things which of the two or three categories contains the strongest construct of meaning?
- (iv) If this is saying something different what does it add to the interpretation of the other set of data?

A negative response to the first question meant that the category remained as it was. A positive response meant that the data would be consolidated.

‘Cutting’ categories from the **Supporting Comments** super category that related to the end of the interview and either ‘attaching’ or ‘merging’ them with other categories resulted in the disappearance of the entire super category. This indicated that what people said in this part of the interview, was covered elsewhere in other people’s interviews.

Figure 4.5: Schema showing consolidation of categories

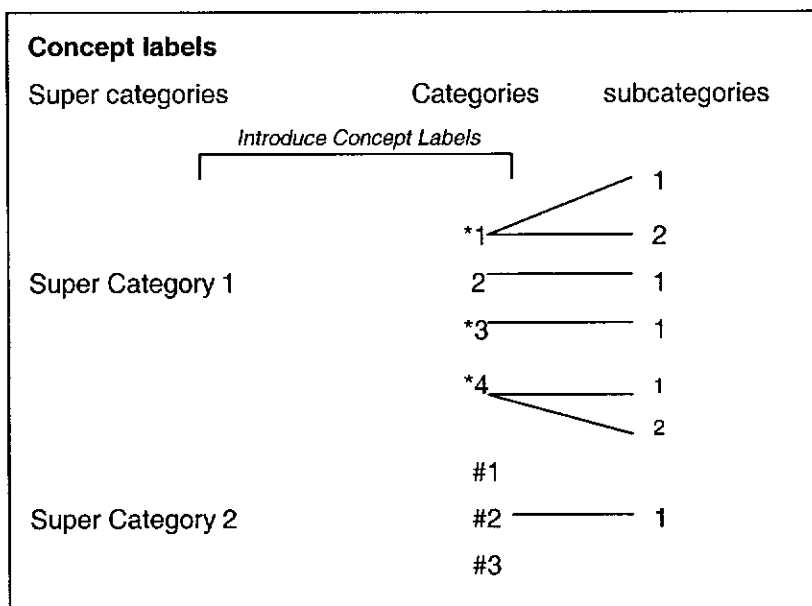


The super categories and categories were again questioned. The questioning was aimed at establishing connections between categories within a super category. There were three questions asked at this point.

- (i) Does the text in this category tell us something distinctly different from the other categories in this section of data?
- (ii) If it is not distinctly different from other categories, then is it similar enough to be connected in meaning to the interpretation given to another category or number of categories?
- (iii) If there is a connection in the interpretation of a group of categories what is the concept that connects them?

In Figure 4.6 there are two groups identified as being connected in meaning. The conceptual label indicated a broad construct of meaning conceptualising the commonality that connected the various categories and the sub-categories linked to it. Glaser (1992 p. 38) called these conceptual connectors theoretical codes.

Figure 4.6: Schema showing process of conceptualisation



4.7.2 Questioning the Conceptual Constructs

At this point of the analysis the various categories and concept labels are linked by the meanings that they convey. This linkage is from within the various groupings that are demonstrated within the sets of data. Cohesion in the form of a unifying label is also required. In order to demonstrate this cohesion the concept labels are further questioned. The question asked at this point was,

What is the image/message/set of information encompassing this group of concepts?

The answer to this question provided the overarching label for the entire set of data. In this research the overarching label reflects principal features of the research question. Consistent with the requirements of the methodology the overarching label emerged from the categories and conceptual labels rather than being imposed arbitrarily with the research question as its source.

4.7.3 Working within the Super Categories

Of the nine super categories identified in Table 4.18 and listed in Table 4.20, five of them became the basis of the major findings from the data. The remaining four super categories contained data that either (*) served a functional purpose in an interview setting but did

not contribute to the research findings or (**) contained data that was either attached to or merged with one or more of the super categories shown in Table 4.20.

Table 4.21: Super categories assigned to directors' interview data

Super Categories
1. Personal Data (*)
2. Historical Changes (*)
3. Independent Director
4. Board Activities
5. Definition
6. Willingness to deal with change
7. Readiness for change
8. Essential Characteristics (**)
9. Supporting Comments (**)

Consistent with the similarities in the interview schedules, fund managers' interviews provided a matching set of super categories. The categories emerging from the analysis of the extracts from the financial press supplied some matches, with two super categories not mentioned. The only significance assigned to this observation is that in the time that articles were gathered from the financial press these two super categories were not the focus of journalists' deliberations. Table 4.21 shows where categories from alternative data sources supported the super categories in the principal data source.

Table 4.22: Super categories from principal data source with supporting categories in Fund Managers and Financial Press data.

Directors of Public Listed Companies	Fund Managers	Financial Press
1. Independent Director	yes	yes
2. Board Activities	yes	yes
3. Definition	yes	nil
4. Willingness to deal with change	yes	yes
5. Readiness for change	yes	nil

4.8 Generation of questionnaire from interview categories

The interview data emerged several categories that were very robust. A judgement was made that they were sufficiently stable to be tested for strength using descriptive statistics. The allegiance was still to the constructivist paradigm as the items on the questionnaire were generated by the respondents. On this basis it was considered that the

use of a quantitative instrument within a qualitative research strategy was an acceptable use of mixed methods. A linked study such as this is supported by Strauss and Corbin (1990). Denzin (1989) promotes it as a form of triangulation.

Including an instrument that was designed to deal with information in a quantitative manner within a qualitative study has some significant advantages as well as an element of risk. As a data collection tool it takes the enquiry further than the interview strategy. It was this element of the strategy that introduced some measure of risk. There was a possibility that responses may not be supportive of the interview data. Taken, as it was, at a point in time some months after the interviews, it was even possible that original sources may have changed their position.

Eight categories chosen for inclusion in the questionnaire were from the super category **board activities**. They were chosen for their robustness and consistency throughout the interviews. They are risk taking, succession planning, improving shareholder value, delegation of regulatory work, committees and processes, development of strategy, activities of board evaluation, developing a sense of vision and mission, willingness to change and readiness for change. The two super categories included as variables were **willingness to deal with change** and **readiness for change**. These variables were each examined with regard to how respondents saw them being handled on boards to which they belonged. They were also examined in relation to how respondents saw them as part of conformance, performance and best practice on a board.

The decision to limit the number of categories examined in the questionnaire to ten was driven by pragmatism. Interviewees had strongly recommended that the questionnaire be short.

4.8.1 Distribution

The strategy for distribution of the questionnaire was similar in principle to that used for accessing directors for interviews. At the time of the Stage 2 interviews each participant was asked if s/he was willing to act as a distribution point for the questionnaire. The request was to distribute five copies among fellow directors. Each copy of the questionnaire (1 A4 page, double sided) included a covering letter of explanation (1 page) and a postage paid envelope addressed to the researcher. Each director then received six copies. Thirty directors accounted for a total of 180 questionnaires. Directors who participated in Stage 1 of the research were also contacted and asked to act as a distribution point in the same way. Of the fifteen directors in the preliminary study only eleven were contactable. All agreed, but not all accepted the standard six copies. A total

of 72 surveys were distributed to these participants. The response of 62 out of the 252 copies distributed was 24.5%.

4.9 Quantitative Analysis

Data gained from responses to the questionnaire were examined with a view to extracting ordinal type data (Fink 1995). The data was analysed for the purpose of establishing a set of descriptive statistics that contributed to the discussion surrounding the various categories. SPSS was used to manage the statistical data. Frequency tables, tables showing Pearson correlation and histograms showing distribution of means are used to support the discussion of the findings.

Chapter 5 Findings

Two major findings emerge from this research. The first finding concerns the nature of the best practice board. The second finding is the definition provided by the participants. Findings from the qualitative data are based on the principal data source, interviews with directors of public listed companies. The alternative sets of data, sourced from fund managers and the financial press were subjected to the same analytical process as the interviews with directors. Evidence is drawn from the alternative data sources in so far as it supports or challenges the findings that emerged from the principal data set.

5.1 Presenting Findings from the Qualitative Data

Concept maps (Buzan 1993) are used to illustrate the relationship between the concept and the supporting categories. The groups of categories within a concept are identified either in a single diagram (as in Figure 5.2) with separate diagrams for each group (as in 5.3, 5.9, 5.10 and 5.11) or as groups of categories under one heading (as in Figure 5.5).

Table 5.1 Key to reading concept maps

Item in Concept Map	Characters	Connectors
Overarching Label	Bold and Sentence Case	Plain solid lines show connection to each concept
concepts	<i>italics</i>	Bold solid lines with arrow heads show which super categories contain categories that support this concept.
super categories	bold and lower case	Dotted lines with arrow heads show the categories that contain information about the super categories.
Categories and groups of categories	plain type	Concept maps for groups of categories show plain solid lines as connectors for lesser categories

Quotes from the principal interview data provide the supporting evidence for the categories and the conceptual interpretation provided. These quotes are presented in *italics*. They are separated by .../ allowing a series of related quotes to be presented together. Reference is made to alternative data sources so as to indicate where categories were supported or not supported by these sources.

In this chapter findings relating to best practice in corporate governance are presented first and findings relating to the definition of corporate governance follow. Whilst it can be argued that a definition of corporate governance could be expected to precede discussion surrounding the topic, the decision here is to present the emerging definition after the discussion of the findings. This decision is consistent with the methodology employed throughout the research (see chapter three) and the stated objectives of the research (see chapter one).

Within the interview schedule the request for the definition did not necessarily provide a framework for discussion at the beginning of the interview. The reasons for this are discussed in chapter one (see 1.1) and chapter four (see 4.4.8). The definition emerged in part from the discussions about board activities and the notion of best practice in corporate governance along with responses to the question that requested a definition.

5.2 Findings based on the principal data source

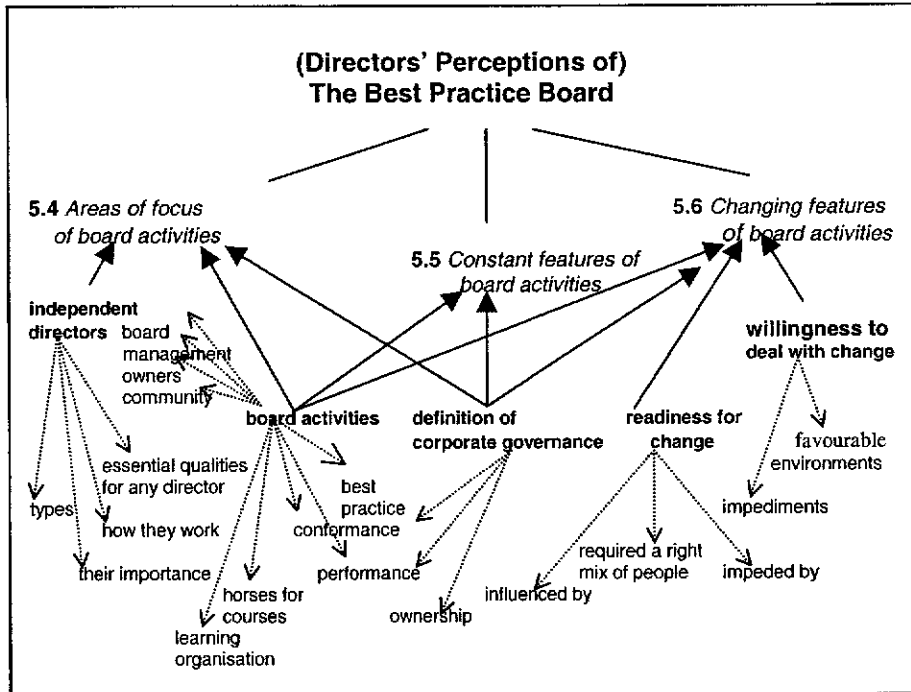
When the question *What is the image/message/set of information encompassing this group of concepts?* was asked the resulting answer was **(Directors' Perceptions of) The Best Practice Board**. This became the overarching label for the entire set of categories. This provided a match with the research question, *What are Directors' Perceptions of Best Practice in Corporate Governance in Australia?* (see Figure 5.1). Five super categories (see Table 4.21) provide the framework for discussing the best practice board. Central to the question of directors' perceptions of 'best practice' in corporate governance in Australia is the discussion surrounding the **board activities**. In other words what is the best way to do what Boards of Company Directors (BOCDs) do?

5.3 Overview

The overview diagram, Figure 5.1 shows three concepts, each informed by super categories with sets of supporting categories. This illustrates the way in which the five super categories and the concepts contribute to the central finding surrounding the question of 'best practice' in corporate governance in Australia.

The overarching label for the findings of this study is '(Directors' Perceptions of) Best Practice in Corporate Governance'. Three concepts provide the context for the super categories and categories. The concepts for this study are *areas of focus of board activities* (discussed under 5.4), *constant features of board activities* (discussed under 5.5) and *changing features of board activities* (discussed under 5.6).

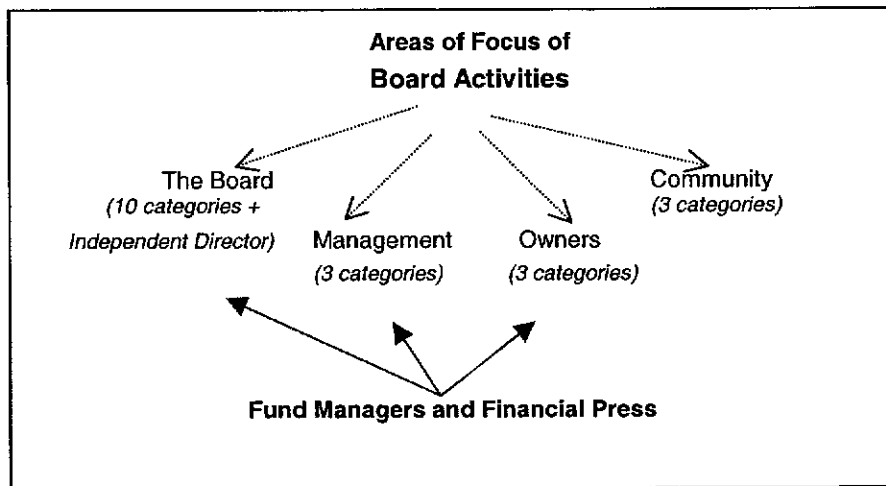
Figure 5.1: Overview of findings based on principal data source



5.4 The Areas of Focus of Board Activities

The concept *areas of focus of board activities* contained one super category, **independent director** and nineteen categories from the super category **board activities** (see Figure 5.2). These categories focused on four different areas. They were ‘the board’ itself, ‘management’, ‘owners’ and ‘community’.

Figure 5.2: Areas of focus of board activities

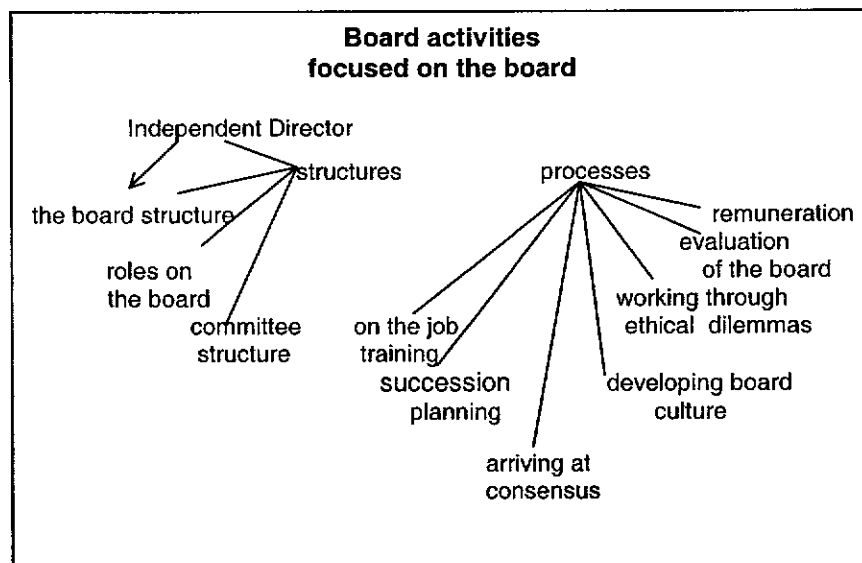


Categories from the fund managers and the financial press data support all but the ‘community’ aspect of *areas of focus of board activities*. The alternative data sources do not challenge the ‘community’ aspect of a board’s focus. They simply make no comment that could be construed as contributing to the discussion. A theme emerges highlighting the uniqueness of each board and so demonstrating the need for flexibility in both structures and processes as they apply to BOCDs.

5.4.1 Board Activities Focused on the Board

Figure 5.3 identifies the group of categories that deal with areas where the focus of the board’s activities is on the board itself. Included in this group are the super category, **independent director** supported by its categories and ten other categories. **Independent director** and the categories ‘the board structure’, ‘roles on the board’ and ‘committee structures’ were about structures that apply to the board. The remaining seven categories, ‘on the job training’, ‘succession planning’, ‘arriving at consensus’, developing board culture’, ‘working through ethical dilemmas’, ‘evaluation of the board’ and ‘remuneration’ were about processes.

Figure 5.3: Board activities that focus on the board



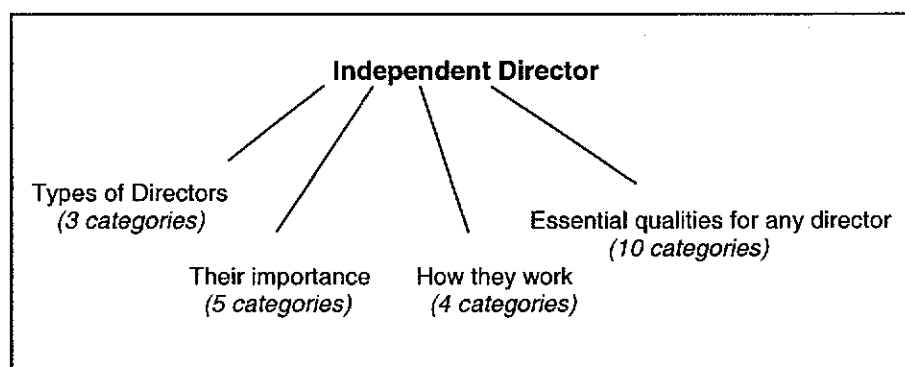
Independent director as a label for making distinction among directors elicited extensive comment from participants. It was decided to demonstrate the robustness of this super category by maintaining it rather than merging it with the category board structure. On the other hand if the category ‘the board structure’ was to be merged with **independent director** the need to focus on the actual mix that is required to make up the entire board would have been seen as less important than the discussion about the importance of the nature of independence on the board. It was considered that both these

aspects of 'the board structure' should remain distinct aspects. The super category **independent director** along with its supporting categories is examined first. The remaining ten categories are then also examined.

Independent Director

The super category **independent director** emerges within the concept *areas of focus of board activities*. It also provides specific information about 'the board structure' (see Figure 5.3). Twenty-two categories inform the **independent director** (see Figure 5.4). They fall into four discrete groups. Three categories describe 'types of directors' that are likely to be found on a board. Five categories discuss 'their importance'. Four categories describe 'how they work' and ten categories describe 'essential qualities for any director'. Each group is presented separately (see Figures 5.5, 5.6, 5.7 and 5.8).

Figure 5.4: Groups of categories within the super category Independent Director

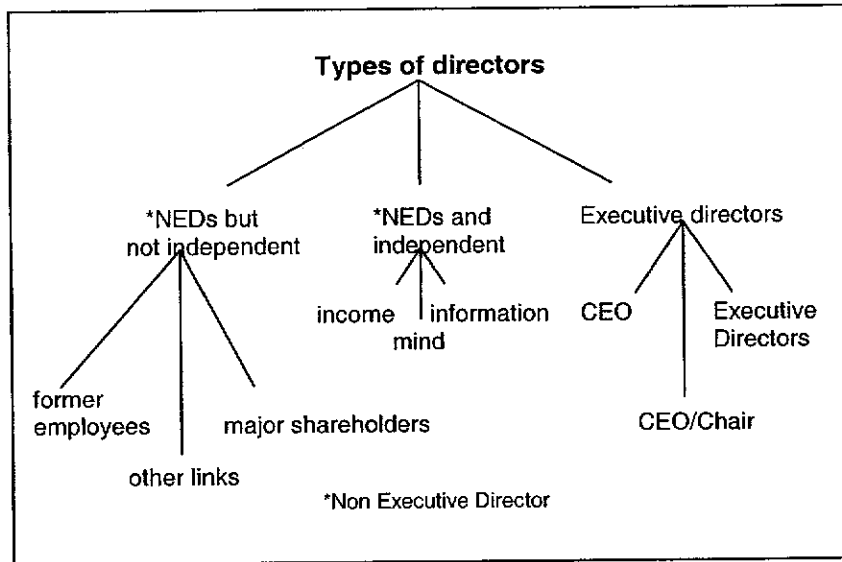


Participants were careful to make distinctions between the various 'types of directors' that make up the BOCD. The following responses were typical.

.../ you have got to distinguish between independent directors and non-executive directors.../Now let us be clear about what you mean.../

The distinction between non-executive directors (NEDs) who were considered to be independent as opposed to those who were not independent was a key point in discussion. Respondents identified three categories, 'NEDs but not independent', 'NEDs and independent' and 'Executive directors'. These categories are presented in Figure 5.5.

Figure 5.5: Categories identifying different types of directors.



NED but not independent

The 'NED but not independent director' could be either a former employee or a major shareholder or in some other way demonstrate a strong historical or monetary link to the organisation.

.../ been on the board for something like twenty years in 1996 [and so] classified as not being independent .../ a director who is a partner in a law firm which is used by the company is not independent .../ some retired executives want to continue to be managing their power bases in the corporation and others are very happy to step back .../ a big shareholder has a vested interest in outcomes .../ they should be called non-executive directors as distinct from the independent non-executive director.../

NED and independent

Participants were of the opinion that directors who are 'NEDs and independent' need to demonstrate an independence of mind, independence of knowledge sources and independence of income.

.../ exercise absolutely independent judgement .../ stand alone independent thinking .../ encourage them rather than discourage them from getting independent information .../ an independent staff, office, relationships .../

someone who is not dependent on board fees for a substantial part of his income.../ they are not beholden to it because they are a major supplier to the company.../

Executive Director

Another group of directors on the board are classified as 'executive directors'. They are either on the board in an executive capacity or the added dimension of Chief Executive Officer (CEO) or the combined role of CEO and Chairman. For some directors the idea of having executives on members of the BOCD was problematic.

.../ the senior executive team ought to be in the board meeting as observers .../ it is very difficult for executive directors to contribute as a director because they are part of management, and they have their fights with their CEO outside the board meeting.../

The prevailing model among Australian companies provided a separation of the roles of CEO and Chairman. This was seen by directors to be a contributing factor in determining how distinctively different each board was in the way it worked.

.../ an awful lot of how a board works has to do with ... the standards that the Chief Executive and the Chairman set between them .../

There was support among directors for the idea that BOCDs may find it useful to combine the two functions and should have the right to make that decision.

.../ it is up to the local team to decide whether in the circumstances of that company that it would be better for the shareholders in the company if they had an executive chairman as opposed to a non executive chairman.../

There was an expectation that BOCDs would generally be made up of a combination of some or most types described. It did not necessarily mean that all types would be present on a board. Among the participants, one director claimed to be on a board where there were no independent directors at the time that the interviews were being conducted.

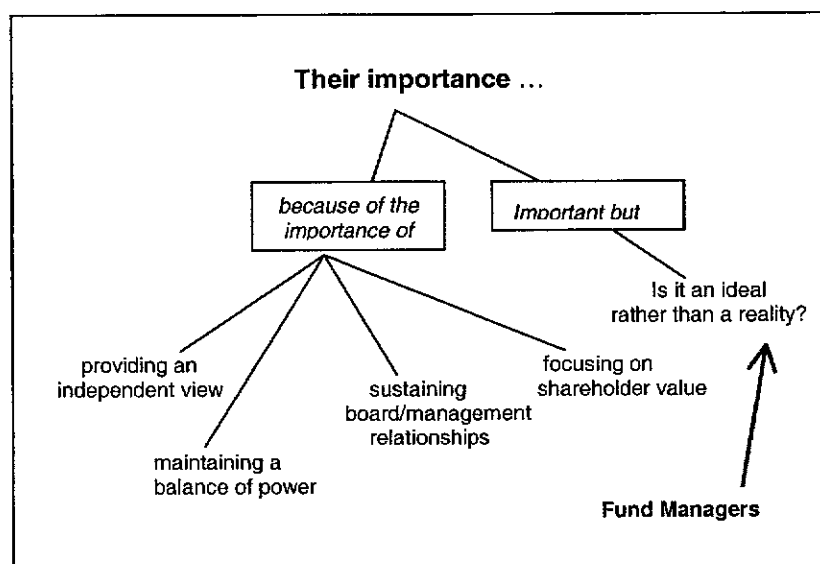
.../ our company for instance has been built with all executive directors - with no non-executive directors.../

Importance of independent directors

Directors, independently of the role each held on the respective boards were in agreement as to the need for independent directors and 'their importance'.

.../ providing first of all an independent view .../ independence is really focused on the extent to which the character and business relationships of the individual are not likely to be influenced by points of view of management.../

Figure 5.6: Categories supporting the importance of independent directors



Four categories supported 'their importance' (see Figure 5.6). However one category emerged expressing the notion that whilst important, perhaps the concept of true independence is 'an ideal rather than a reality'. This view was supported by a category in the fund managers interview data. This category emerging from the fund managers' data challenged the need for independent directors. This came in the form of predicting a futuristic board made up entirely of executives. Apart from this single observation support for having independent directors was strong from among the fund managers. Data from the financial press supported the requirement for independent directors.

Once again participants highlighted the importance of 'providing an independent view'. This was a strong feature in both the importance of having independent directors and the determining characteristics that distinguished them from other types of non-executive directors.

.../ stand alone independent thinking .../

The importance of truly independent directors in ‘maintaining a balance of power’ also reflected some of the independence of view attributes.

.../ act as a check and a balance on the enthusiasms of management.../ capacity to say management is wrong, or the major shareholder is wrong.../

A healthy balance of power was associated with ‘sustaining board/management relationships’. The importance of the independent director in ‘sustaining board/management relationships’ required an understanding of the role of the independent director and how it works.

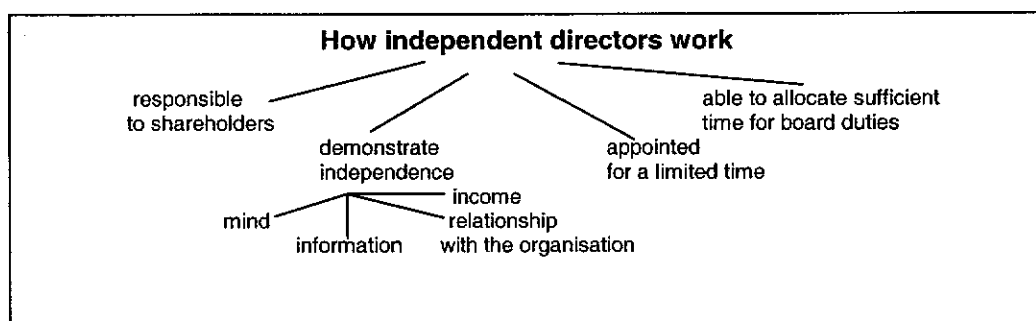
.../ there has got to be a good relationship between the board and management.../ understand well the role of the non-executive director compared with management.../ do not try to back seat drive management but try to stimulate.../

‘Focusing on shareholder value’ was another feature of the importance of having independent directors.

.../ you have got to focus on shareholder value.../ bottom line focus of shareholder value.../

The third group of categories explored ‘how independent directors work’. Some of the defining features of the independent NED also contributed to this group (see ‘NED and independent’ in Figure 5.5 and ‘independent view’ in Figure 5.6). The categories in this group are shown in Figure 5.7.

Figure 5.7: Categories describing how independent directors work.



The discussion about ‘how independent directors work’ dealt with how they, demonstrate being ‘responsible to shareholders’, ‘demonstrate independence’ and protecting that

independence by being 'appointed for a limited time' and 'able to allocate sufficient time for board duties'.

Being 'responsible to shareholders' included focusing on shareholder value and accountability that was transparent.

.../ have responsibility and accountability to the whole body of shareholders .../ acting on behalf of shareholders.../ a good board ... thinks about performance and creating wealth for shareholders .../ exercising of professional judgement in the best interests of shareholders .../

Being able to 'demonstrate independence' drew on the features identified in Figures 5.5 and 5.6 such as independence of 'mind', 'information' and 'income'. Maintaining independence of 'relationship with the organisation' was considered in the light of dealings with management.

.../ directors generally do not get themselves involved in the nitty-gritty of day to day management .../ you are not beholden to management or major shareholders.../

Protecting that independence was considered from the point of how much time an independent director remained on a particular board. Being 'appointed for a limited time' was considered an appropriate way of protecting independence of directors. Ensuring that directors were 'able to allocate sufficient time for board duties' was another important part of protecting the independence of directors.

.../ independent directors should not remain on the board of a particular company for too long.../ we have said ten years is ample.../ someone who has the time to put in .../ who will spend enough time to understand the company.../

The fourth group of categories described 'essential qualities for any director'. Six categories describe what the directors consider to be qualities you want, while four categories deal with the qualities you don't want, in a director on a BOCD. These categories are presented in Figure 5.8.

Figure 5.8: Categories describing essential qualities for any director.



'Integrity' figured strongly in the requirements looked for when selecting directors, whether they were executive or non-executive, independent or non-independent.

.../ you have got to have honesty and integrity.../ proper ethics.../ weigh up a lot of information and ethical considerations.../

The categories in Figure 5.8 identify aspects of a director other than specific operational skills. The range of skills identified included 'conceptual skills', 'a business sense' and 'communication skills'.

.../ have good conceptual skills.../ capacity to think strategically.../ good common commercial nous.../ commercial judgement.../ common sense.../ perception and the ability to communicate that.../ got to be plain spoken.../

While the discussions did not focus on a range of specific operational skills that directors might have there was an assumption that 'experience' came from having held various operational business positions in the past. It was expected that directors would be selected on the strengths of what they had to offer to the board by way of skills acquired from 'experience'.

.../ level of experience.../ they should be experienced.../ the most competent board will be knee deep in experience.../

Sustaining all these requirements was a 'sense of humour'.

.../ if the people around the table have got a reasonable sense of humour you can defuse it all.../ I would hate to come to a board that had people on it that did not have any sense of humour.../

Equally robust were the categories that described just what participants did not want in a director. The strong desire to move away from the 'old boys' club' model of governance was based on the assumption that in the past people were appointed to BOCDs on the basis of their social networks regardless of their experience in areas of business expertise. In this model the essential criteria was whom you knew rather than what you were capable of contributing.

.../ an old boys club.../ a mate of mine in the club.../

It was considered important not to appoint people who were demonstrably 'inexperienced'.

.../ no place for amateurs.../ you do not want a box of marshmallows.../ (those) who do not have commercial nous.../

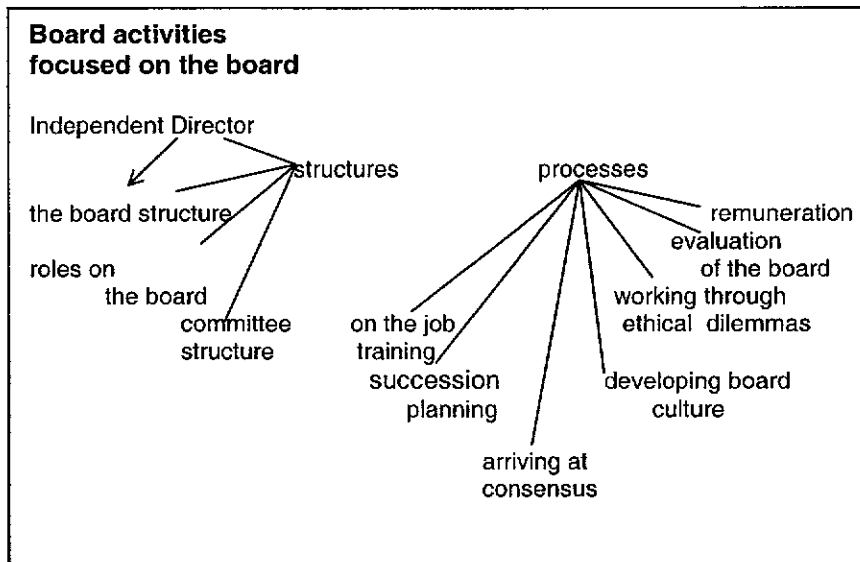
In spite of the abilities and experience that a person may bring to the board there were qualities that were to be avoided. These included 'self-centred people' and those with 'low ethical standards'.

.../ someone who always wants to be dominating the conversation and not listening.../ people with huge skills and the morals of a gutter rat.../ clever people with no ethics.../

Other categories informing focus of board of activities

This part of the discussion considers the remaining ten categories in Figure 5.3 that complete the discussion surrounding the board activities that focus on the board itself. The three categories that continue to deal with structures that apply to the board are considered and then discussion focuses on the categories that deal with processes. Figure 5.3 is represented to assist the discussion.

Figure 5.3 (repeated): Board activities that focus on the board



'The board structure' was considered by participants to be best shaped by the operational context as much by established conventions.

.../ structure can be a great inhibitor unless there is a point to the structure.../ the optimum size for a board - I am not sure that there is one .../ another question ...is the composition of internal executive and non executive directors.../

While the two principal roles of CEO and chairman were considered as central there was also mention of the other roles that contribute to the board activities. The independent director role was one, and the roles involved in committee membership were another. 'Committee structure' is discussed as a separate category while independence was dealt with within the super category **independent director** (already examined in **Independent Directors**).

Discussions about the role of the chairman assumed the Australian model of an independent chairman. In some cases the adoption of the model was referred to explicitly.

.../ I would expect to find the chairman as a non-executive and the Chief executive as the Managing Director as a separate person.../ I think that it is better to have a totally independent chairman.../

In other cases the adoption of the model was by implication.

.../ I think that a best practice board is where the chairman creates a climate of mutual respect between executive management and directors.../ a non-executive chairman should not house himself in the building where his managing director and management people work.../

In contrast to the support for the separation of chairman and CEO there were arguments put forward for the combined roles of CEO and chairman.

.../ you need to identify all those roles and be sure that you are doing them effectively.../ a good chief executive recognises that no one person has got a monopoly on wisdom .../ the practice of executive chairman has fallen into disrepute .../ to not have the top person of the company, understanding the company is a huge competitive disadvantage.../

Discussion about the 'committee structure' within the board reflected the operational framework of the organisation as well as the board. Giving attention to aspects of legal requirements was also considered.

.../ and so they would have the audit committee focused on the financial risk and a compliance committee focusing on risk that might be about occupational health and safety, insurance issues, corporate governance issues, succession planning for the board issues.../ remuneration committee often combined with the function of nominating new members.../ a specialist committee for a special reason. At the bank we have credit approval committees.../

Training for future directors was viewed as best done in the form of 'on the job training'. For people who were likely to become executive directors exposure to board proceedings was considered a preliminary to appointment to the board.

.../ it is a hell of a place for on the job training.../ the only way that you can really train directors in that sense of the word is to put them there as an executive.../

However it was unlikely that an independent director would be given the opportunity to 'train on the job'.

boards are not going to take risks by bringing in some leader for training.../

Among interviewees the matter of 'succession planning' was an important aspect in considering the long term state of the BOCD. Given the limited number of places on the board for executives from within the organisation, considering the choice of future directors from within the organisation was only one aspect of succession planning. The other aspect considered the long term planning for the appointment of independent directors.

Placing personnel strategically within the organisation so as to provide effective alternatives for succession assured the quality of the organisation's future. In directors' perceptions this was a different question from training. It was about providing the organisation with alternatives.

.../ the development of people so that you have got successional alternatives in place.../ you are putting in place the quality people you need to run that business.../ monitoring your management, looking after your succession.../

The appointment of independent directors was the other aspect of succession planning. In the preferred Australian model where independent directors are normally in the majority this was an important consideration.

.../ looking after the future generation of the company.../ how we look to recruit new directors.../ the mix of people ensures that when there is a need to look at something new or different or approach an old problem in a new way, you have the variety and diversity on the board to do this.../

Decision making on boards required 'arriving at consensus'. How this should best be done was discussed from differing perspectives.

.../ a board which continues to be non consensus is a dangerous board, even though the issues might be very important. .../ whether we should go out of our way to have opponents on boards so that boards in fact become more controversial on their way to consensus?.../ a management style [that] I would call collegiate .../ the Chief Executive has to ultimately be the decision maker, but the best way of making decisions is to bring people to a consensus so that there is a feeling of ownership.../

The board's way of doing things - evidence of the individuality of each board is a way of 'demonstrating a board's culture'. The culture of the modern day board was viewed in favourable contrast to the culture of the board of yester year.

.../ the boards in the old days were pretty chummy sorts of things, a nice long lunch and all that.../ it is very obvious that the cultures of the various boards is very much driven by the chairman.../

Working through 'ethical dilemmas' was one feature of the board's activities that created a personal challenge for some directors. Among participants there was a reliance on the individual to decide how best to resolve the dilemma.

.../ you might elect to stay on the board because by staying there you may have the occasion to change their mind. By getting off the board you cannot.../ I stayed on the board, even though I had voted against it. I am going along with the board decision. It put me in an awkward situation.../ I have been fortunate and I feel pretty comfortable about not having to compromise my ethical standards in any way.../

There were diverse ideas about how evaluation of the board could be done with no single methodology surfacing as being generally adopted by a number of boards.

.../ has to know where it is and it has to measure itself.../ it has to be able to know the contribution of everybody and make sure that it is properly balanced.../ I think that boards should go through some process of considering how they are performing.../ so some approach to self-evaluation or to performance assessment.../

Participants were in agreement that directors should receive 'remuneration'. Fund managers held a wider range of views on the matter including the idea that independent directors could not be totally independent if they held shares in the company. However the way it should best be done was an issue. While the issuing of shares to independent directors in the form of 'remuneration' was a matter of contention the strength of opinion among directors supported the practice.

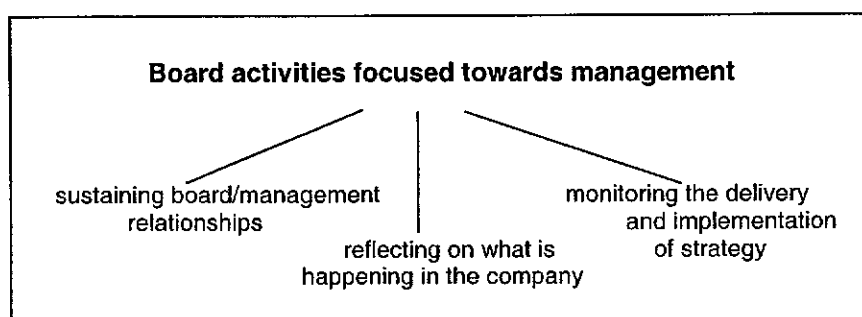
.../ I am a bit ambivalent as to whether it is best practice to have a compulsory part of that remuneration at risk through issue of shares.../ I do believe that it should be available to directors to take part of the remuneration in shares in the

company.../ good to have directors being obviously shareholders of the company.../

5.4.2 Board Activities Focused on Management

In Figure 5.2 'management' is identified as another of the groups that figure as an *area of focus of board activities*. There are three categories in this group. These categories (see Figure 5.9) were concerned with 'sustaining board/management relationships', 'reflecting on what is happening in the company' and 'monitoring the delivery and implementation of strategy'. The category emerging from the discussion surrounding independent directors and 'their importance' in sustaining board/management relationships (see Figure 5.6) was merged with this category.

Figure 5.9: Areas of board activities focused on management



The category 'sustaining board/management relationships' was viewed as an area of board activities that required a lot of attention on the part of executives and board members alike and in many cases fell short of what some considered desirable.

.../ I think that Australia has to sort out the role of the board and the roles of the executive team.../ there are situations where the chairman with the ability to act quickly as Chief Executive can deliver better results.../

This category was also informed by the category 'succession planning' already described as a board activity focused towards the board. The aspect of succession planning that focused on monitoring the development of key management personnel also contributed to the discussion of board/management relationships.

.../ monitoring your management, looking after your succession.../

The category ‘monitoring the delivery and implementation of strategy’ highlighted the nature of the balance that should be maintained within the board/management relationship. This category strongly supported the idea that management should be able to implement strategy without intrusive action from board members. At the same time there was strong belief that the board should make a significant contribution to the development of strategy.

.../ having a joint responsibility with management for strategy.../ management would develop the strategy and the board would be proactive in saying that these are the issues or the opportunities that need to be taken into account in developing that strategy.../ the board would contribute to the development of that strategy.../ to set the strategic direction... with the management ultimately responsible for the implementation of strategy.../

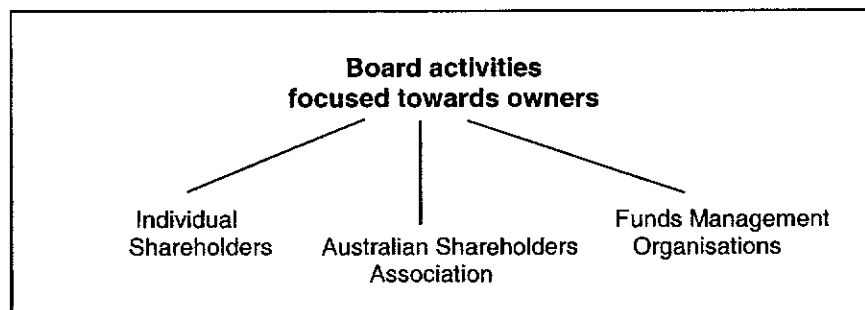
The ability of the BOCD to work effectively in ‘sustaining board/management relationships’ and ‘monitoring the delivery and implementation of strategy’ was seen to depend largely on directors ‘reflecting on what is happening in the company’.

.../ reflects a little of what is happening in the company.../ people looking at the reality of what is happening in the industry.../ causes directors to reflect on hey, was I really asking the right questions?.../

5.4.3 Board Activities Focused on Owners

In Figure 5.2 ‘owners’ are yet another group identified as an *area of focus of board activities*. There are three categories in this group. These categories (see Figure 5.10) are ‘individual shareholders’, ‘Australian Shareholders’ Association’ and ‘Fund Management Organisations’. The ‘Fund Management Organisations’ represent a particular group of shareholders or a group of potential shareholders. There were categories from Figures 5.6 and 5.7 that merged with relevant categories in Figure 5.10.

Figure 5.10: Areas of board activities focused on owners



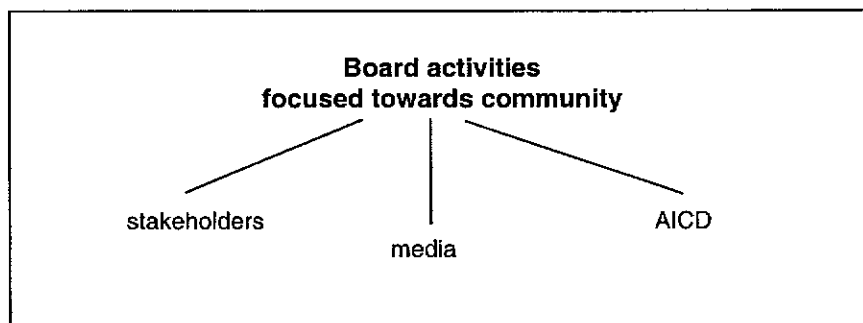
Participants indicate that shareholders, particularly the identified groups have an influence on board deliberations.

.../ the board are there as employees of the shareholders .../ ensure that the interests of all shareholders are recognised .../ I think that the shareholders associations are asking good questions sometimes.../ there is no doubt that the big fund managers are having a lot more influence than they have ever had before.../ corporate governance has been driven by an alliance of all those forces, small shareholders, institutional shareholders.../ glimmerings of shareholder democracy.../

5.4.4 Board Activities Focused on Community

In Figure 5.2 the fourth group identified as an *area of focus of board activities* is 'community'. There are three categories in this group. These categories (see Figure 5.11) are identified as 'stakeholders', 'media' and 'AICD'.

Figure 5.11: Focusing Board Activities on Community



Stakeholder groups were discussed in general terms without necessarily identifying specifically all the various groups involved with the organisation. Some stakeholder groups can be identified as being intrinsically connected to the organisation (e.g. the workforce, contractors, suppliers). There are other stakeholder groups that are extrinsically connected (e.g. actors employed by an advertising agency to perform in a series of advertisements for an organisation). In order to deal with both types of stakeholders this broad category, as an interest group, has been categorised as community.

.../ concerned with how the company is interacting with its environment, its community, with its suppliers and with all the various people that it does business with.../ their job is to do the best they can for all the stakeholders and a diverse range of stakeholders.../

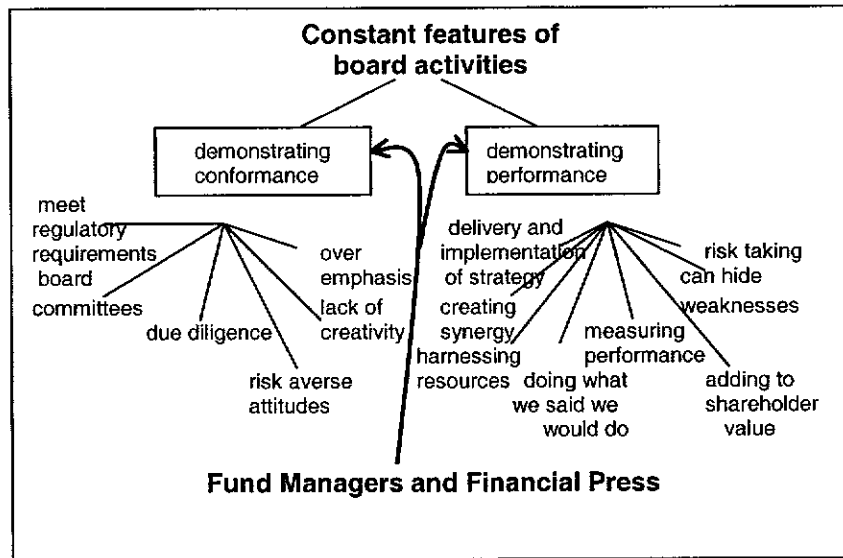
Other more easily identified community groups mentioned by participants, included the professional organisations such as the Australian Institute of Company Directors (AICD) and the media.

.../ public companies at least, should require their directors to be members of the Institute.../ the Institute itself has been increasing the level of professionalism by now requiring that to become a fellow you have got to go through an examination process.../ so much of the criticism that appears in the press is ill informed.../

5.5 Constant Features of Board Activities

The concept *constant features of board activities* emerged fourteen categories (see Figure 5.12). These categories focused on two aspects of board activities. Six categories were about 'conformance' activities. They included 'meet regulatory requirements', 'board committees', 'due diligence', 'risk averse attitudes', 'lack of creativity' and 'over emphasis'. Eight categories were about 'performance'. They included 'delivery and implementation of strategy', 'creating synergy', 'harnessing resources', 'doing what we said we would do', 'measuring performance', 'adding to shareholder value', 'can hide weaknesses' and 'risk taking'. Six of the ten items on the questionnaire support the construct *constant features of board activities*. The categories that contributed to the development of these items are identified in Figure 5.12.

Figure 5.12: Constant features of board activities



‘Conformance’ and ‘performance’ were two dimensions of board activities identified in the preliminary study. Both groups of categories contain positive and negative comments. In the super category **Definition**, ‘conformance’ and ‘performance’ were strong categories contributing to the emergent definition-in-use. These categories were either attached or merged with existing categories that informed the **Definition** (see 5.8). An emerging theme within this concept pointed to a changing relationship between the two functions of performance and conformance. The findings of the preliminary study had previously identified them as competitive elements in governance activities.

Conformance was discussed by participants as being made up of those activities that ‘meet regulatory requirements’ in a wide range of areas of accountability.

.../ an emphasis on structure.../ being compliant.../ focused on things like health and safety and environment issues.../ are we fully complying with our environmental licences?.../ our audit functions, are we fully complying with all the accounting standards?.../ are we complying with ASIC requirements?.../ matters which the board is asking management what are the requirements on this company ... and satisfying themselves that management is compliant.../

As can be seen in the comments concerning ‘board committees’ (see Figure 5.3) specialist committees are used to attend to some of the forms of reporting and accountability unique to an organisation. Again in discussions concerning individual

differences in boards it is evident that even in regulatory matters there is not necessarily a uniform approach across boards. The board committee structure was the instrument used by boards to address the areas of accountability required of them. In some cases there is a separate committee for various conformance activities, in others one committee oversees conformance activities.

.../ is there an adequate committee structure.../ interested to know what the composition of the committees may be.../ a separate committee established to focus on conformance issues.../ is there an audit committee?.../

'Due diligence' was viewed as underpinning conformance activities with particular attention given to disclosure, accountability and reporting procedures. In this category participants were essentially concerned with the expectation that all regulatory requirements were met.

.../ at times of due diligence, Part A statements, annual reporting, half yearly reporting, we are all very conscious of the obligations.../ anything that you wanted to do has to go through almost a separate process of due diligence.../ we went through the due diligence stakes any continuous disclosure issues need to be raised.../ keep the market informed of all the activities that are necessary or appropriate.../ a preparedness to discuss things that are of concern from legal requirements to disclosure.../ being much tougher on process and recording and ensuring that things are being done properly.../

Participants discussed the tendency for concerns with conformance to generate 'risk averse attitudes'. There were concerns that the approach to risk management showed how directors became retrospective in their considerations. This contributed to a lack of balance in the way boards operate and a display of a 'lack of creativity'.

.../ with an over emphasis on corporate governance you might become so risk averse you will not do anything.../ if people feel that they are going to be judged in hindsight on decisions that they took earlier they will tend to become less risk taking.../ the thing that springs to my mind immediately is covering your backside.../ so you always take the safe route and you do not necessarily do what is best.../ it will be backward looking rather than forward looking.../ too far orientated towards compliance, lacking balance.../ the sort of board that 'crosses the Is and dots the Ts' and follows the rules of meeting procedure but it

will not be a creative board in my view.../ less time for creative thinking.../ more risk averse, less creative, less achieving.../

Directors considered that in the current context there was 'over emphasis' on the conformance dimension of corporate governance with regulatory concerns being the principal driving force.

.../ the accrediting [type] board ... the formal 'tick-the-boxes', management questionnaire and so on ...elevate that up to the board level.../ taking the 'tick-the-boxes' approach .../ doesn't say what is this company going to look like in five years.../ in the business of ticking boxes for compliance and making sure that all sorts of paper trails and footprints were laid.../ people who watch the regulatory side very carefully.../ interest in compliance status, regulatory status, the change in regulations .../ severe risks if you tread on those rules.../

Participants considered that 'performance' was about the short term as well as the long term status of the organisation and required 'harnessing resources'.

.../ achieving short and long term performance.../ focusing on the existing operations.../ it is about somebody at the top being able to harmonise all those forces that drive through the organisation.../

A capacity within the board for 'creating synergy' throughout the organisation was seen to be an important feature in the performance dimension of corporate governance.

.../ you have got to get everything in harmony and synergy.../ if there are disharmonies you will get all sorts of different activities and there is a whole lot of wasted activity.../

Board activities that demonstrate the 'performance' dimension of corporate governance are perceived by directors to require a constant scrutiny of what it is they are doing as an organisation. The question 'are we doing what we said we would do?' served as a point of reference.

.../ a performing board is looking constantly at what it is doing.../ there is a very strong focus from both the chief executive and the divisional heads on: What are the business activities? Are we doing what we said we would do? .../

it is very interactive in terms of the directors challenging management in the best possible way by trying to add value.../

Ultimately the performance of the organisation is measured in terms of 'adding to shareholder value'.

.../ one objective 'to provide a satisfactory return to shareholders'.../ we are all here to create wealth for shareholders.../ performing really means in the end getting shareholder value, getting the optimum return on the assets entrusted to management.../

As well as having performance linked to the overall organisation, measurement of performance was also discussed in terms of individual performance or departments.

.../ have some yardsticks and some assessment procedures.../ proper assessment procedures, right down through the company.../ that individual performance has been tested against something, and that performance is positive.../

Calculated 'risk taking' was viewed as being positively linked to high levels of performance. This is in contrast to the risk averse attitudes that were engendered in the conformance dominated approaches to risk management.

.../ they were actually appointed to go out in a sometimes dangerous and always challenging world and create shareholder wealth by taking risks.../ you must have people who are willing to take on an acceptable degree of risk.../business is about risk.../

There was an awareness among participants that profitable performance 'can hide weaknesses' within the organisation allowing them to go undetected.

.../ performance can hide any hint of weakness in the organisation.../ whilst you are churning out good profits you are not worrying about succession ... and suddenly the star goes and the organisation falls very badly.../

The monitoring of the 'development and implementation of strategy' was considered as being at the foundation of company performance. The extent to which directors are

involved in the development of strategy varied but they indicated that it was the boards responsibility to ensure that strategy was developed and adhered to.

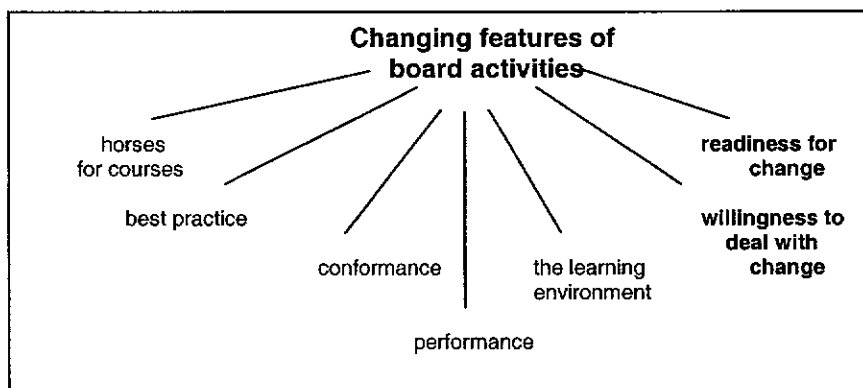
.../ you have a responsibility to make certain that the company has an appropriate strategy.../ you clear the corporate strategy.../ certainly the best practice is that strategy receives either ongoing review regularly or at least once a year.../ has a role to play and develop the strategy of the organisation.../

5.6 Changing Features of Board Activities

The concept *changing features of board activities* has two super categories, **readiness for change** and **willingness to deal with change**, as well as five categories, 'best practice', 'conformance', 'performance', 'horses for courses' and 'the learning environment' (see Figure 5.13). The three dimensions of 'best practice', 'conformance' and 'performance' are included in the questionnaire and along with two items on the questionnaire they support *constant features of board activities*. The categories that contributed to the development of these items are identified in Figure 5.13.

The two super categories **willingness to deal with change** and **readiness for change** are discussed in detail (see 5.6.1 and 5.6.2). Two themes occur within the discussion surrounding *changing features of the board*. One theme indicates that being receptive to change is conducive to the pursuit of best practice. Another theme takes the notion of co-dependence between conformance and performance further suggesting a dynamic relationship between performance activities, conformance activities and best practice.

Figure 5.13: Changing features of board activities



The notion that some features of what a board does are subject to change rather than remaining constant, is borne out by comparisons across boards as well as changes within a particular board over time. Directors who sat on more than one board at any one time

did not expect things to be done in the same way on each board. 'Horses for courses' was the operational maxim.

.../ there are horses for courses in the ways that boards will behave and need to behave that relate to the circumstances in which the organisation finds itself.../ it is not something where, 'one size fits all'.../ Some practice that works well for company A ought not necessarily be employed by all companies, and particularly not company B.../ get away from these prescriptive approaches and in the spirit of good governance make the right decisions in the different circumstances and explain why.../

Non-uniformity across boards in how things were done was indicative of the diversity and fluidity that participants sought in a best practice board. This diversity required an airing of a range of opposing views in a way that engendered creativity.

.../ the best practice board is one which has diversity and fluidity.../ to say something is best practice ... it might not be [best practice] for all of them.../ you have got to be almost minimalist and constantly adjusting to get the maximum outputs.../ best practice is where the chairman creates a climate of mutual respect between executive management and directors. Where people feel comfortable in having an opposing view.../

The 'best practice' category was included as one of the changing features of board activities. In considering conformance requirements in the light of best practice, participants saw them as more than simply a static set of requirements. There was an expectation that the ways in which conformance requirements were met would be open to change. It is in these discussions that the notion of a codependent relationship between conformance and performance emerges in contrast one where the two functions compete for dominance.

.../ in the best practice area, compliance would be proactive and [looking to the] future rather than ticking boxes and covering backsides.../ the only rule in best practice for a board is what is best for the business provided that is in compliance.../

With regard to the 'performance' dimension of what a board does, participants considered that there would be regular revisiting and appraisal of the organisation and functions within the organisation. Functions such as risk management and attention to safety issues

were included in this type of 'performance' oriented discussion once again highlighting the sense of a codependent relationship.

.../ a good board will review its performance.../ trying to do as well by comparing ourselves with other boards and keeping abreast of the way boards behave.../ best practice is where strategy receives either ongoing review regularly or at least once a year.../ looks at all the important things like strategy... safety... monitoring performance.../ I would see best practice companies as being proactive and interactive with management ... heavily involved in ensuring that the culture of the organisation and the values of the organisation were consistent with the purpose and the strategy of the organisation.../

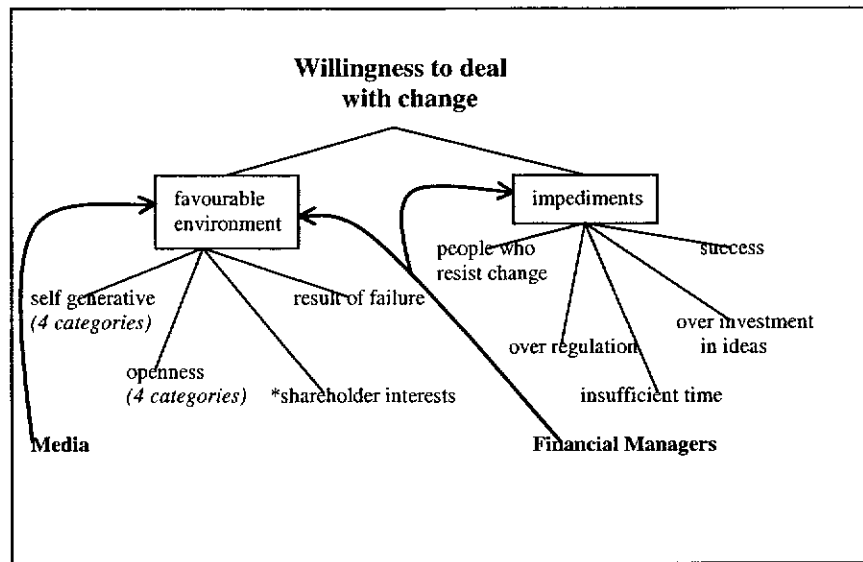
'The learning environment' where people were open to the challenge of new ideas and personalities was seen to be a requirement for a best practice board. This ensured that the need for change was constantly addressed.

.../ a challenge of ideas not a challenge of personalities .../ you want people with inquiring minds who are reading widely and have got strong networks and are learning about change.../AGMs ought to be somewhere where a learning process takes place and people get to understand more and more about their company.../

5.6.1 'Willingness to deal with change' informing the changing features of the board activities.

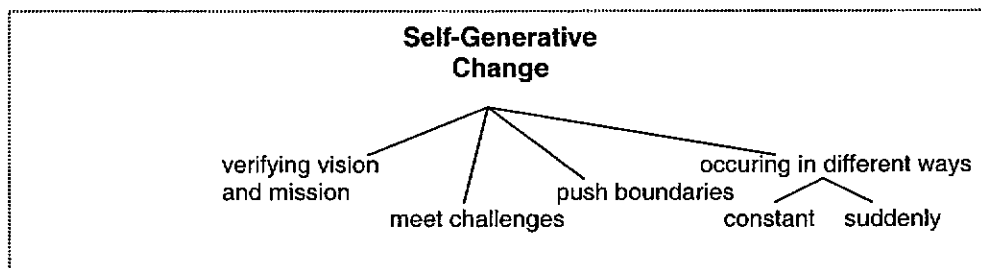
The notion of openness to influences that promote change was further informed by the super category **willingness to deal with change** and its fifteen categories (Figure 5.14). Ten categories addressed a 'favourable environment' for a **willingness to deal with change**. Four of these categories discussed the 'self generative' aspect of change. Four more categories discussed 'openness'. The remaining categories were 'shareholder interests' and 'result of failure'. Five groups of categories addressed 'impediments' to a **willingness to deal with change**. They were 'people who resist change', 'over regulation', 'insufficient time', 'over investment in ideas' and 'success'. Categories from the Financial Press data supported the categories that informed 'favourable environment'. The categories from the Fund Managers data supported both groups.

Figure 5.14: Category groups that inform the super category 'willingness to deal with change'



The four categories that informed the 'self generative' aspect of a favourable environment (see Figure 5.15) were 'verifying vision and mission', 'meet challenges', 'push boundaries' and 'occurring in different ways', both constant and suddenly.

Figure 5.15: Aspects of a BOCD's ability to self generate change.



Directors considered that the ability of the board to reinvent itself or generate changes from within was a requirement for effectively dealing with change. For some it was considered as being necessary for survival.

.../ look at highly successful companies who suddenly go off the boil, one of the issues is, you have got to constantly keep reinventing yourself.../ to say 'yes, what we did today is terrific, but as we sit here it will not be what we are required to do tomorrow.../ the urge for self preservation is there whether boards like it or not. And if they do not perceive it then they will get a very rude shock.../

Participants discussed the need to regularly appraise the way in which things were done and 'verifying the vision and mission' of the organisation.

.../ to ensure that the vision is actually being materialised .../ a verifying of whether the reality of the delivery of it matches the vision that they assumed was there.../

Comments about a willingness to 'meet challenges' supported the ideas already discussed concerning the board reinventing itself.

.../ you have got to recognise where the future is.../ being seen to be willing to take some tough decisions.../ change is something that you do not just ignore.../

Keeping abreast of the times was seen to contribute to developing the capacity to 'push boundaries' or break new ground. These comments further supported the idea of the board proactively generating change from within.

.../ make sure [they] are abreast of the times.../ understand what is happening in the global community.../ ability to see the significance of extraneous events.../ be courageous and not necessarily breach the law but be prepared to push it to the edge of the envelope.../ a willingness to constantly be pushing out.../ [have they] got the character and the courage to say we have to bet two, three billion dollars on these things.../

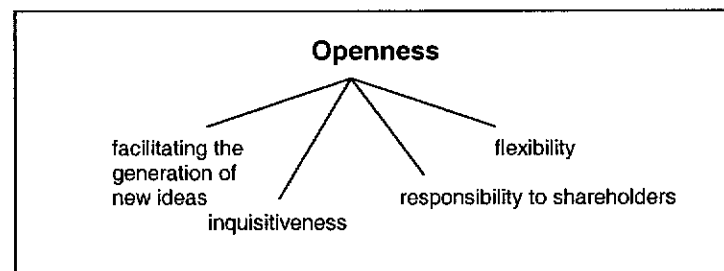
Directors discussed the fact that while change is essential, it 'occurs in different ways'. Some BOCs do it gradually. Others work at it constantly. There are times when it is taken on suddenly.

.../ it is a constant matter.../ there is constant thought about the next ten years.../ there are always predators out there.../ there are always opportunities.../ it is one of those evolutionary things.../it is very subtle.../it is gradual.../it is creeping.../ there is rapid change occurring.../ suddenly a government law will change and the whole company's existence is challenged.../

The four categories that contributed to the group 'openness' were 'facilitating the generation of new ideas', 'inquisitiveness', 'responsibility to shareholders' and 'flexibility'. Another theme is identified. There is an expectation that when boards

generate change from within, an ‘openness’ of mind appears to facilitate the way that new ideas and approaches are received (see Figure 5.16).

Figure 5.16: Group of categories supporting openness



‘Facilitating the generation of new ideas’ was viewed as strongly dependent on the type of leadership demonstrated on the board.

.../ the need on the one hand to support management and on the other to question management.../ a lot of it comes down to the leader [and the need for] very strong leadership.../ the chemistry as to who is leading and who are the led.../ your chairperson is willing to conduct the debate in ways that allow people to have their views.../ a good board will be requiring the Chief Executive to be moving it in a forward direction.../

The need for directors to demonstrate ‘inquisitiveness’ and ‘flexibility’ was considered by participants to indicate the type of openness that they wanted to see on best practice boards.

.../ it is all to do with openness.../ whether they are prepared to listen to criticism.../ is there anything happening by way of change to which we want to respond.../ they have got to be far more inquisitive and proactive than many boards usually are .../ your willingness to become aware of how you can improve your competitive position .../ got to know that there is a need for change or an opportunity for change.../ a mental attitude that says being nimble is a key part of our advantage.../ it is very well telling management that they have got to change but I think that you have got to be prepared to change yourself and [be] flexible in your thinking.../

Directors considered that their ‘responsibility to shareholders’ contributed to the need to demonstrate openness of mind.

.../ the ones that drive the change are always the shareholders.../ the real owners are the shareholders and the board has to be tuned to their needs and changes over time.../

There was a view among a number of participants that (see Figure 5.14) a board would be ready to instigate change as a 'result of failure'.

.../ if the company has got into a mess then obviously the willingness is far more likely to be there .../ if the company is not doing well ... are not doing the right thing if they do not embrace the need to change.../ not proactive but reactive change.../

Participants discussed the idea that 'people who resist change' (see Figure 5.14) were a significant barrier to developing a climate of change within the board.

.../ a board where everyone is contributing to perpetuating the 'corporation' will have a group of people who will resist change.../ the comfort zones.../ where the chairman is operating on a framework that he or she is comfortable with and they believe the status quo is good enough.../

Some of the reasons considered by participants to underpin why people are resistant to change included aging and attitudes embedded in conservative backgrounds.

.../ the natural tendency of people to resist change, manifested in terms of age.../ I think that age comes into it.../ some people come from a much more conservative background or profession.../ people too fixed in their ways.../ just the inertia of having to do it.../ some people are obviously change averse.../ confuse strength with rigidity.../

The tendency for 'over regulation' in the aftermath of corporate disasters was considered to be another factor that contributed to a resistance to change.

.../ overzealous regulation.../ conformance led regulation versus performance led regulation.../

Participants discussed the impact of introducing change with 'insufficient time' given to the change process. This was viewed as contributing to a change averse environment.

.../ a company that takes substantial change and tries to sell it to their board too quickly.../ the odd occasion when you have not got time on your side.../

Another feature of a change averse environment was the 'over investment in ideas' as is likely to occur when resources have already been invested in a contrary or unproductive course of action.

.../ when half the board at least had been involved in the original decision.../

The potential was that people would continue to push an idea forward regardless. To avoid contributing to this type of change averse environment it was necessary to have people who were prepared to admit that they were wrong.

.../ you have got to have people who are willing to accept that they got it wrong.../

Participants discussed the paradoxical effect of 'success' on attitudes to change. Altering the recipe for success was viewed unfavourably and convention would support staying with the tried and true way of doing things.

.../ a lot of time and energy spent keeping to the things that work and perpetuating what has already been proved to work successfully.../ the boards that are inbred ...prone to make boards that are fat and happy.../

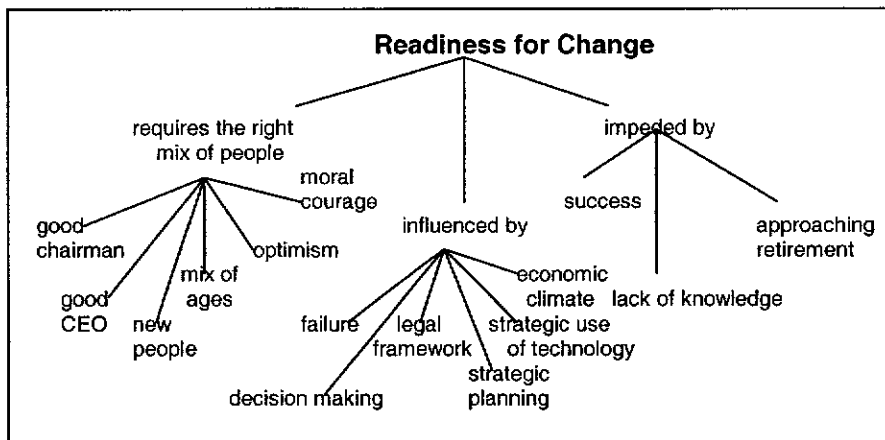
5.6.2 Readiness for change' informing the changing features of the board activities

The super category **readiness for change** has sixteen categories (see Figure 5.17). Seven categories describe how a readiness for change 'requires the right mix of people'. These were a 'good chairman', 'good CEO', 'new people', 'mix of ages', 'optimism', and 'moral courage'. Six categories discuss ways a readiness for change is 'influenced by' various factors. They were 'failure', 'decision making', 'legal framework', 'strategic planning', 'strategic use of technology' and 'economic climate'. Three categories address ways in which a readiness for change is 'impeded by' other factors. These were 'success', 'lack of knowledge' and 'approaching retirement'.

It was acknowledged by participants that a willingness to deal with change did not necessarily ensure that things were in readiness for the onset of change.

.../ a willingness to change is a necessary but not sufficient condition for a readiness to change.../

Figure 5.17: Categories in the super category 'readiness for change'



Participants considered that for there to be a readiness for change there should be the 'right mix of people'.

.../ the mix of people ensures that when there is a need to look at something new or different or approach an old problem in a new way, you have the variety and diversity on the board to do this.../ it is about having the right kind of people.../

The elements that made for the right mix of people would include such things as a 'good chairman', 'good CEO', introducing 'new people' onto the board and ensuring that there was a good 'mix of ages'. They also discussed qualities such as 'moral courage' and 'optimism'.

.../ it really does come down to the chairman.../the CEO in particular [needs] to be an agent for change.../ just enough change to keep it vital.../ a variety in age from relatively young to older and more mature.../ need an element of moral courage.../ people who tend to be proactive and optimistic.../ have a mixture of optimism and realism.../ you need to have the confidence... the combination of discipline and entrepreneurial spirit.../

Directors saw a readiness for change being 'influenced by' a reaction to 'failure', a positive environment for 'decision making', the prevailing 'legal framework', the way in

which 'strategic planning' is carried out, 'strategic use of new technology' and responses to the 'economic climate'.

.../ a crisis is what motivates the ones that are not successful [to change] .../ adequate decision making procedure.../ taking decisions quickly enough .../ people are so strategically focused.../ people who are good strategic thinkers.../ got the strategy approximately right.../ what are the implications for technology on our business.../ prepared to cope with the enormous changes that [come with] electronic commerce.../ if we went into a depression my feeling is that you would just have to change quicker.../

Changes in the prevailing 'legal framework' influenced change but there was no assurance that in responding to this influence the changes would always be the ones sought by the legislators.

.../ if you introduce a law ... then obviously it will [bring] change.../ see the Australian legal framework as the sand in the gears of business.../ changes in the law, changes in accounting methods encourage people to be a bit cute about how they do things rather than to be absolutely transparent.../

Impediments to a readiness for change were considered by directors to arise from complacency borne out of continued 'success', a 'lack of knowledge' that is up to date and relevant as well as directors who see their role on the board as a reward on 'approaching retirement'.

The paradox of having continued 'success' actually generate a resistance to change and improvement was highlighted.

.../ if the organisation is performing well the need for change is less.../ boards where the organisation is performing well will probably be less willing to change than the ones where the organisation is not performing well.../

'Lack of knowledge' was seen by directors to contribute to an inability to read the signs of the times accurately.

.../ a lack of understanding, lack of appreciation of what change is going to mean to the organisation.../ strategy is set and we all go to sleep for a while.../ there are not any early signals as to when the overall strategy is going off the

rails.../ there is usually a short term factor that can explain a budget deficit rather than somebody stepping back and saying, this is strategic.../

Directors considered that there was no incentive to be proactive about introducing change and responding to influences for change if a role on the board was considered to be a reward granted when 'approaching retirement'.

.../ [with those] who have retired onto boards there is a sense of, this is our reward.../ seeing things out to the end rather than taking the initiative.../ a state of security and safety in the way things are.../ when people go on boards as a retirement occupation.../ This is the reward not the endeavour.../

5.7 Directors' Perceptions of the Best Practice Board

As stated at the beginning of the chapter the first finding of this research concerns the nature of the best practice board. The finding is based on the three concepts and the supporting categories as well as the ideas that surround both a willingness and readiness to change. Directors describe a best practice board as attending to a range of activities that are a constant part of the board's activities (i.e. conformance and performance activities) in a climate of change (see Figure 5.1). These activities are directed towards four principal interest groups (see Figures 5.1 and 5.2). The differentiating feature of the best practice board is that the climate of change is self-generated, fluid and diverse (see Figures 5.14 and 5.17).

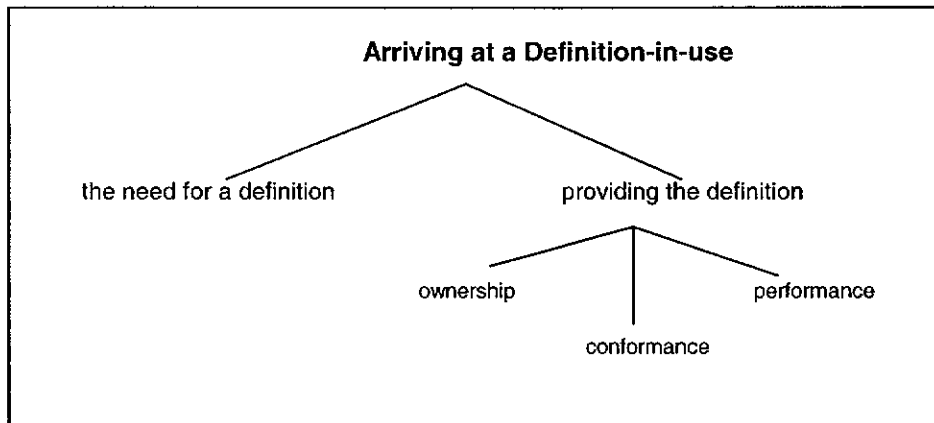
5.8 Corporate Governance - Definition-in-use

There were two groups of categories that emerged from the super category **definition**. In one group participants acknowledged the need for a definition.

.../it would be interesting if you could come up with a good definition of it for a start.../ it tends to be a bit of an airy, fairy sort of concept, corporate governance.../ I don't know that I have a particular way of describing it.../

The other group of categories provided the definition. Three categories of data contributed to the development of the definition. These are identified in Figure 5.18 as being 'ownership', 'conformance' and 'performance'. There is a strong social dimension to the way in which directors view their responsibilities.

Figure 5.18: Categories within super category 'definition'



Participants emphasised the board's relationship with the 'owners' as one important aspect of the definition.

.../ the responsibility that directors have to the shareholders as custodian of the company's assets.../ the mechanism by which the intermediation between the owners and management takes place.../ the process by which the people who are delegated by the owners to optimise their investment and through that process optimise the performance of management.../ an expression of how directors behave in terms of respecting the expectations of shareholders.../ the ongoing independent exercising of professional judgement in the best interests of the shareholders.../

Directors described corporate governance as the need to comply with regulatory requirements by carrying out functions that satisfied 'conformance'.

.../ corporate governance is just about compliance.../ consistent with ensuring the organisation complies with its legal obligations to the community and society ... in a way that minimises risk.../ ensuring the integrity of the company .../ policies in place that cover the physical side, assets, security of assets and so on, but also the ethics.../ to make sure that the company behaves as ... an honest corporate citizen and follows the rules.../ directors being able to say, what is this? What caused this? Who did this? Who is doing what? When is it going to happen? Why are we not doing A,B,C.../ Doing the right things in

conformance.../ the way a board behaves in accepting and practising the responsibility and accountability placed on it by its shareholders.../

The 'performance' dimension of corporate governance was also evident in the responses. There were some aspects of 'performance' that considered the processes involved.

.../ the culture and values, processes and systems that a board of directors puts in place or ensures is in place to maximise the performance of the business and therefore the value, for the stakeholders in the business.../

Another aspect of 'performance' was about the relationships between the BOCD and various stakeholder groups.

.../ satisfying the needs of predominantly the shareholders but there are other interested stakeholders.../ the best interests of the shareholders, the employees and the customers of an organization.../ to ensure that the company is well run by its executives, not to do the running, but to ensure that the company is well run.../ is really about the shared values of the board and the way in which the board goes about directing the business within that envelope of shared values.../

There were definitions that combined the three categories.

.../ an external body which steps out of the day to day part of running the business and from that distance asks questions, raises issues, takes decisions that will help guide the corporation to do the right thing for all of its stakeholder groups over time.../ a compromise to be reached between the areas of the watchdog and the pilot.../

Two extracts from the interview quotes that dealt with 'ownership' were chosen as being inclusive of the ideas expressed in other quotes within that category.

.../ the ongoing independent exercising of professional judgement in the best interests of the shareholders.../ the responsibility that directors have to the shareholders as custodian of the company's assets.../

These two quotes were combined to produce the following statement. The custodial role was considered a strong descriptor of the relationship that directors saw the BOCD having with shareholders.

.../ corporate governance is the ongoing independent exercising of professional judgement by the board as custodians of the company's assets.../

Extracts from the interview quotes that dealt with 'conformance' and 'performance' were then chosen to further refine the definition. The 'conformance' quotes chosen as indicative of the category were,

.../ ensuring the integrity of the company.../ directors being able to say, what is this? What caused this? Who did this? Who is doing what? When is it going to happen? Why are we not doing A,B,C.../ the way a board behaves in accepting and practising the responsibility and accountability placed on it by its shareholders.../

The words integrity, responsibility and accountability were considered to encompass the above ideas and so were added to the emergent definition.

corporate governance is the ongoing independent exercising of professional judgement by the board as custodian of the company's assets, with a commitment to demonstrate integrity, responsibility and accountability.

Extracts were then chosen as representative of the performance category. These were,

.../ satisfying the needs of predominantly the shareholders but there are other interested stakeholders.../ the best interests of the shareholders, the employees and the customers of an organization.../

The definition was then further adjusted to include the words,

.../ in the best interests of the shareholders, employees, customers and a variety of stakeholders.../

The definition-in-use arrived at using the words and ideas promoted by directors in their interviews became;

corporate governance is the ongoing independent exercising of professional judgement by the board as custodian of the company's assets, in the best interests of the shareholders, employees, customers and a variety of stakeholders with a commitment to demonstrate integrity, responsibility and accountability.

This is the second finding of the research referred to at the beginning of this chapter (see 5.0). This definition adds yet another definition to the variety that can be found in the literature. The language and ideas contained in the definition are grounded in the experience of practitioners in corporate governance and reflects the ideas about corporate governance held by a group of directors in Australia.

Chapter 6 Discussion

There are two principal findings of the research. One describes best practice in corporate governance and the other provides a definition-in-use of corporate governance. Both are examined in this chapter. The methodological requirement (see 3.3) for developing theoretical sensitivity, as it was applied throughout the research is examined. In the development of theoretical sensitivity areas of literature were introduced that were not considered in chapter 2. These are also examined in this chapter. Both theoretical sensitivity and the newly introduced areas of literature are discussed prior to the discussion of the two principal findings.

Theoretical sensitivity allowed the exploration of possible models and decisions that influenced the data collection process. They are examined in this chapter. Throughout the process there were three distinct models (Figures 6.1, 6.2 and 6.3) proposed by the data with one of these (Figure 6.3) being further developed and refined (Figure 6.15).

6.1 Literature that informs the discussion

In the discussion regarding the three emergent models reference is made to two distinct fields of literature that were not explored in the literature review (chapter 2). In the early stages of analysis, efforts at developing theoretical sensitivity suggested that literature on autopoiesis (Morgan 1997; Maturana & Varela 1980) be considered as providing a possible framework for discussing the findings. As the process of developing theoretical sensitivity continued complex adaptive systems theory (Stacey 1996b; Holland 1995) and the relevant literature emerged as an alternative framework. Throughout the discussion of the findings both theories are referred to as supportive of the ideas being explored. These theories are examined at this point so as to facilitate the discussion of the findings that follow.

6.1.1 Theory of autopoiesis

Maturana and Varela (1980) developed a 'systematic theoretical biology'. They coined the term autopoiesis' (p. iii) which has since been applied to organisational theory. The word *autopoiesis* (p. xvii) derived from 'poiesis' meaning to create or produce, describes the living system as being self-renewable. Morgan (1997) summarises the theory as follows,

Maturana and Varela base their argument on the idea that living systems are characterized by three principal features: autonomy, circularity, and self-reference. These lend them the ability to self-create or self-renew. ... They contend that the aim of such systems is ultimately to produce themselves; their own organization and identity is their most important product (p. 253).

A group adhering to these principles of the organisation sets up continuous circular patterns of interaction that are self referential, always referring back to the 'one best way' image of itself. The entity exists for its self and of itself. Reproduction is considered by Maturana and Varela to be a secondary function of the autopoietic system.

Reproduction requires a unity to be reproduced; this is why reproduction is operationally secondary to the establishment of the unity, and it cannot enter as a defining feature of the organization of living systems. Furthermore, since living systems are characterized by their autopoietic organization, reproduction must necessarily have arisen as a complication of autopoiesis to, and independent from the origin of the living organization (Maturana & Varela 1980 p. 100).

By way of examining self-referential systems Morgan (1997 p. 215) uses the imagery of Plato's cave to illustrate the way in which 'organisations and their members become trapped by constructions of reality' that are 'webs of their own creating'. He draws on the allegory of Plato's cave in order to explore the hidden meaning of our 'taken-for-granted' worlds. For Plato (1955) pursuit of knowledge outside the secure 'self-sealing' environment presented two scenarios. On the one hand new knowledge provided freedom to be released from the concepts, beliefs and culture of the 'world' of the cave shadows and allowed interaction with the environment waiting to be explored. On the other hand the new knowledge was also viewed as threatening and too traumatic to confront. Security was to be found in the certainty and constructed rationality of the shadow world within the cave. Organisations operating in a 'self-sealing' environment focus on sustaining the self-created environment along with the certainty and rational objectivity that is inherent in that secure environment (Morgan 1997 pp. 244-253). In this environment the 'taken-for-granted' world is autonomous, operates in single-loop feedback and is self-referring.

Autopoietic systems deal with change in a way that ensures the preservation of the entity. Maturana and Varela (1980) describe the conditions under which change can occur.

In fact, a living system is specified as an individual, as a unitary element of interaction, by its autopoietic organization which determines that any change in it should take place subordinated to its maintenance, and thus sets the boundary conditions that specify what pertains to it, and what does not pertain to it in the concreteness of its realization. If the subordination of all changes in a living system to the maintenance of its autopoietic organization did not take place (directly or indirectly), it would lose that aspect of its organization which defines it as a unity, and hence it would disintegrate (Maturana & Varela 1980 p. 87).

Comments from participating directors were inclusive of the language that suggests that by attending to formalities the future life of the board was assured. Their ideas are consistent with the theory of autopoiesis.

.../ you have got to comply just to create best practice .../ being a director will come down to processes of ticking boxes, of covering one's back .../

6.1.2 Theory of complex adaptive systems

In contrast to the theory of autopoietic systems, the science of complexity (Chia 1998) has provided a suitable metaphor (Tsoukas 1998 p. 305) for those attempting to determine some of the less predictable aspects of organisational behaviours, systems and processes. Stacey (1996b) describes the theory as follows,

Complex adaptive systems consist of a number of components, or agents that interact with each other according to sets of rules that require them to examine and respond to each other's behaviour in order to improve their behaviour and thus the behaviour of the system they comprise. In other words, such systems operate in a manner that constitutes learning. Because those learning systems operate in environments that consist mainly of other learning systems, it follows that together they form a coevolving suprasystem that, in a sense, creates and learns its way into the future (Stacey 1996b p. 10).

Drawing on the physics of non-linear chemical systems Stacey (1996b) describes the workings of the complex adaptive systems as a dissipative system that imports energy and information from the environment in which it operates. These energies and information are permitted to dissipate through the system bringing about changes

resulting in the system reorganising itself in response to the energies and information that have now become an integral part of itself.

A dissipative system is essentially a contradiction or paradox: symmetry and uniformity of pattern are being lost but a structure still exists, the dissipative activity occurs as part of the process of creating a new structure. A dissipative structure is not just a result, but a system or process that uses disorder to change. It is an evolving interactive process that temporarily is manifested in globally stable structures (Stacey 1996b p. 63).

Stacey (1996b) identifies ten characteristics of the complex adaptive system.

Table 6.1: Characteristics of a complex adaptive system

A Complex Adaptive System	
1	Has a basic purpose of performing tasks and surviving.
2	Consists of networks of large numbers of interacting agents.
3	Interacts with an environment consisting of other complex adaptive systems and therefore coevolves.
4	Interacts in an iterative non-linear manner.
5	Discovers, i.e. acquires information about the systems constituting its environment and information about the consequences of its own interaction with those systems by employing feedback.
6	Chooses, i.e. exercises a kind of free will to identify and select regularities in the feedback information it acquires and then condenses those regularities into a schema or model of its world, in effect selecting one of a number of competing models that might 'explain' the regularities and yield effective rules of behaviour for coping with that world.
7	Acts according to its schema rules in relation to the systems that are its environment.
8	Discovers the responses its action provokes, as well as the consequences of those responses.
9	Uses this information to adapt its behaviour, that is to perform simple or single loop learning.
10	Revises its schema so as better to adapt, that is, to perform complex or double loop learning.

Source: (Stacey 1996b)

A complex adaptive system does not conform to a predetermined structure. Rules or schemas are multiple and can change. Agents' behaviour may have individual schemas or may be conditioned by common shared schemas. Schemas may consist of simple reaction rules, more complex rules requiring formation of expectations and taking anticipated action, performance evaluation rules, and rules for evaluating schema rules themselves (Stacey 1996b). The capacity to be self-generating and an ability to demonstrate fluidity

and diversity are organisational features that encompass Stacey's ten characteristics of a complex adaptive system.

Comments from participating directors were inclusive of the language that describes complex adaptive systems theory.

.../ you have got to constantly keep reinventing your self.../ conditions change and you have got to respond.../ being proactive and interactive.../ prepared to challenge, to provoke, to stimulate.../ interacting with its environment.../

Stacey comments on what the human dimension brings to the complexity model.

What the peculiarly human features do seem to add is potential complexity; they make the operation of human systems more complex and unpredictable rather than less so (Stacey 1996b p.114).

6.2 Theoretical sensitivity

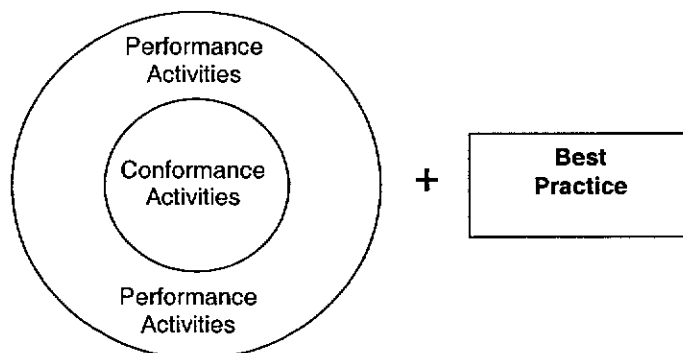
Tentative models were developed during the data collection and early stages of analysis. The first of the tentative models was based on the findings of the preliminary study along with the first few interviews of the main study. By the time two thirds of the interviews had been completed the second and third of the tentative models had been suggested. At that stage of the data collection process the interview schedule was no longer being adjusted. Theoretical sampling and theoretical sensitivity had both been addressed to this point. Efforts at both then ceased. The tentative models were put aside and the remaining interviews conducted without reference to any of the models. It was important that the data determine the model that would best describe how directors perceived best practice in corporate governance. With three possible models to consider it was also important to avoid making decisions in favour of one model before the evidence had been gathered and analysed.

6.2.1 First tentative model

The first of the tentative models was Figure 6.1 depicting best practice as an external benchmark. The benchmark was applied as a measure against a model of governance that presented itself as a static interface between the two separate sets of activities that made up the performance and conformance activities of a BOCD. Conformance activities appeared to be the principal driver and performance activities were subject to the

conformance requirements. Best practice was seen as principally attending to conformance activities as defined within the legislative framework.

Figure 6.1: First of the tentative models of best practice developed from the interview data - A static interface with external benchmarks.



This model was based largely on the assumptions that were formed from the findings of the preliminary study with support that appeared to be given in the earlier interviews of the main study, as well as some of the corporate governance literature. It reflects the idea of best practice as described by Van den Bergh and De Ridder (1999 p. 55) as being ‘practices which can be regarded as benchmarks’. These benchmarks were determined by external bodies such as the ASX (Australian Stock Exchange 1998) and promoted by Bosch (1993) and the Australian Investment Managers’ Association (AIMA 1997).

While directors participating in the preliminary study saw this model as reflecting the prevailing approach to corporate governance at the time they expressed concerns about its effectiveness.

.../ I just find that we have been subjected to more and more controls, not only has the corporations law been expanded greatly, it’s a nightmare trying to work your way through corporations law. Coupled with that you have expanding control under the ASX listing rules and it has made it a field day for lawyers and accountants as far as I’m concerned and to the detriment of probably the performance of every business that’s publicly listed in terms of costs in compliance.../ I think those measures become very intrusive and prescriptive and the great danger is that being a director will come down to processes of ticking boxes, of covering one’s back almost, and not the actual performance of the company which ultimately is what director’s are appointed for.../

Within the interview data for the main study some descriptions of this type of model continued to emerge.

.../ [for best practice] they have to do all the conformance things of course. They have to do all the auditing functions and they have to perform well.../ you feel you have got to comply just to create best practice.../

Such a view of best practice is supported by Morgan's (1997 p. 259) ideas on self-oriented organisations that have 'a rather fixed idea of who they are and what they can be and are determined to impose or sustain that identity at all costs'. Morgan developed these ideas from the theories of Maturana and Varela (1980). In Figure 6.1 the fixed benchmark is the 'fixed idea of what they [the BOCD] can be'. Evaluation against the explicit benchmark (provided within the regulatory framework) ensures that the identity of the BOCD is sustained. In this way all adjustments to accommodate change are managed in a way that 'fits' the sustained self image of a board that is consistently driven by efforts to demonstrate compliance with the regulatory framework.

The emergence of subsequent data that did not support the tentative model shown in Figure 6.1 contributed to the changes in both the interview schedule and the proposed model of best practice in corporate governance. The most significant change to the interview schedule resulting from this process was the introduction of the question asking for a definition of corporate governance. Apart from generating data that assisted the construction of a definition this question also generated supporting data for addressing the ideas that contribute to the question of best practice, as can be seen in Figure 5.1.

As the interviews continued the model (Figure 6.1) was regularly revisited. The following observations by directors clearly challenged the assumption that best practice in corporate governance was a fixed external benchmark that applied to all organisations.

.../ some practice that works well for company A ought not necessarily be employed by all companies, and particularly company B.../ I have come from a very large corporation this morning and to say that something is best practice - it might not be best practice for them.../ [it] depends on so many different things; the size of company, the locations, the industries, and whether the board is privately or publicly owned and the predominance or otherwise of executive versus non- executive directors.../

6.2.2 Second tentative model

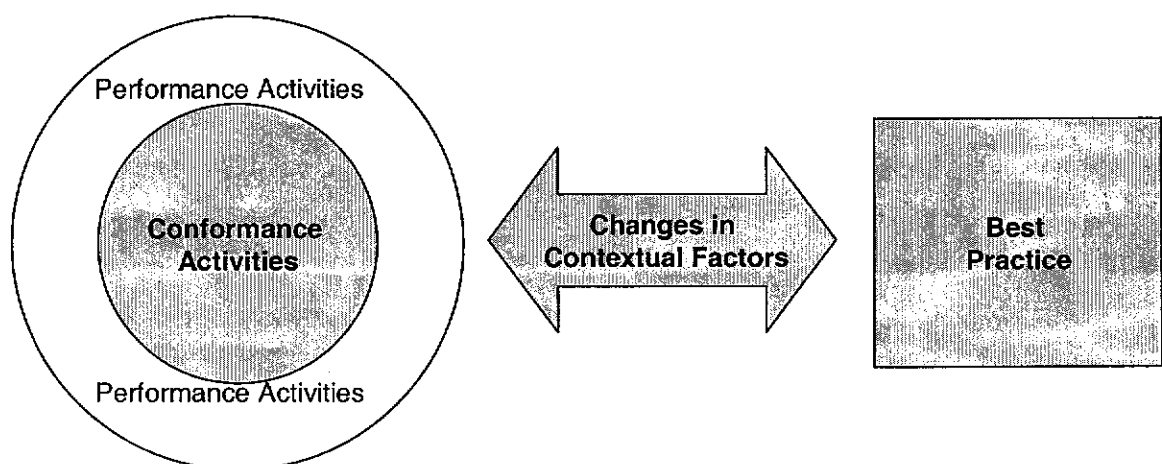
The second tentative model was based on best practice activities remaining a set of external benchmarks with the static interface between conformance and performance activities also retained. The best practice activities were dictated principally by

authorities found within the business context but independent of the organisation. As suggested by one participant,

.../ there are some benchmarks of best practice for some industries and wherever you can get those, whatever industry you happen to be involved in, and whatever board you are on, wherever you can get those sort of best practices one tends to seek them out and say are we at best practice.../

The impact of the changes in the operational environment required that organisations be vigilant of these demands and so continually take into account the context in which the organisation operated (see Figure 6.2).

Figure 6.2: Second of the tentative models of corporate governance developed from the interview data - Static and Developmental



This model suggested that conformance activities as the principal driver were no longer defined simply by legislation. Changes in the operational business environment appeared to become another force in determining what conformance activities were to be used as external benchmarks of best practice. In this model best practice benchmarks could be determined by a combination of legislative, industrial and market regulatory requirements. Literature supporting this model addressed the ways in which an organisation operating in a particular context looks to its products, processes and services (Evans 1994) knowing that improving its performance cannot depend on indiscriminately replicating the products, processes and services of another organisation in another context (Francis 1997; Evans 1994; Warburton 1993). The self knowledge and self analysis that Evans (1994 p. 36) says is necessary before examining the products, processes and services of others as part of the pursuit of best practice, provide the basis for consciously determining the organisational image or the business unit image.

A BOCD that has determined its own self-image and that of its organisation can effectively examine the environment and adjust what it takes from the operating

environment to fit the self-image that it works diligently to sustain. In this situation the BOCD makes use of linear type feedback (Stacey 1996b) from the environment using the self-determined image of the BOCD and its organisation as its reference point. The information from the environment that supports the self determined image is utilised and the rest is rejected or ignored.

Directors referred in their discussions to the problems associated with continued success and the danger of becoming complacent. Time and effort that is put into perpetuating what has worked in the past at the cost of pursuing opportunities for further development is time and effort devoted to sustaining the self-determined image.

.../ there is a lot of time and energy spent keeping to the things that work and perpetuating what has already been proved to work successfully.../ if the company has been very successful there would be a tendency to think that we will keep on doing it the way we are doing it because we can show the success, even though that may not necessarily be the way that people perceive that it ought be operating.../ it is very easy with a successful company, with a successful formula, not to be questioning.../

These comments supported the analogy of Plato's cave (Plato 1955; Morgan 1997) where the BOCD was seen to be capable of operating in a self-sealing environment while focusing on sustaining a self-created environment. Here the lack of questioning, keeping to the things that work and perpetuating what has already been proved to work successfully are elements of the self-sealing environment. In the best practice model shown in Figure 6.2, the environmental factors taken into account by the BOCD were defined by the sustained self-image the BOCD had of itself. A self-referential system will interact with the environment in a way that reflects it own image of itself (Maturana & Varela 1980). In this way the BOCD makes its environment a part of itself according to the explicit model of best practice in corporate governance depicted in Figure 6.2. At the point where one third of the interviews remained to be completed it was noted that in both Figure 6.1 and Figure 6.2 the self-referential system was evident. It was also noted at this stage that the theory of autopoiesis (Morgan 1997; Maturana & Varela 1980) may provide the basis for the findings of the research.

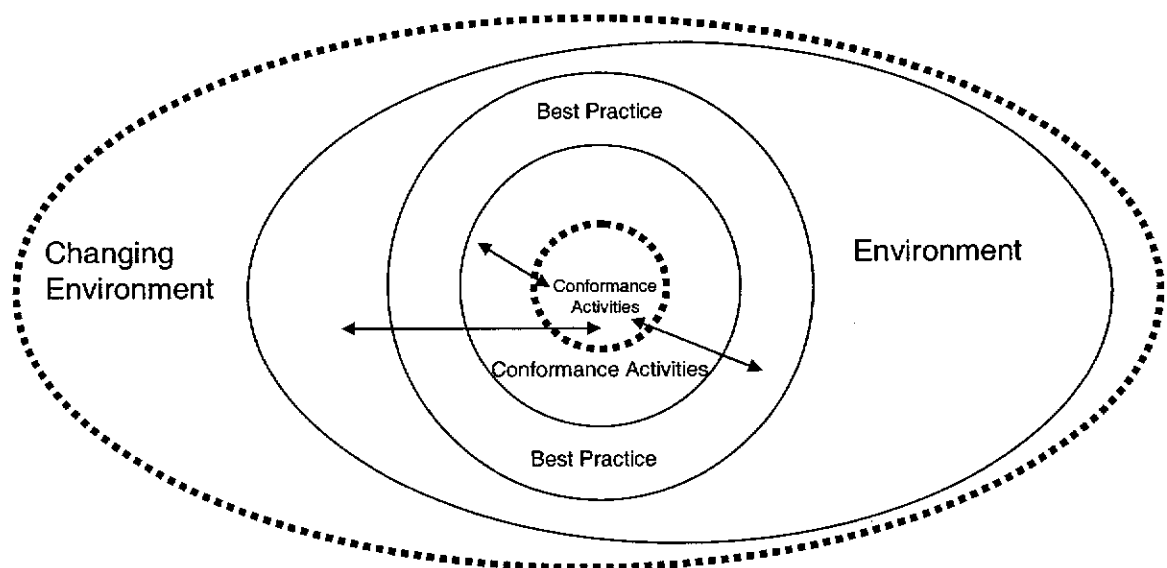
Maturana and Varela (1980) argue that the three principal features of a living system are autonomy, circularity and self reference. The objective of such systems is to sustain their own identity. Anything that detracts from this purpose is viewed by the system as being detrimental.

... any structural transformation that a living system may undergo maintaining its identity must take place in a manner determined by and subordinate to its autopoiesis; hence, in a living system loss of autopoiesis is disintegration as a unity and loss of identity, that is, death (Maturana & Varela 1980 p. 112).

6.2.3 Third tentative model

At the point in the analysis stage when the model in Figure 6.2 emerged another tentative model was also considered (see Figure 6.3).

Figure 6.3: Third of the tentative models of corporate governance developed from the interview data - adaptive and changing



The third model viewed best practice as generated from within the organisation with constant assessment of the organisational context as well as its performance.

.../I do not think that there is any particular best practice other than being able to function as a board. You see there is no international bench mark like there is for the cost of copper, or the cost of making something, raw sugar or copper or something.../ boards should concentrate on strategy and make sure the strategy is right and keep measuring performance on a monthly basis back against your bench marks where strategy would have you be.../

Directors commenting here were not looking for a fixed benchmark to measure themselves against, nor were they looking to sustain a self created image.

.../ when you are highly successful it is very difficult to stay there, because conditions change and you have got to respond to it.../ look at very highly successful companies who suddenly go off the boil... one of the issues... you have got to constantly keep reinventing yourself.../

Directors saw as critical the way in which the BOCD along with the organisation was able to constantly monitor the things going on around it and question its own existence in relation to these. In defining best practice there was interaction between internal elements and the environment. Conformance activities were not seen to be the single determinant of best practice as in the earlier models (Figures 6.1 and 6.2).

.../ best practice companies I would see as being proactive and interactive with management.../ it needs to be fully in tune with the environment in which the company is operating.../ just like everything else compliance issues change and evolve.../

This thinking is consistent with Plato's (1955) cave dweller who ventures outside the cave and finds that reality is something quite different from the shadow world inside the cave. The cave dweller was confronted with the choice of defining his world in terms of the new, unknown and challenging reality of existence outside the cave or to retreat in denial from the discomfiting and strange reality of the world outside the cave and reconfirm the reality of the shadow world inside the cave. Embracing the new reality meant dealing with new and sometimes contradictory information and the unpredictable.

Directors perceived themselves as open to the challenge that goes with interacting with the unknown and saw the opportunity to question both the reality of the environment and the organisational 'cave'.

.../ take the time to sit down whether half yearly or yearly or whatever depending again on the company and not deal with normal board matters but to deal with what is going to happen to this company? What are the challenges that we are faced with? Where do the risks come from?.../ reviewing the attitudes and ... new opportunities, challenges on the horizons.../

This type of review and assessment evokes differing and sometimes uncomfortable views.

.../ looking carefully at what are the challenges which the company is going to be facing over the next five to ten years.../ some are wild constructive creative thinkers and the name of the game is to look at what challenges are likely to be facing the company over the forthcoming period.../ be prepared to challenge, to provoke, to stimulate.../

Weick (1979 p. 229) describes the adapting organisation as one in which people 'oppose, argue, contradict, disbelieve, doubt, act hypocritically, improvise, counter, distrust, differ, challenge, vacillate, question, puncture, disprove and expose' in an effort to deal with the unpredictable and the uncertain.

In dealing with these features of a best practice board the model reflected the interactive and iterative nature of the way in which relevant information was handled. It demonstrated a capacity for interaction between internal elements and the operating environment. The distinctive feature of this model was a relationship between the three elements of the model, conformance, performance and best practice within a concentric framework. In the earlier models the best practice concept was captured in elements external to the organisation, such as legislative bodies, industry bodies or market influences. As in the earlier models conformance remained at the centre of the model but was not seen as the principal driver. In this emerging model (see Figure 6.3) the BOCD in its pursuit of best practice responded to a changing and evolutionary environment. It provided from within itself motivation and justification to continually adjust its position to the point of recreating itself in response to the changing demands in the environment. It is this sort of process that directors are describing in the following examples.

.../ they would be paying attention to cultural issues, people issues, strategic issues, as well as performance issues.../ we are also of course concerned with how the company is interacting with its environment, its community, with its suppliers and with all the various people that it does business with.../

At this point it was further noted that this model (Figure 6.3) showed signs of adopting characteristics of complex adaptive systems theory (Stacey 1996a). This was in contrast to the previous models that resonated with the theory of autopoiesis (Morgan 1997; Maturana & Varela 1980). Stacey (1996b) explains;

Complexity theory seeks to explain how systems might start from a random or disorderly state and yet produce complex order ... computer simulations suggest that nonlinear feedback, operating at critical points in system parameter values, causes spontaneous self-organization among agents, which in turn causes new patterns of behaviour. It seems that a self-organizing capability is an inherent property of a complex adaptive system operating in certain conditions (Stacey 1996b p. 106).

At the point where it was not clear which of the two models would be supported by further data there was no further adjustment to the interview schedule. Continuing to work the interview schedule as it was allowed each of the possible models to emerge as the predominant model, if another model was not also forthcoming. The data collection continued and the models were revisited towards the end of the analysis process. The model that finally emerged from the data is presented at the conclusion of the discussion relating to best practice (see Figure 6.15).

6.3 Discussing the Findings

A framework for the discussion of findings on best practice is presented in Figure 6.4. Objectives of the research are revisited. Findings are then discussed with reference to the objectives, relevant literature and the research data. The statistical information that resulted from the analysis of the construct generated questionnaire data also informs relevant areas of the discussion.

In constructing the definition of corporate governance the key words and phrases were taken from the interviews. The methodology employed in this research enabled the use of the original words or phrases, while constructing them into a cohesive statement. The definition is analysed and discussed in the light of relevant literature and brief quotes from the interview data. Keywords and phrases from the definition are isolated for the purpose of in-depth discussion.

6.3.1 Research question

It is useful here to revisit both the research question and the objectives as stated in chapter one.

The research question is:

What are directors' perceptions of 'best practice' in corporate governance in Australia?

6.3.2 Research objectives

Objectives of the study are:

- (i) To identify 'best practice' corporate governance activities as perceived by directors of public listed companies.*
- (ii) To identify behaviours within 'best practice' activities that make them best practice.*
- (iii) To compare the perceptions regarding 'best practice' activities and 'best practice' behaviours in relation to the literature.*
- (iv) To elicit a definition of Corporate Governance from responses given by directors of public listed companies.*

6.4 Describing Best Practice

The objectives relating to best practice in corporate governance were directed at identifying best practice activities and the behaviours that promoted those activities, while also relating them to the literature (see 1.5.5). The emergent definition identifies the two areas of activities that are pertinent to the Board of Company Directors (BOCD). The two activities are conformance and performance activities. It also identifies the underpinning behaviour that enables the carrying out of these activities to be determined as best practice features of the board. The behaviour is the self-generated attitude to change that allows the BOCD to adapt and develop diverse ways of dealing with the requirements associated with conformance and performance activities. The activities are described as being directed towards key stakeholder groups.

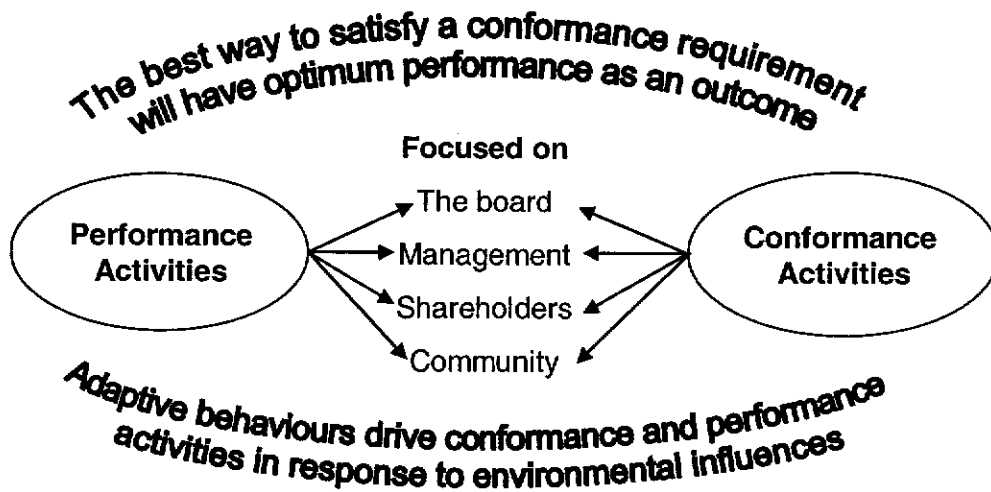
The findings (see 5.7) provided the following definition of a best practice board as perceived by the participants in the research.

A best practice board attends to a range of activities that are a constant part of the board's agenda (i.e. conformance activities and performance activities). Both sets of activities are directed at stakeholder groups in a climate of change that is self generated, fluid and diverse.

The differentiating feature of the best practice board is that it operates in a climate of change that is self generated, fluid and diverse.

.../ the best practice board is one which has diversity and fluidity.../

Figure 6.4: Best Practice Discussion Framework



The discussion that follows will examine, in turn each of the main features of Figure 6.4.

Behaviours that enable best practice activities are examined first. The discussion looks at the differentiating feature of best practice in corporate governance. Both a willingness to deal with change and a readiness for change are seen to make a difference in providing suitable and timely responses to environmental influences as part of the pursuit of best practice. It is this section of the discussion that addresses the 'novel behaviours' that are the enabling feature of the 'best practice' BOCD.

A discussion of the activities described as performance activities follows. Then the conformance activities are also examined. The next stage in the discussion addresses the four groups towards which the activities are directed. Finally the discussion deals with the relationships that exist between the dimensions of performance and conformance and best practice. The discussion is also informed by statistical findings developed from the results of the questionnaire (see 3.4 and Figure 3.1).

6.5 Behaviours enabling best practice

An objective of the research was,

(iii) To identify behaviours within best practice activities that make them best practice.

This part of the discussion explores the behaviours that enable activities to figure as operating in a best practice milieu. The discussion focuses on the changing features of

board activities (Figure 5.13) with special emphasis on a readiness for change and a willingness to deal with change.

A constructed definition of 'behaviours' describes them as observable responses to environmental factors (Bernard 1982 p. 91). Cascio (1989) describes environmental factors as being either social or biological. The way things are done needs to be continually assessed when environmental factors impacting on the organisation are many, varied and random. If changes are initiated from within the organisation creative and positive responses can bring about the dissipation or removal of the old structure. When the dissipative activity is self generated it is then part of the creation of the new structure producing new energies and processing new information (Stacey 1996b). Such responses to environmental factors are what Stacey (pp. 64-65) calls 'novel behaviour'. The differentiating feature of the best practice board is a climate of change that is self generated, fluid and diverse. This is the 'novel behaviour' that underpins the differentiating feature of the best practice board allowing the BOCD to continually assess the ways in which the activities of the board are carried out in the light of the environmental factors. It was the 'novel behaviours' underpinning the activities that contribute to best practice in a BOCD that suggested the third of the tentative models (see Figure 6.3).

Board behaviours are observable responses to those things in the environment that effect or have the ability to effect the BOCD and its organisation. Freeman (1984:95) identified major social issues as forces external to the organisation and having the potential to impact on its performance. He listed them as economic, political, social and technological but indicated that the list was not exhaustive. Freeman argues that when an organisation addresses the question 'what do we stand for', failure to analyse the external environment results in a process carried out in a vacuum. As a consequence the BOCD and the organisation are contained within a self-sealing environment defined by the self-image that the BOCD has defined for itself. This ensures that it will continue to operate as a self-referential system (Maturana & Varela 1980).

Directors referred to these same areas and saw them as influences that assist change processes, so forcing the BOCD to operate outside the self referential system.

.../ it is also the general climate, the corporate law, economic climate, social climate, which would make them ready to accept change.../

Other references to how a best practice board operates reinforced the idea that directors saw a best practice environment as a dynamic changing environment and one where the BOCD interacted with the forces at work within the environment.

.../ the best practice board is one which has diversity and fluidity.../ where people feel comfortable in having opposing views.../ a challenge of ideas, not of personalities.../ we have just enough change to have a little bit of anxiety that the organisation can cope with.../

6.5.1 A best practice environment

.../ trying to do as well by comparing ourselves with other boards and keeping abreast of the way boards behave.../

Comments such as this from directors, gave support to the models of best practice based on Maturana's and Varela's (1980) theory of autopoiesis in Figures 6.1 and 6.2. The benchmark is external (i.e. other boards) and the sustained self-image is a consistent view of how directors see they should be operating as a board.

However claims by directors that BOCDs should be able to promote diverse forward thinking in an iterative and interactive manner, supported the dynamic adaptive model of best practice presented in Figure 6.3. Thickness of description and robustness of categories gave weight to the adoption and further development of the latter model.

.../ the best practice board is one which has diversity and fluidity.../ get away from these prescriptive approaches and in the spirit of good governance make the right decisions in the different circumstances and explain why.../ you really want a board to be doing is interacting in an iterative kind of way.../

Francis (1997) considers that discussing best practice is fruitless unless it has regard for the historical and cultural contexts of the prevailing board model with the intention of transferring these to other contexts. Directors also considered the relevance of the local context as important in determining what would work and what would not.

.../ there are horses for courses in the ways that boards will behave and need to behave that relate to the circumstances in which the organisation finds itself.../ it is not something where, 'one size fits all'.../

By using the environmental influences to define the operational context, different BOCDs are able to satisfy the same set of regulatory requirements in different ways. In the words of one director the quest for best practice is driven by pragmatism.

.../ the only rule in best practice for a board is, what is best for the business provided that is in compliance.../

Warburton (1993) writes about continuous improvement in a competitive environment, where the aim to be 'better than the best' is on going. Evans (1994) considers that such an approach to best practice can only be effective if examination of both the organisation itself and its competition are a significant part of ongoing learning. This is consistent with what directors had to say.

.../ part of the continuous learning environment where [the] skills are appropriate to where the business is going and what the needs will be at some stage in the future.../

6.5.2 Willingness to deal with change

Continually ensuring that the BOCD is 'better than the best' also requires a willingness to deal with change. When directors talked about a willingness to deal with change they considered a capacity to self-generate change from within the organisation, along with openness and concern for shareholder interests as conducive to proactive change.

.../ it has to be prepared to change itself .../ ability to see the significance of extraneous events.../ the real owners are the shareholders and the in the best practice area, compliance would be proactive and future rather than ticking boxes and covering backsides.../ I would see best practice companies as being proactive and interactive with management.../

The onset of change can be gradual or sudden. Whether a change process is evolutionary or transformational can be dictated by influences from within the organisation or external to it. The appointment of Paul Anderson as CEO of BHP saw some immediate and transformational changes within the corporation ('BHP breaks with its past' 1998; Durie 1999; Hurst 1999). This was in response to a severe downturn in company performance (Ries 1998). Changes in legislation or regulations can require that organisations implement changes in a limited period, as in the case of changes to ASX Listing Rules (Factor 1996).

Stace and Dunphy (1994) suggest that where organisations are changing fast enough to keep pace with their commercial environments and at the same time avoiding what they call frame breaking change, corporate financial performance is maximised. Using two dimensions of change, scale of the change and the style of change management they are able to track an organisation's history of change. This is evolutionary change that keeps track of and pace with the changes in the environment. These changes are instigated from within the organisation either in anticipation of environmental changes or to coincide with environmental changes. This is different from the type of transformational change that typifies a reaction to conditions in the environment that are impacting strongly on the organisation.

Donaldson (1999) describes the cycle of downturn in performance followed by transformational changes in order to bring about improved performance as part of a predictable business cycle. Dunphy (2000) claims that while transformational change is at times necessary, as in the case of BHP in 1998, immediate impact on productivity can be negative before there are signs of the sought for long term benefit. Dunphy (2000) reports on research into consistently high performing companies.

...there were some organisations that maintained consistently high performance levels without going through one or more periods of frame breaking change. These organisations constantly monitored their environments, progressively repositioning themselves strategically, making continuous innovations and improvements - not product innovation alone but also innovation in their structures, systems and workplace practices (Dunphy & Benveniste 2000 p. 259).

Dunphy talks about the continuous change process contributing to consistently high levels of performance. Directors saw the need to be willing to change as being driven principally by the requirement to maintain a focus on shareholder interests.

.../ if your company is not performing well and your share price decreases I would say a board is not doing the right thing by their shareholders if they do not embrace the need to change to try to increase the shareholder value.../

In Dunphy's description the constant monitoring of the environment with regular strategic repositioning is the same requirement that directors talk about when they say that a willingness to change (see Figure 5.15) needs to be self-generated.

.../ so I think that boards need to constantly reinvent themselves.../ to say 'yes, what we did today is terrific, but as we sit here it will not be what we are required to do tomorrow' .../

Where Dunphy talks about continuous innovation and improvements the directors described openness to things both new and different.

.../ be open minded, well read and be composed of the right people.../ it is all to do with openness for a start.../a willingness to become aware of how you can improve your competitive position.../

Willingness to deal with change in different settings

Read (2000) considers that in the context of corporate governance organisations need to align their interests with stakeholder groups. On a global level he points out that alignment with the various groups will result in choosing different tools and processes for different settings.

This also highlights why the transfer of tools and technologies across cultures (without addressing the embedded values and assumptions at all levels of the process) is often ineffective and sometimes leads to costly problems in implementation (Read 2000 pp. 80-81).

Directors commented on the fact that companies are operating internationally and that there are implications for BOCDs.

.../ Australian companies are developing their businesses overseas.../ a reflection of globalisation is that you are going to see international rationalisation.../

When directors talk about the changing environment in which the company finds itself operating their comments hold true for overseas operations and local ones.

.../ it needs to be fully in tune with the environment in which the company is operating.../ changes in practice or the changing environment affecting our businesses.../

Openness to new ideas

Read's emphasis on the need to address embedded values and assumptions assists the BOCD in adapting to the new ideas and demands of various environments in which the organisation operates. The same approach applied within the organisation and its departments assists in recognising and adapting to new ideas that emerge within the organisation. This approach resonates with Freeman's (1984) analysis of organisational values and Whiteley's (1995) core values approach. Responding to new ideas, while also sustaining positive levels of performance and awareness and commitment to what it is the organisation is about, requires a capacity for adaptability and sustainability. The organisation that is healthy, learns from its environment, has a capacity for self renewal and growth and increasing capacity to cope with the unpredictable, demonstrates both adaptability and sustainability (Read 2000; Stacey 1996b; Stacey 1996a).

Failure can promote a willingness to deal with change

Directors saw recognition of failure to perform as an influence in assisting the BOCD to deal with change. If what we are doing is not working then we need to do it differently.

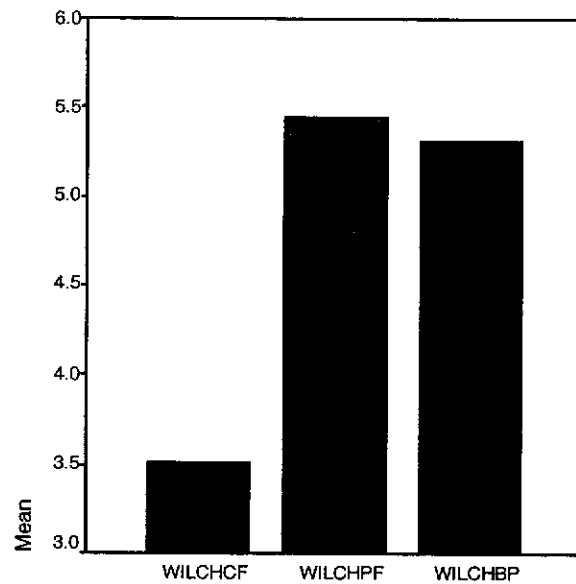
.../ if your company is not performing well and your share price decreases I would say a board is probably put in a position where they are not doing the right thing by their shareholders if they do not embrace the need to change to try the increase the shareholder value.../

Chaney (1999) explains how in the pursuit of best practice Wesfarmers has put in place standards of performance. One is for expansion and growth. Another requires attention to improving what is already being done. The third requires that the venture be dropped if standards are not met within a set timeframe. This focus on assessing failure to meet projected targets ensures that energy is not spent on sustaining ideas that are not productive.

Relationship between willingness to change and conformance / performance / best practice

Willingness to deal with change was an item in the questionnaire. The histogram shown in Figure 6.5 provides evidence of a relationship between a willingness to deal with change as a performance activity and a willingness to deal with change as best practice. The mean scores for a willingness to deal with change as a performance activity and as best practice are between 5.0 and 5.5 suggesting directors perceive the relationship to be close.

Figure 6.5: Willingness to change and the relationship between conformance, performance and best practice



***Key**

Scale: 1-6

WILCHCF Willingness to deal with change as a conformance activity

WILCHPF Willingness to deal with change as a performance activity

WILCHBP Willingness to deal with change as best practice

*Key applies to Figure 6.5 and Table 6.1

The strength of the relationship is further examined using Pearson correlation (see Table 6.2). With a correlation of 0.622 the relationship between a willingness to deal with change as a performance activity and a willingness to deal with change as best practice is significant.

Table 6.2: Pearson correlation

	WILCHCF	WILCHPF	WILCHBP
WILCHCF	1.000	0.081	0.216
WILCHPF	0.081	1.000	0.622
WILCHBP	0.216	0.622	1.000

Significant correlation occurs at > 0.3 but < 0.9

6.5.3 Readiness for change

There was awareness among the participants of the research that a willingness to deal with change was only part of a broader set of requirements that assisted change.

.../ a willingness to change is a necessary but not sufficient condition for a readiness to change.../

Armenakis and Fredenberger (1997) suggest that there are four components of readiness for change (Table 6.3).

When directors considered the requirements for demonstrating a readiness for change they wanted the right mix of people. Things that they sought were good leadership in the CEO and the chairman, as well as a variety of people on the BOCD. The qualities they looked for in these people were confidence, optimism and moral courage to see things through.

.../ it is about having the right kind of people.../ a variety in age from relatively young to older and more mature.../ have a mixture of optimism and realism.../

Comparing the requirements that directors sought with those identified by Armenakis and Fredenberger (1997) the similarity is apparent when we consider the BOCD as acting to promote change.

Table 6.3: Components of a readiness for change

Armenakis and Fredenberger	Directors
Confidence in the change agent	<i>it really does come down to the chairman.../ the CEO in particular [needs] to be an agent for change.../</i>
Belief that change is indeed necessary	<i>people who tend to be proactive and optimistic.../</i>
Shared sense of urgency	<i>need an element of moral courage.../</i>
Sense of efficacy or ability to change things	<i>you need to have the confidence... the combination of discipline and entrepreneurial spirit.../</i>

Source: (Armenakis & Fredenberger 1997 pp. 143-152).

Directors saw the CEO and chairman as the appropriate people to usher in change. However the other requirements listed by Armenakis and Fredenberger were looked for across the board. Members of the BOCD who are proactive and optimistic in bringing about change will engender among others a belief that the change is necessary. The sense of confidence with a combination of discipline and entrepreneurship also combine to convince others that the change can happen. Giving the change process a momentum by developing a shared sense of urgency requires an element of moral courage in being prepared to move at a faster pace than others.

Directors also considered a business environment where the things that influence a readiness for change were more likely to be a history of previous failure or fear of failure,

the prevailing legal framework, the economic climate, strategic planning, strategic use of technology and appropriate decision making. Once again the elements that directors refer to reflect the social elements that Freeman talks about, economic, political, social and technological.

.../ a crisis is what motivates the ones that are not successful [to change] .../ if you introduce a law ... then obviously it will [bring] change.../ if we went into a depression my feeling is that you would just have to change quicker.../ prepared to cope with the enormous changes that [come with] electronic commerce.../ taking decisions quickly enough .../

Stages of readiness

Miller and Lewchanin (2001), looking at organisational change considered a change spiral with six stages of readiness. This model was developed from a model of personal readiness for change. They argue that to the extent that the change process is dependent on the leadership figure(s) it is appropriate to consider both the key individuals and groups of individuals by way of assessing the readiness of the organisation.

Table 6.4: Stages of readiness for change

Readiness Stage	Stage Indicators
Precontemplation	no awareness of the problem resist or minimise the need for change far from ready to change
Contemplation	increased awareness of the problem high levels of ambivalence resistance to the need for change
Preparation	resolved ambivalence leading to commitment to change and readiness for action may begin planning for action but still need self-confidence in order to act
Action	new behaviours occur change is observable
Maintenance	actions continue
Termination or recycling	either new behaviours become routine or some repetition of the stages occurs.

(Miller & Lewchanin 2001 pp. 42-48).

Directors talked about the things that impede the readiness for change. These tended to reflect the behavioural aspect of readiness. In particular was the complacency that comes with satisfaction with how things are.

.../ if the organisation is performing well the need for change is less.../ boards where the organisation is performing well will probably be less willing to change than the ones where the organisation is not performing well.../

This complacency can be identified in the precontemplation phase of the six stages for readiness in dealing with personal change. It may even account for the ambivalence that continues to be demonstrated throughout the contemplation stage.

Directors' lack of adequate knowledge is seen as another impediment.

.../ a lack of understanding, lack of appreciation of what change is going to mean to the organisation.../

Miller and Lewchanin consider that it is possible that a repetition of some of the stages is required. Directors talked about the need to revisit and assess an existing strategy but saw an inherent risk in people not being willing to question the earlier decisions. Recognising where individuals are in dealing with a readiness to change can assist the process. In situations such as failing strategy it may be that some BOD members are still at the precontemplation stage while others are at the preparation stage.

.../ there are not any early signals as to when the overall strategy is going off the rails.../ there is usually a short term factor that can explain a budget deficit rather than somebody stepping back and saying, this is strategic.../

One of the impediments to a readiness for change that directors warned against was the attitude that board membership is viewed as a reward granted on retirement.

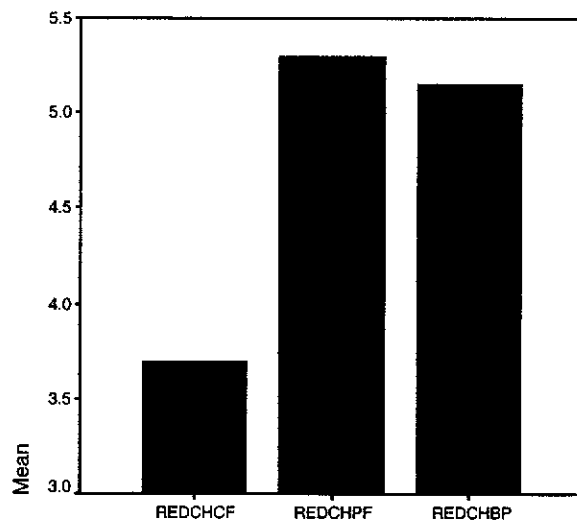
.../ [with those] who have retired onto boards there is a sense of, this is our reward.../ seeing things out to the end rather than taking the initiative.../ a state of security and safety in the way things are.../ when people go on boards as a retirement occupation.../ this is the reward not the endeavour.../

The danger is that attitudes such as these assist board members in becoming entrenched in the contemplation stage where ambivalence and complacency predominate.

Relationship between readiness for change and conformance/ performance/best practice

Readiness for change was an item in the questionnaire. The mean scores for readiness for change as a performance activity and as best practice both occur between 5.0 and 5.5 as shown in Figure 6.6. This suggests that there is a close relationship between readiness for change as a performance activity and readiness for change as best practice.

Figure 6.6: Readiness for change and the relationship between conformance, performance and best practice



***Key**

Scale: 1-6

REDCHCF Readiness for change and conformance

REDCHPF Readiness for change and performance

REDCHBP Readiness for change and best practice.

*Key applies to Figure 6.6 and Table 6.4.

The strength of the relationship is further examined using Pearson correlation (see Table 6.5). Evidence here shows that with a correlation of 0.633 the relationship between readiness as a performance activity and readiness for change as best practice is significant.

Table 6.5: Pearson correlation

	REDCHCF	REDCHPF	REDCHBP
REDCHCF	1.000	0.091	0.072
REDCHPF	0.091	1.000	0.633
REDCHBP	0.072	0.633	1.000

Significant correlation occurs at > 0.3 but < 0.9

6.6 Impediments to change

Directors considered that impediments to responding to the environmental demands for change (see Figures 5.14 and 5.17) included people who resist change, over regulation, over investment in ideas, previous success, lack of knowledge and approaching retirement. While the factors contributing to the willingness and readiness for change were different there was commonality in the impediments that they described.

6.7 Best practice activities

The stated objective was.

- (ii) *To identify 'best practice' corporate governance activities as perceived by directors of public listed companies.*

Directors discussed the activities as falling within two broad categories of performance and conformance. The emerging description of best practice in corporate governance shifts the focus from best practice activities to that of activities that support a best practice environment.

An activity is defined as 'a specific sphere of action' (Delbridge 1990 p. 63). In the definition of a best practice board that emerged from the data, the specific spheres of action identified are those areas that are conventionally termed conformance and performance activities. Each of the activities in itself does not make for a best practice board. For example performance activities can be pursued without giving due attention to conformance requirements and vice versa.

.../ and [the performing board] would be slightly better than the other one, that is the conforming board, but it would not be in my view a good board.../

Similarly a board can attend to both conformance and performance without demonstrating that it is a best practice board.

6.8 Performance activities of the BOCD

Performance activities are those associated with overseeing the company's performance (Francis 1997). In the view of participants the BOCD demonstrated attention to performance issues principally by pursuing the objective of providing a satisfactory return to shareholders. Critical to this end were activities that included taking calculated risks, measuring performance, harnessing resources and creating synergy within the

BOCD as well as monitoring the development and implementation of strategy (see Figure 5.12).

Francis (1997 p. 221) talks about the need for directors to have a sound understanding of the company's capabilities as the key to ensuring that performance issues are addressed correctly. Identifying key performance measures and monitoring them can only be done in the context of this knowledge. This can be achieved if there is a close working relationship with management (Grady 1999). Drucker's (1995) emphasis on the new age information tools required in the modern organisation points to increased ease of interaction across organisational groups as an outcome. In discussing working relationships with management, directors drew the distinction that less interaction meant less likelihood of adequate knowledge of the company. Greater interaction meant a more adequate knowledge of the company.

.../ so best practice companies I would see as being proactive and interactive with management.../ I think that there is a much greater tendency now for boards to become involved and familiar with the substantive issues facing companies so that they really are increasingly engaging them in debate rather than rubber stamping or rejecting from a rather uninformed base.../

6.8.1 Risk Taking - a performance activity

Borge (2001 pp. 4, 223) describes risk as being exposed to the possibility of a bad outcome 'in uncertain situations where time is short and information is incomplete.' Improved information will reduce uncertainty but at a cost measured both in terms of time and the monetary cost to the organisation. The trade-off between information costs and uncertainty continues to be a characteristic feature of business decisions and as such remains an issue for BOCDs (Nowak & McCabe 2001 p. 6).

Directors talk about the compromise that is made in making a decision on the basis of the available information even though it is possible that not all information is accessible.

.../ evaluating the risk, making the best judgement on the information that you have at the time.../

Drucker (1964) described four different types of risk.

*The risk one must accept, the risk that is built into the nature of the business.
The risk one can afford to take.*

The risk one cannot afford to take.

The risk that one cannot afford to not take (Drucker 1964 p. 193).

The first of the risks that Drucker talks about is risk that is inherent to the nature of the business. Francis (1997 p. 14) describes some of the risks that fall into this category as, betrayal of trust, negative pressure from outsiders, failure of alliances, acts of God. With care and diligence the effects of these can be minimized but they cannot be totally avoided. The element of uncertainty remains until either success or failure is demonstrated beyond doubt.

Directors also talked about risks associated with the nature of the business.

.../ when you talk about corporate governance it is the challenges that the board has to deal with and the risks that the board has to deal with whatever the nature of those in the particular company.../ [this] is in an area where there is a multiplicity of risks. There is land use risk. There are sabotage risks. There is market risk. There is credit risk.../

Drucker (1964 p. 192) describes the business opportunity as 'the opportunity to make the future happen.' This is the risk that one cannot afford to not take. Francis (1997 p. 14) and Donaldson (1999 p. 195) promote the same concept of business risk. Francis describes business risk as associated with innovation. It was something to be welcomed and viewed as a necessary companion of competition. Donaldson links risk and the likelihood of high performance in the long term as a key part of the business cycle. The same idea of risk being an intrinsic element of business management is highlighted by Barton (2001) the Chief Financial Officer of United Grain Growers Ltd (of Canada).

I think the point to risk management is not to try and operate your business in a risk free environment. It's to tip the scale to your advantage. So it becomes strategic rather than just defensive (Barton, Shenkir & Walker 2001 p. 48).

Directors also discussed this type of risk as an essential ingredient in recognising and taking hold of a business opportunity.

.../ [the job] for which they were actually appointed which was to go out in a sometimes dangerous and always challenging world and create shareholder wealth by taking risks.../ even though it might be risky, it might be challenging. You have got to recognise where the future is.../ business is about risk.../ where

do the risks come from? How are we going to handle the opportunity in front of us .../

The two remaining types of risk listed by Drucker (1964) are reverse sides of the same idea. The risk one can afford to take and the risk one cannot afford to take are both measured with a greater degree of certainty than the other types of risk. In the area of corporate governance the attendance to conformance activities addresses systematically the type of risk one cannot afford to take and rejects the idea as a viable business option. The BOCD's requirement to contribute to shareholder wealth combined with the attention to conformance requirements is consistent with the BOCD recognising and utilising the type of risk that one can afford to take.

Drucker warns that in making decisions about the organisation's ability to explore new opportunities there is one risk that must be avoided. He describes the missed opportunity as 'the one risk that one cannot afford to take: that of being unable to exploit success' (p . 193).

Some directors hold firmly to the view that too much emphasis on the conformance requirements means that risk taking is sacrificed at the expense of shareholder wealth.

.../ the legislative reaction and the judicial reaction, the almost inevitable corollary is, that it forces directors to focus their attention more on the compliance side of life than the job in hand [creating shareholder wealth].../ how do you get the balance between long term and short term performance? .../ how do you get the balance between conformance on the one hand and performance on the other?.../

Many are equally committed to the idea that attending to conformance issues will minimise risk where it is both necessary and possible to do so.

.../ there has been the development of a board committee structure to deal with issues like occupational health and safety, or remuneration ... as well as risk and nominations committees.../ we have got very good checks and balances and I think that in all of these things it is how you get the balance between risk and reward.../

Directors considered that the element of risk was an important part of generating shareholder value.

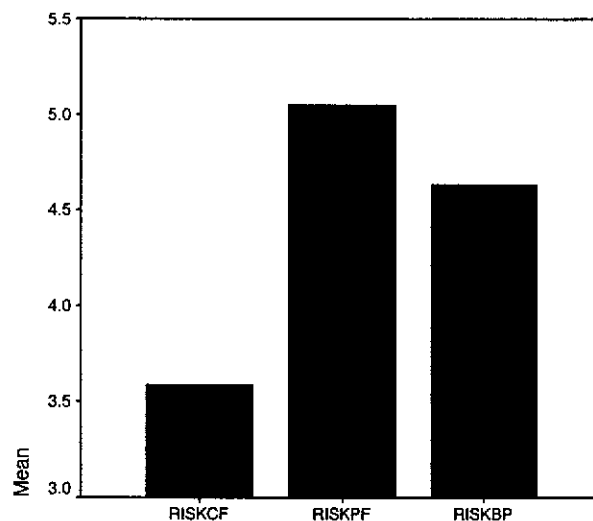
.../ we need to be prudent risk takers, but risk taking is what generates value for shareholders.../

Relationship between risk taking and conformance / performance / best practice

When considering the statistical data resulting from the questionnaire there is a positive connection between risk taking in order to satisfy the requirement for higher performance of the firm and viewing the board as a best practice board.

Risk taking was a category used in the questionnaire. The histogram shown in Figure 6.7 provides evidence of a relationship between risk taking as a performance activity and risk taking as best practice. This supported the findings from the qualitative data. It is also consistent with the ideas put forward by both Drucker (1964) and Francis (1997) with regard to the nature of risk taking in business.

Figure 6.7: Risk taking and the relationship with conformance, performance and best practice



*** Key**

Scale: 1-6

RISKCF risk taking as a conformance activity

RISKPF risk taking as a performance activity

RISKBP risk taking as best practice

*This key applies to Figure 6.7 and Table 6.5.

The strength of the relationship is further examined using Pearson correlation (see Table 6.6). Evidence shows that with a correlation of 0.557, among the directors participating in the study there is a significant relationship between risk taking as a performance activity and risk taking as best practice.

Table 6.6: Pearson correlation

	RISKCF	RISKPF	RISKBP
RISKCF	1.000	0.232	0.254
RISKPF	0.232	1.000	0.557
RISKBP	0.254	0.557	1.000

Significant correlation occurs at > 0.3 but < 0.9

6.8.2 Improving Shareholder Value - a performance activity

The overriding focus on shareholder value as a measure of a company's performance is borne out in the research interviews, media references and in the literature. In the words of one of the directors,

.../ you have got to focus on shareholder value.../

Commenting on the appointment of Paul Anderson as the new CEO of BHP (Skulley 1998) the media reported that,

BHP Co Ltd's new managing director and chief executive, Mr Paul Anderson, yesterday pledged to restore shareholder value at the troubled resources group by streamlining its internal structure and reviewing its asset sales program (Skulley 1998 p.1).

In reporting on Australia's most admired business leaders and most admired companies (Kavanagh 2001) *Business Review Weekly* reports Michael Chaney as claiming that the hallmark of successful performance of Wesfarmers is a total focus on creating shareholder wealth (Treadgold 2001).

Directors make similar claims.

.../ to ensure that the interests of all shareholders are recognised.../ generate value for shareholders.../ get better performance for shareholders .../

Focussing on shareholder value as an outcome is best achieved if other interests are also addressed along the way. Hilmer (1993) claims that when a firm focuses on performance both shareholder interests and the goals of society are paramount.

When a person or institution buys shares in a firm, what they really want is for the returns on that investment to be better than those generated by other shares which entail similar degrees of risk. The board should thus have a primary responsibility to make this happen... What society wants from its corporations is sustained long term performance that generates profits (and taxes) as well as investments and jobs. Society also wants other things, such as, a clean environment and accessible and abundant opportunities for its members (Hilmer 1993 pp. 34-35).

Directors talk about the way performance levels, success of the corporation and shareholder interests are intrinsically linked to the way in which other aspects of the business process are addressed.

.../ but if you are doing the right thing for all of the employees they will be more motivated, you will attract better people. You will get better performance for shareholders by doing that. So both groups actually win in the long run.../ I think this dichotomy that people talk about between the interests of shareholders and the interests of employees is a not a real dichotomy. I think that there is a commonality of interests between the two groups.../ performing really means in the end getting shareholder value, getting the optimum return on the assets entrusted to management.../

It would appear to be self-evident then, when a commitment to improving shareholder value is a principal objective, a BOCD will seek to avoid what appears in most cases to be the inevitable decline that forms part of the business cycle (Donaldson 1999). Dunphy and Benveniste (2000 pp. 7-11) pose a critical question for the corporation of the twenty first century in considering how we can develop organisations that are able to sustain continuous highly productive performance.

Where Hilmer (1993) talks about an assured return on investment, Dunphy and Benveniste (2000) talk about sustaining highly productive performance indefinitely. Hilmer claims that investors want a clean environment and an abundance of life choice opportunities while Dunphy and Benveniste talk about a distinction between ecological and human sustainability. These are the elements of what has become known in the corporate world as the triple bottom line (Elkington 1998), where economic, social and environmental outcomes need to be balanced. Olsen and Toyne (2000 p. 240) describe it as 'the new sustainable agenda of social responsibility, profitability and environmental stewardship'.

The activities that directors described as contributing to meeting the requirements of a successfully performing organisation (see 5.5 and Figure 5.12) were measuring performance and focusing on shareholder value, harnessing resources and creating synergy by way of monitoring the development and implementation of strategy. One director makes the point that while addressing these things there are other things that cannot be neglected.

.../ All the other things that we might talk about in the governance area are about making certain that in ensuring success you do not neglect the importance of the company's need to provide a safe workplace, its need to observe the law, its need to be thoughtful about the interest of the people who work in the company and the ethics of the company in relation to others that it does business with and all sorts of things like that.../ you have got to get everything in harmony and synergy.../

Table 6.7: Comparing features of sustainability with performance activities

Elements of Sustainability	Directors' Performance Activities
Profitability	Measuring Performance
	Focusing on shareholder value
Social Responsibility	Harnessing of human resources
	Creation of Synergy
	Development and implementation of strategy
Environmental Stewardship	Harnessing of physical resources

Source: (Dunphy & Benveniste 2000)

These elements (see table 6.7) can be defined within the descriptions provided by Dunphy and Benveniste (2000) as well as Olsen and Toyne (2000). Where the authors talk about economic or profitability outcomes directors talk about measuring performance and focusing on shareholder value.

.../ a performing board is looking constantly at what it is doing.../ there is a very strong focus from both the chief executive and the divisional heads on: What are the business activities? Are we doing what we said we would do? .../ we are all here to create wealth for shareholders.../ performing really means in the end getting shareholder value, getting the optimum return on the assets entrusted to management.../

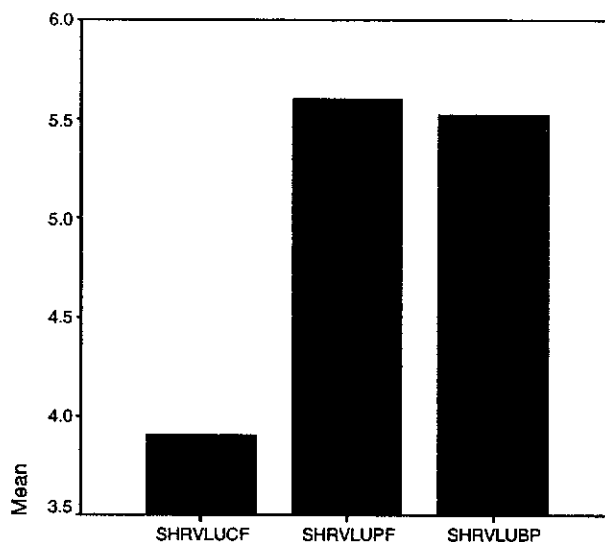
Environmental stewardship and social responsibility take into account the way human resources are utilised in the creating of synergy within the organisation while at the same time demonstrating responsibility to the wider community.

.../ our companies have to start taking responsibility for their role in their communities because if they do not they will lose the trust of the community which has detrimental effects in terms of governmental decisions, community decisions and customer decisions which again is against the interests of the shareholders.../

Relationship between improving shareholder value and conformance / performance / best practice

Improving shareholder value was another category used in the construct generated instrument. The histogram shown in Figure 6.8 provides evidence of a relationship between improving shareholder value as a performance activity and improving shareholder value as best practice. This evidence is also supported by the findings from the qualitative data and supported by the literature (Treadgold 2001; Wallis 2000; Hampel 1999).

Figure 6.8: Improving shareholder value and the relationship with conformance, performance and best practice



***Key**

Scale: 1-6

SHRVLUCF

improving shareholder value as a conformance activity

SHRVLUPF

improving shareholder value as a performance activity

SHRVLUBP

improving shareholder value and best practice

*This key applies to Figure 6.8 and Table 6.7.

The strength of the relationship is further examined using Pearson correlation (see Table 6.8). Evidence shows that with a correlation of 0.745 there is a significant relationship between improving shareholder value as a performance activity and improving shareholder value as best practice.

Table 6.8: Pearson Correlation

	SHRVLUCF	SHRVLUPF	SHRVLUBP
SHRVLUCF	1.000	0.134	0.192
SHRVLUPF	0.134	1.000	0.745
SHRVLUBP	0.192	0.745	1.000

Significant correlation occurs at > 0.3 but < 0.9

References in the interviews to a relationship between conformance activities (see Figure 5.12) and shareholder value indicated that demonstrating a commitment to meeting conformance requirements could lead to an over emphasis on conformance and lack of creativity so reducing shareholder value.

.../ it is more risk averse, less creative, less achieving if you like in the sense of achieving performance.../

6.8.3 Development of Strategy - a performance activity

In applying theory to the question of the role of the BOCD in the formation of strategy Finklestein and Hambrick (1996 p. 229) observe that agency theorists have focused ‘almost exclusively on the monitoring role’ of the BOCD. Agency theorists, Fama and Jensen (1983) restrict their description of the board’s role to that of ratifying and monitoring decision making by management. The implication being that the monitoring role does not necessarily include the development of strategy as a BOCD role.

Directors endorsed the idea that the BOCD was responsible for ratifying and monitoring the implementation of strategy.

.../ [members of] the board become the independent evaluators of the strategy.../ the board is really the independent sounding board, the overseer of that strategy.../

Directors talked about two distinct styles of boards, one of which was the monitoring board.

.../ pilot boards and monitoring boards.../

On the other hand Freeman (1984) in the course of expounding stakeholder theory addresses the question of setting a strategic direction. Freeman maintains that because value judgements are a primary ingredient of a successful strategy then the values of those affected by the strategy must also be taken into account.

Part of the difficulty in setting direction for a company is understanding the impact of changes in business strategy on the underlying values of the firm, and to understand the new stakeholder relationships which will be chartered as a result (Freeman 1984 p. 90).

Further, Forster and Brown (Forster & Browne 1996) argue that corporate strategy is integrative and concerned with the enterprise 'as a whole', rather than with individual or specialist aspects of its strategy. They maintain that based on the integrative nature of corporate strategy corporate governance structures need to be taken into account in considering enterprise decision making and behaviour. Central to these corporate governance structures is the BOCB with the BOCB engaging interactively with management in the development of corporate level strategy.

While some of what directors said reflected aspects of agency theory the full import of what they had to say resonated soundly with stakeholder theory. Consistent with Freeman's ideas of 'paying attention to key stakeholder groups' directors sought to make decisions that took the various stakeholders into account.

.../ things that the company can do for the betterment of all its stakeholders.../

Directors talked about the way in which the constantly changing environment required an ongoing monitoring of strategy and a questioning of its continuing relevance as well as considering the relevance of future decisions.

.../ someone has got to overview the strategy, what the objective of the company is, what the strategy is, what are the plans and the strategies to achieve it and then the detailed budgets and all the rest of it and the monitoring against it.../ how does [this decision] fit in the strategy of the company?.../

Directors were aware of the dilemma that they are faced with when attempting to read the early warning signs that things are not as they should be as well as being wary of over reacting to initial signals.

.../ boards are caught between not wanting to be too short term reactionary and actually pick up early warning signals that their strategy has gone wrong.../ it is very clear to the directors what they need to monitor to give them an early warning signal as to when strategy as well as operations might be off the track.../

Directors when talking about the development of strategy also describe the iterative type of interactive communication that typifies the functioning of a complex adaptive system (Harvey & Reed 1996; Stacey 1996a; Stacey 1996b). They viewed their responsibility in the development of strategy as one of close interaction with management.

.../ management would develop the strategy and the board would be proactive in saying that these are the issues or the opportunities that need to be taken into account in developing that strategy and the board would contribute to the development of that strategy.../ you really want a board to be ... interacting in an iterative kind of way in the development of the strategy and.../

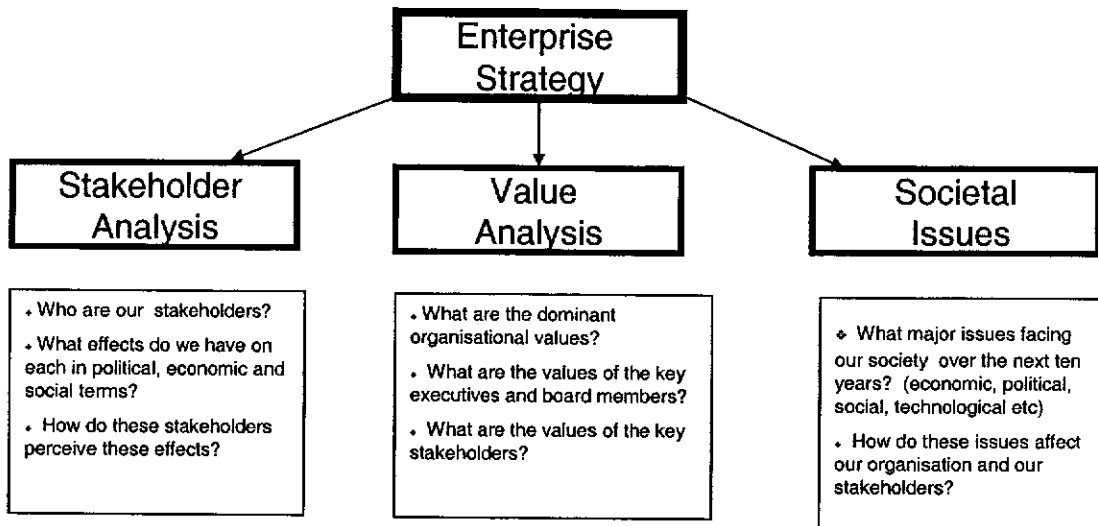
Furthermore they viewed the monitoring role of the BOCD as a continuance of its role in the formation of strategy. Together they work with management to develop the strategy and then the implementation by management is monitored by the BOCD.

.../ the board is responsible for the vision and strategy of the company. However, this is not done in a vacuum and the board works in an integrated fashion with the management to arrive at (a) the final strategy and (b) the manner in which the strategy is to be implemented. It is the management which then implements that strategy and it is the board's role to ensure that that implementation is consistent with the strategic direction.../

A word of caution was sounded with regard to balancing the need to be associated with the processes within the company while developing strategy and the need to demonstrate independence of view.

.../ directors have to associate themselves with the company but they still have to maintain that air of independent and objective overview of what is coming to them, and be able to take an independent line when it comes to discussing strategy.../

Table 6.9: Freeman's Enterprise Level Strategy Process



Source: (Freeman 1984 pp. 91-92).

Freeman (1984) identified three areas of analysis, stakeholder analysis, values analysis and analysis of societal issues as required in the development of a corporate strategy.

As the first step in this process the stakeholders were identified along with their social, political, economic, managerial or technological effects on the organisation. It was not sufficient as a non-linear system of information (Stacey 1996b; Stacey 1996a) that this information should be determined simply from the perspective of within the organisation. It was also necessary to attempt to determine how the stakeholders perceived the organisation's social, political, economic, managerial or technological effects on them.

In their interviews directors referred to the importance of taking into account the interests of stakeholder groups particularly in the decision making functions of the BOCD.

.../ decisions that will help guide the corporation to do the right thing for all of its stakeholder groups over time.../ a well led team which is properly focussed on the interests of the shareholders in particular but on the other stakeholders as well.../ communicate [with] interested parties whether they be shareholders, government, customers that the company and the board are undertaking the required or appropriate activities.../

A second area of analysis included values analysis (Freeman 1984 pp. 95-99). The values of the organisation, the BOCD members and key executives were examined as well as the values of the stakeholder groups. The process of identifying values required

differentiating between intrinsic and instrumental values of the various groups and recognising conflicts and inconsistencies.

Among directors there was a strong emphasis on the examination of and articulation of values. Organisational values were of principal concern.

.../ ensuring that the culture of the organisation and the values of the organisation were consistent with the purpose and the strategy of the organisation.../ working on delivering the values of the corporation.../ working on delivering the values of the corporation.../ a proper and appropriate sense of values and corporate behaviour.../ fundamental beliefs and value systems and ethical standards.../ a concern about the ethical standards and the value standards.../

However shared values as discussed by directors are only articulated once personal values and organisational values are examined for conflicts and inconsistencies and the differences analysed.

.../ corporate governance is really about the shared values of the board and the way in which the board goes about directing the business within that envelope of shared values.../ about having mutual understanding about standards and about vision and about where you want to go and about values.../ these are our standards and this is where we are going and these are the values that we are going to maintain.../

There was also awareness that outside of the organisation different values would probably apply.

.../ in a different industry it will have different needs and different values and a different culture.../

Directors do not explicitly discuss the way in which other stakeholder groups within the organisation are brought to a position of shared values. They do talk about the need to do the best they can for stakeholders.

.../ their job is to do the best they can for all the stakeholders - and a diverse range of stakeholders.../

Evidence is that among the participating directors the emerging notion of best practice in corporate governance has as a foundation the shared values of the board and the executive body. There is also evidence that there is a willingness to address the interests of stakeholders. Examining stakeholder values with a view to identifying conflicts and inconsistencies so as to determine differences is another step in the non-linear process of an evolving complex adaptive system (Stacey 1996b; Stacey 1996a). It is the latter step of identifying conflicts and inconsistencies among stakeholder values that participating directors did not discuss explicitly.

The third area of analysis that Freeman (1984 pp. 99-101) proposed was social issues. Consistent with the idea that constant change was an integral part of the life of the organisation Freeman explored the societal issues for the here and now as well as across a five to ten year span. The social factors considered by Freeman reflected the same areas that were considered as effecting stakeholders in the stakeholder analysis. These were likely to be social, political, economic, managerial or technological.

Directors talked about the societal issues that impacted on their decision making. The range of influences they mention provided a match with the areas that Freeman identifies.

.../ to a point it is also the general climate, the corporate law, economic climate, social climate.../ concerned with how the company is interacting with its environment, its community, with its suppliers and with all the various people that it does business with.../ having discussions at the strategic level on what are the implications for technology on our business.../ your obligations to the community or to environmental issues.../

Freeman indicates that the societal issues should be forecast over a five to ten year span. While directors are more inclined to talk about where the company will be in a five to ten year period they do not refer to stakeholders in particular but they do discuss environmental changes that will influence the five to ten year position. By implication the process of considering potential scenarios invites the examination of stakeholder interests (Van Der Heijden 1996).

.../ the managing director may be expected to have a ten year or a five year horizon.../ where will this company be in five or ten years time.../ in the strategic planning process think about the changes in the environment to look at the way things are moving and foresee the potential scenarios that could evolve and then look at the strategic implications of those scenarios.../ how it is coping with a very volatile environment.../

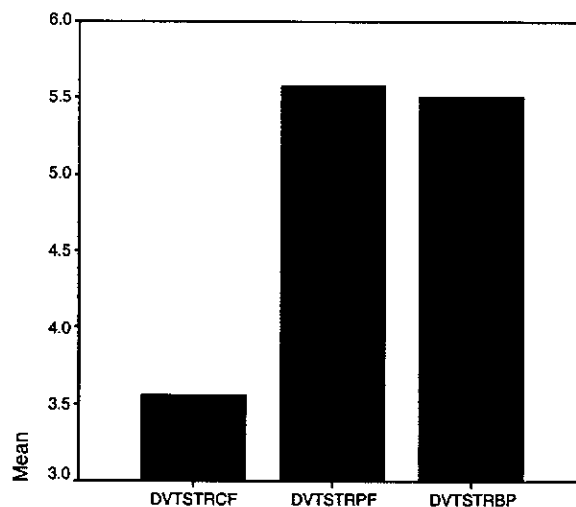
By way of contrast to the way the BOCD performed its functions in the past, participating directors saw strategy formation as a modern phenomenon in the life of the BOCD. Where previously directors would not be involved in the process directors now viewed it as an exciting and fulfilling aspect of the governance functions.

.../ [then] they were rarely interested in developing corporate philosophy, strategy or a notion of what the company was attempting to do in a broad thoughtful way.../ I would chose actually to be excited about strategy formulation and all that sort of stuff which is also important to corporate governance.../

Relationship between the development of strategy and conformance / performance / best practice

Development of strategy was another category used in the questionnaire. The histogram in Figure 6.9 shows evidence of a relationship between development of strategy as a performance activity and development of strategy as best practice.

Figure 6.9: Development of strategy and the relationship with conformance, performance and best practice



***Key**
 Scale: 1-6
 DVTSTRCF Development of strategy as a conformance activity
 DVTSTRPF Development of strategy as a performance activity
 DVTSTRBP Development of strategy and best practice
 *Key applies to Figure 6.9 and table 6.9

The strength of the relationship is further examined using Pearson correlation (see Table 6.10). Evidence shows that with a correlation of 0.649 there is a significant relationship

between the development of strategy as a performance activity and development of strategy as best practice.

Table 6.10: Pearson correlation

	DVTSTRCF	DVTSTRPF	DVTSTRBP
DVTSTRCF	1.000	0.150	0.230
DVTSTRPF	0.150	1.000	0.649
DVTSTRBP	0.230	0.649	1.000

Significant correlation occurs at > 0.3 but < 0.9

A Sense of Vision and Mission - a performance activity

When the decision was made to include vision and mission as a separate item in the questionnaire it was clear that this was something that directors considered as an important part of their responsibilities. Subsequent analysis has shown that as well as being considered important, it features as part of a much larger activity - that of developing strategy.

.../ about having mutual understanding about standards and about vision and about where you want to go.../ sharing the vision with the management.../ to ensure that the vision is actually being materialised.../

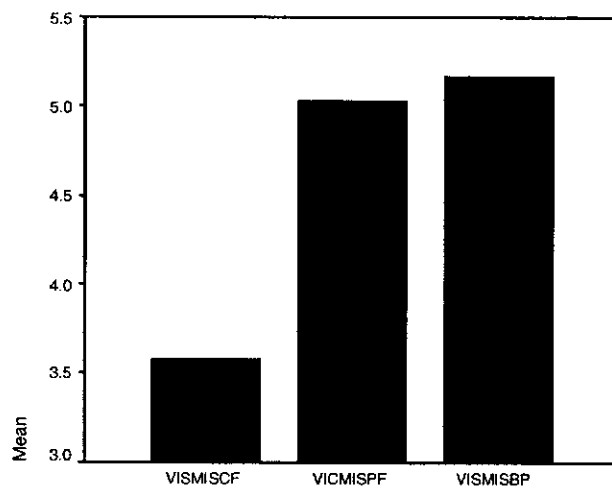
In the interviews directors linked the examination of values with the sense of vision and mission. Using Freeman's (1984) process for the development of strategy, the examination of values, conflicts and inconsistencies assists the development of a sense of vision and mission. This in turn contributes significantly to the development of strategy.

.../ about having mutual understanding about standards and about vision and about where you want to go and about values.../ these are our standards and this is where we are going and these are the values that we are going to maintain.../ to set the strategic direction, if you like, the vision of the corporation, not in isolation but with the management ultimately responsible for the implementation of strategy.../ the board is responsible for the vision and strategy of the company.../ the question then becomes is the board setting, as custodians of the vision and hopefully the morale driver of the company, are they discharging that responsibility?.../

Relationship between a sense of vision and mission and conformance / performance / best practice

A sense of vision and mission was another item used in the questionnaire. The histogram shown in Figure 6.10 provides evidence of a relationship between directors perceptions of a need for developing a sense of vision and mission as a performance activity and developing a sense of vision and mission as best practice.

Figure 6.10: A sense of vision and mission and the relationship with conformance, performance and best practice



***Key**

Scale: 1-6

VISMISCF Developing vision and mission as a conformance activity

VISMISPF Developing vision and mission as a performance activity

VISMISBP Developing vision and mission and best practice

*Key applies to Figure 6.10 and table 6.10.

The strength of the relationship is further examined using Pearson correlation (see Table 6.11). Evidence shows that with a correlation of 0.656 there is a significant relationship between those who recognised developing a sense of vision and mission as a performance activity and those who viewed developing a sense of vision and mission as best practice.

Table 6.11: Pearson correlation

	VISMISCF	VISMISPF	VISMISBP
VISMISCF	1.000	0.175	0.115
VISMISPF	0.175	1.000	0.656
VISMISBP	0.175	0.656	1.000

Significant correlation occurs at > 0.3 but < 0.9

6.8.4 Succession Planning - a performance activity

Succession planning as a category was sufficiently robust to be included as an item in the questionnaire. While directors saw it as an important aspect of what BOCDs do in focusing on the board itself (see 5.4.1) it was not clear as to whether it was viewed as a conformance or performance activity. The statistical analysis of this item in the questionnaire provided evidence (see Figure 6.11 and Table 6.13) to support the claim that directors viewed this category as associated with performance activities.

Directors talked about succession planning from two perspectives. One was the responsibility of the BOCD to select and appoint the CEO (Wallis 2000 p. 15) and the other the appointment of fellow directors to the board (Pollak 2000).

.../ they are looking at nominations for board directors and nominations for CEO when the time is appropriate.../ sometimes performance can hide any hint of weakness in the organisation where, whilst you are churning out good profits you are not worrying about succession planning either in the board or within the organisation and suddenly the star goes and the organisation falls very badly.../

Given the propensity for traditional boards prior to nineteen nineties to subscribe to the 'old boys club' strategy for succession planning, or at best an ad hoc basis (Hilmer 1993) it can be understood why it was given such importance. Confining the discussion to the selection of directors who become members of the BOCD, it is clear from the qualitative findings (see Figure 5.8) that the 'old boys' club' mentality was something boards wanted to avoid in their succession planning.

.../ business was done on the old boy network.../ there was a little bit of an old boys' club around.../ one of the things that companies do not always do well, I think, is to be sure that they have got proper succession plans in order.../

However there is evidence in the literature that general practice may not yet demonstrate all that is aspired to in this regard. Leighton (2000) considers the role of the major shareholder in selection of board members and suggests that pragmatism drives the process.

It is much easier and hassle-free to operate on an ad hoc process built on an old boys network, where the board has at most a kind of veto over candidates put forward by the chairman or major shareholder (Leighton 2000 p. 25).

Both Leighton (2000) and Grady (1999) are of the opinion that in spite of the changes with regard to board structures the trend continues to be that those chosen are 'cut from the same cloth' or 'people like us'. Directors gave consideration to what they saw as obvious gender disparity in the composition of boards. They talked about what they saw as reasons underpinning the lack of significant numbers of women on BOCDs. Directors considered that experience in executive roles was the definitive factor preventing many women from being included on boards.

.../ there is a lot happening that is causing younger women to gather that experience and they are coming into boards and are very effective and it is easy to recognise the fact that they have got that experience.../ there is some question about how we address that subject because it would possibly be a good idea for us if we could find a way to put women in a position where they can gain that experience without us having to go through another twenty years of the development of women in business.../

Mattis (2000 p. 48) in researching the appointment of women to corporate boards in America, examines the findings of report by an executive search firm (Daum, 1999). Four principle reasons are put forward. Relatively few women have reached the level in the corporate ladder that provides a pool of potential directors (i.e. former or current CEO or COO or Chairman of a major U.S. company), those who have reached this level are selective when choosing the board invitations they accept, the recent trend for executives to hold fewer directorships due to liability issues and serving on a corporate board can be a major distraction from one's own career. Consequently qualified women were considered more likely than men to decline invitations to join boards.

Focussing more specifically on the succession planning for appointment of the CEO directors questioned the traditional methods for appointment of the CEO.

.../ the old convention was that the Finance Director had the most obvious right to board membership because of the obvious contact with the board but that should not be seen as a succession necessarily to the CEO's job.../

Charan (1998 pp. 208-209) developed a set of criteria for use in the selection process proposing that using the same set of criteria throughout the organisation would assist in embedding the leadership qualities sought by the organisation in its corporate genetic code.

Table 6.12: CEO Selection Criteria

Managing the Externals	Intellectual capacity for dealing with complexity
	A leader in the race for global change
	Influences and communicates well with external constituencies
	Identifies opportunities
Business Acumen and Business Positioning	Business instincts
	Intellectual edge
	Incisive
	Change agent
	Demonstrated business judgment
Selection of Key Personnel	Decisive
	Superb at selecting individuals, especially at top levels
	Aligns energy
	Eliminates energy drains
	Creates leadership depth and pipeline of future leaders
Organization's Social Architecture	Natural coach and motivator
	Energizes the organization
	Builds organizational capacity and capability
	Champion of global diversity
	Communicates openly, directly, superbly
Edge in Execution	Agent of social change
	Confronts reality
	Delivers measurable results
	Establishes priorities and develops actionable critical tasks
	A mover and shaker
Leader in Corporate Governance	Follows through
	Makes the board a competitive advantage
	Builds positive working relationship with the board
	Taps the board's knowledge and wisdom
	Totally honest in keeping the board informed on positives and negatives
Personal Leadership Traits	Demonstrated will and capacity to learn
	Integrity and intellectual honesty
	Tenacity and confidence in dealing with adversity
	A natural high energy leader

Source: (Charan 1998 pp. 208-209).

It is useful here to reconsider the concept map that was developed in chapter five presenting the essential qualities in a director (see Figure 5.8). Many of the qualities discussed by directors can be identified with the elements that contribute to the selection criteria identified by Charan. Some elements named by Charan appear in the context of discussions where directors have explored similar attributes for a different purpose (see 5.5). Generally the discussion by directors is directed at the selection of directors to the board. This supports the claim by Charan that by embedding the leadership qualities in the corporate genetic code of the organisation, succession is catered for in the long term.

Figure 5.8 Categories describing essential qualities for any director



Where Charan refers to the intellectual capacity for dealing with complexity, directors talked about the need for well developed conceptual skills and ways of dealing with the complexities of the international business arena.

.../ helping the company to find its pathway through the complexities of the challenges that it faces.../ global pressure and the degree of competition and complexity has forced boards to get more involved in ensuring that the right issues are on the management agenda.../ have good conceptual skills

Where directors refer to business sense Charan identifies business instincts. Directors were explicit about the need for a well developed business sense using the vernacular *business nous* to describe this characteristic.

.../ if they have got commercial nous then they have got a whole lot of other skills that work.../ I think you would have really a best practice board if you had people with commercial nous.../ I mean commercial judgement.../

Charan saw an ability to choose key people as an essential attribute for the CEO. Directors talked about the need to have the right people.

the company cannot operate unless you have got good people, good succession.../

In another context directors refer to the creating of synergy (see 5.12) while Charan refers to the alignment of energy and eliminating energy drains.

.../ you have got to get everything in harmony and synergy.../ if there are disharmonies you will get all sorts of different activities and there is a whole lot of wasted activity.../

Charan sees the potential CEO as an agent for change, communicating openly, directly and superbly and shaping the organisation's social architecture. Directors refer to the social skill of having a sense of humour as a mechanism for defusing situations as well as the skill of communication. They see directors as taking responsibility for the culture of the organisation.

.../ ensuring that the culture of the organisation and the values of the organisation were consistent with the purpose and the strategy of the organisation.../ a good chief executive recognises that no one person has got a monopoly on wisdom.../ if the people around the table have got a reasonable sense of humour you can defuse it.../ [having] perception and the ability to communicate that.../

Charan refers to the CEO as a mover and shaker who confronts reality, follows through and delivers measurable results. Directors talked about the desirability for directors to take risks.

.../ appointed to go out in a sometimes dangerous and always challenging world and create shareholder wealth by taking risks.../ you must have people who are willing to take on an acceptable degree of risk.../business is about risk.../ who can think strategically and who has demonstrated leadership experience.../

Charan sees the CEO as a leader in corporate governance who is totally honest with the board. Directors make similar claims.

.../ the CEO is critical to good corporate governance.../ good corporate governance requires an open trustworthy CEO .../

Integrity is one of Charan's personal leadership traits and is identified by directors as a quality you want in a director.

.../ you have got to have honesty and integrity.../proper ethics.../ weigh up a lot of information and ethical considerations.../

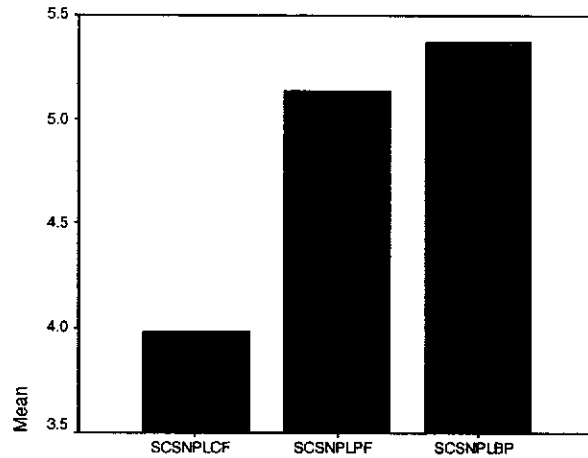
Charan (1998) proposes that succession planning is an organisational responsibility that the BOCD has a significant role in developing and implementing. The responsibility is shared with the CEO, human resources executive and the appropriate board committee. Directors also talked about succession planning in way that required the involvement of the whole organisation.

.../ the board has got a sense of the capacity of the management at, at least, the immediately lower level capacity for succession.../ the development of people so that you have got successional alternatives in place.../ succession planning and so on that takes account of the requirement to have peoples with those skills.../ then I think that on the performance side you also then need to ensure that there are succession plans in place for management.../

Relationship between succession planning and conformance / performance / best practice

Succession planning was another category used in the construct generated instrument. The histogram shown in Figure 6.11 provides evidence of a relationship between succession planning as a performance activity and succession planning as best practice.

Figure 6.11: Succession planning and the relationship with conformance, performance and best practice



***Key**
 Scale: 1-6
 SCSNPLCF Succession planning as a conformance activity
 SCSNPLPF Succession planning as a performance activity
 SCSNPLBP Succession planning and best practice
 *Key applies to Figure 6.11 and Table 6.12.

The strength of the relationship is further examined using Pearson correlation (see Table 6.13). Evidence shows that with a correlation of 0.435 there is a significant relationship between how directors view succession planning as a performance activity and also consider succession planning as best practice.

Table 6.13: Pearson correlation

	SCSNPLCF	SCSNPLPF	SCSNPLBP
SCSNPLCF	1.000	0.040	0.147
SCSNPLPF	0.040	1.000	0.435
SCSNPLBP	0.147	0.435	1.000

Significant correlation occurs at > 0.3 but < 0.9

6.9 Conformance activities of the BOCD

Conformance activities are dictated by the regulatory requirements. Hilmer (1993) and Francis (1997) argue that the carrying out of conformance duties has an inbuilt propensity for cultivating a ‘tick-the-boxes’ approach to regulatory requirements. The guidelines for corporations provided by AIMA (1997) were designed to act as a benchmark for Fund Managers to use in assessing the ways in which corporations addressed a range of activities. Directors saw the publishing of *Blue Book* as playing a significant role in

fostering a more deliberate focus on the benchmarking of governance activities by BOCDs.

.../ [it] did lead to the Stock-Exchange requiring some sort of expression of what corporate governance is, or the introduction of the corporate governance statement in annual reports. So I only see that Blue Book as being stage one.../ it was never set out to be a golden book from the point of view of the directors. It was simply a guide.../

Table 6.14 lists those areas that AIMA identified as important. This list of requirements is seen as the first definitive set of guidelines for those attempting to meet or assess governance requirements. More recently defined governance requirements are included in the ASX Listing Rules (Australian Stock Exchange 2001) and Corporations Law 2001 (Australian Federal Government 2001).

Table 6.14: Table of Contents from The Blue Book showing requirements for BOCDs

Table of Contents

Part 3 Guidelines for Corporations

- 3.1. Annual Disclosure
- 3.2. Composition of the Board of Directors
- 3.3. Chairperson to be an Independent Director
- 3.4. Board Committees Generally
- 3.5. Key Board Committees
- 3.6. Appointment of Non-Executive Directors
- 3.7. Performance Evaluation
- 3.8. Equity Participation by Non-Executive Directors
- 3.9. Respective Roles of the Board and Management
- 3.10. Board and Executive Remuneration Policy and Disclosure
- 3.11. Company Meetings
- 3.12. Disclosure of Beneficial Shareholder Information
- 3.13. Major Corporate Changes
- 3.14. Company Codes and Ethics

Source: (AIMA 1997)

In the course of the interviews directors identified a range of activities they considered necessary for meeting conformance requirements. Table 6.14 identifies these activities and locates them in the various concept maps developed in chapter five.

Table 6.15: Conformance activities provided by participating directors

Conformance Activities	Refer to
Providing a board structure	Figures 5.3, 5.5
Determining roles on the board	Figures 5.3, 5.5
Setting board committees and structures	Figures 5.3, 5.5
Evaluating the board	Figure 5.3
Managing risk	Figure 5.12
Demonstrating due diligence	Figure 5.12
Meeting regulatory requirements	Figure 5.12

Comparing the list of activities perceived by the participating directors to relate to conformance with the fourteen provided by the AIMA guidelines (Table 6.15), the similarities are more significant than the differences.

Table 6.16: Linking directors' categories with the contents of the *Blue Book*

Directors' categories	Contents of the <i>Blue Book</i>
Providing a board structure	3.2 Composition of the Board of Directors
Determining roles on the board	3.3 Chairperson to be an Independent Director
	3.6 Appointment of Non-Executive Directors
	3.8 Equity Participation by Non-Executive Directors
Setting board committees and structures	3.4 Board Committees Generally
	3.5 Key Board Committees
Evaluating the board	3.7 Performance Evaluation
Managing risk	N/A
Demonstrating due diligence	3.1 Annual Disclosure
	3.10 Board and Executive Remuneration Policy and Disclosure
	3.12 Disclosure of Beneficial Shareholder Information
Meeting regulatory requirements	3.1 Annual Disclosure
	3.10 Board and Executive Remuneration Policy and Disclosure
	3.11 Company Meetings
	3.12 Disclosure of Beneficial Shareholder Information

6.9.1 Attending to regulatory requirements - a conformance activity

Attending to regulatory requirements encompasses a range of activities. In developing the questionnaire the decision was made to make regulatory activities one item encompassing all that is required by law by way of compliance. In the questionnaire it was identified as *delegation of regulatory work*. The term was taken from the interviews where directors indicated that by delegating the mechanics of many of these requirements downwards they were less likely to become entrenched in these activities and so free to focus on other activities.

.../ they tend to delegate that down to committees who do it and come back to the board and it takes five minutes at the board rather than an hour.../

Piloting of the questionnaire showed that directors were receptive to this term and appeared to be willing to respond to it in the sense that was used.

The responsibility referred to as exercising 'due diligence' took on an overarching position. While due diligence was first and foremost viewed as a fiduciary duty it relates to the degree of skill a director exercises in the role (AICD 1997). Directors saw the application of due diligence in almost every function required of them.

.../ anything that you wanted to do has to go through almost a separate process of due diligence.../ on the due diligence committee.../ due diligence reporting, prospectus preparation, part A preparation, when the compliance side is so critical .../ in terms of due diligence any takeover or listing requirements, these things come to the fore at board meetings.../

The examples quoted referred to the information required in Part A of the Annual Report as well as the type of information that should be revealed at times such as takeovers. The AIMA (1997) document refers to 'disclosure' requirements. Due diligence on the part of the director requires that such activities as disclosure be addressed.

3.1 Guideline 1 - Annual Disclosure

The boards of directors of a listed company should prominently and clearly disclose, in a separate section of its annual report, its approach to corporate governance. This should include an analysis of the corporate governance issues specific to the company so that public investors understand how the company deals with those issues (AIMA 1997 p. 25).

Butterworths *Business and Law Dictionary* (1997) describes disclosure as 'making available information to the public in general or to limited classes of people.' The Canadian Institute of Chartered Accountants (1997 p. ii) observed that 'in a fast changing world, companies must keep their practices and related disclosures under constant review.' Disclosure is called for in both the ASX listing rules and in the AIMA document.

The term accountability as used by the directors describes the same areas of conformance. Throughout the interviews terms such as due diligence, accountability,

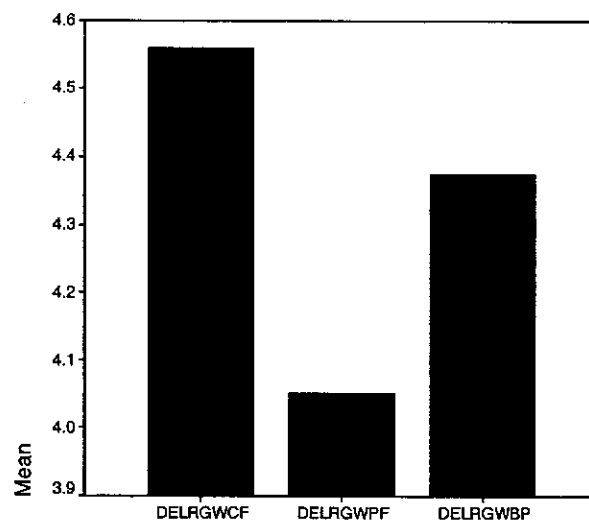
reporting requirements and disclosure sometimes took on generic qualities but in other instances related to specific activities.

.../ making sure that they [conformance matters] are carried out with due diligence and professionalism .../ to ensure that public accountability does take place.../ there is a lot more disclosure of information.../ in order to satisfy the reporting requirements.../ for example due diligence reporting.../ financial reporting section .../

Relationship between delegation of regulatory work and conformance / performance / best practice

Delegation of regulatory work was an item used in the questionnaire. It covered a range of regulatory activities identified by directors as best handled by delegating down through the organisation. The histogram shown in Figure 6.12 provides evidence of a relationship between delegation of regulatory work as a conformance activity and delegation of regulatory work as best practice. This supported the findings from the qualitative data. However the mean distribution across all three dimensions is close, occurring between 4.0 and 4.6.

Figure 6.12: Delegation of regulatory work and the relationship with conformance, performance and best practice



***Key**
 Scale: 1-6
 DELRGWCF Delegation of regulatory work as a conformance activity
 DELRGWPF Delegation of regulatory work as a performance activity
 DELRGWBP Delegation of regulatory work and best practice
 *Key applies to Figure 6.12 and Table 6.16.

The strength of the relationship is further examined using Pearson correlation (see table 6.17). Evidence shows that with a correlation of 0.438 there is a significant relationship

between delegation of regulatory work as a performance activity and delegation of regulatory work as best practice. At first glance this appears to be at variance with the evidence demonstrated in Figure 6.12. While the reason for the difference is not self evident it is possible that to the extent that directors were focussing on performance it is possible that some directors saw conformance to regulatory requirements interfering with potential performance levels and ultimately, best practice.

.../ I just find that we have been subjected to more and more controls ... and it has made it a field day for lawyers and accountants as far as I'm concerned and to the detriment of probably the performance of every business that's publicly listed in terms of costs in compliance .../

Table 6.17: Pearson correlation

	DELRGWCF	DELRGWPF	DELRGWBP
DELRGWCF	1.000	-0.040	0.109
DELRGWPF	-0.040	1.000	0.438
DELRGWBP	0.109	0.438	1.000

Significant correlation occurs at > 0.3 but < 0.9

6.9.2 Risk Management - a conformance activity

Managing risk does not have a corresponding item in the AIMA list of contents. Most directors talked about risk management as being driven by an over reaction to compliance demands engendering a risk averse environment. These discussions were less about 'risk taking' as identified in the performance categories (see Figure 5.12) and more focused on keeping risk to a minimum.

.../ the lack of desire by the board of directors to take the risk.../ as a result we are too risk averse in this country.../ they are seen as risk averse and probably confuse strength with rigidity.../

Wallis (2000 p. 16) argues that the current approach to corporate governance predisposes Australian boards to be risk averse. Donaldson (1999 p. 198) supports this position and makes the link to governance practices even stronger by linking it to the board structure. In Donaldson's view the trend to support the appointment of non-executive directors is very likely to follow poor company performance in a high-risk venture with the resulting perception that executive directors are not trustworthy. He sees their appointment as a 'risk control' measure.

Boards of directors of large corporations have gone through three periods: boards dependent on management, boards more independent, and then return to the more dependent boards. The immediate proximate cause is organizational performance. When organizational performance is high, executives are seen as capable and trustworthy and are allowed to control the corporation relatively unfettered, so they are allowed to chair the board and compose the majority of its directors (i.e., the dependent board). Thus the three period shift, from less to more then less independence, is caused by the organizational being satisfactory, then unsatisfactory, and then more satisfactory (Donaldson 1999 p. 138).

Barton, Shenkir and Walker (2001) propose that for most organisations a paradigm shift is required with regard to the management of risk. They argue that the orthodox manner of managing risk was in 'silos' where individuals were given responsibility for isolated aspects of the business risk areas e.g. financial risk, process risk, safety risk. The silo approach allowed a business to be over managed in smaller areas while remaining vulnerable in huge risk areas. The paradigm shift towards 'enterprise-wide risk' that they propose appears to address the main concerns that directors expressed about the attitudes of risk avoidance that characterised Australian enterprise. Enterprise-wide risk is a risk management strategy developed within a holistic approach to risk analysis that includes identification and mapping of business risk enabling it to be strategically managed. This approach takes risk management away from a control process and directs it towards a value creation process.

6.9.3 Board evaluation - a conformance activity

Board evaluation is considered among the conformance activities because it is listed as a requirement in the AIMA guidelines (AIMA 1997). As with succession planning (see 6.8.4), board evaluation was a robust category identified as something that boards do in regard to the management of the board itself. It was also included in the questionnaire (see Appendix D). In spite of it being included in the AIMA guidelines as a requirement all boards should meet, there appeared to be reluctance on the part of some boards to attempt this evaluation. It was clear that for those boards that did commit to the process this was a new exercise and they were still learning how to do it.

.../ if you look at people and mostly men, in their early-mid-late sixties who are chairing Australian company boards, the majority of them have not actually been in a position as an executive where they have been evaluated.../ Because one of the things that you have got to be careful about with boards is that if you

actually destroy mutual trust and rapport ... this why I think that whole question of assessing the performance of individual directors is a very, very thorny one.../

Quoting the percentage of Fortune 1,000 companies with board evaluation practices in 1998, Conger (1998) indicates that 25% of the companies used a whole board evaluation. There were 16% of the companies that evaluated individual directors but not the whole board while only 10% evaluated the CEO, the whole board and the individual directors. Among the participating directors in this study, evaluation of the board appeared to be a practice that was relatively new to boards and had not been adopted across all BOCDs.

.../ I think that boards that are unwilling to undertake board evaluation are those that are really a bit stuck in the mud.../

In 1998 North Limited (Lewin 1998 p. 9) reported that although appraisals had been carried out in previous years the board was faced with the challenge of finding a suitable facilitator for the proposed review process that year because of the novelty of board performance appraisals among Australian boards. In support of the claim that BOCDs in the past have not generally undertaken board evaluation, Wallis (2000) suggests that boards are more inclined to spend time monitoring the performance of the chief executive, than appraising their own performance.

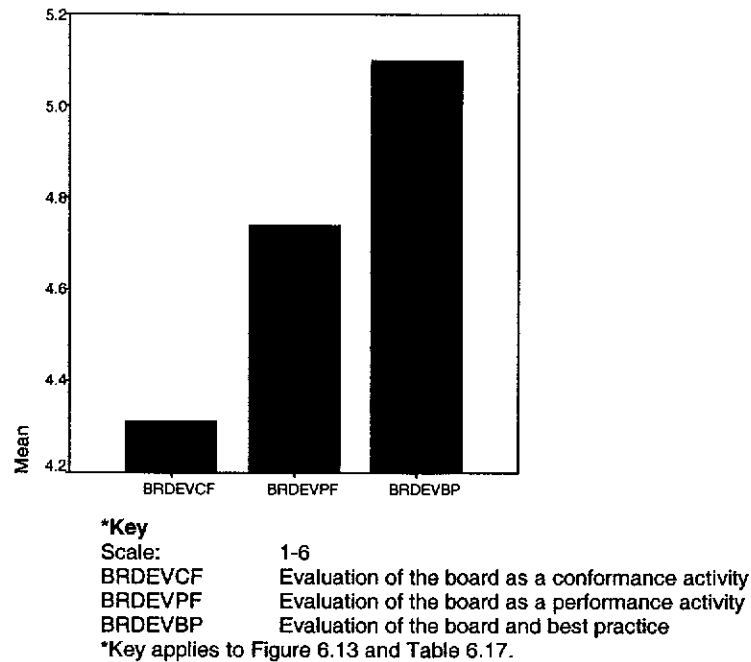
Relationship between board evaluation and conformance / performance / best practice

Evaluation of the board was a category used in the questionnaire. With the mean scores spread closely between 4.3 and 5.1 the histogram shown in Figure 6.13 indicates that among the participating directors the relationship between evaluation of the board as a performance activity was perceived to be strongly linked with evaluation of the board as best practice. The AIMA (1997 p. 23) requirement for board evaluation, whilst a prescribed activity was described in terms of performance.

Guideline 7 - Performance Evaluation

The board should review its performance and the performance of individual directors, the company and management regularly. As a key part of that process, the independent directors should meet on their own at least once annually to review performance.

Figure 6.13: Board evaluation and the relationship with conformance, performance and best practice



The strength of the relationship is further examined using Pearson correlation (see Table 6.18). Evidence here shows that with a correlation of 0.494 there is a significant relationship between the evaluation of the board as a performance activity and evaluation of the board as best practice. The statistical evidence does not support a similar relationship between evaluation of the board as a conformance activity and evaluation of the board as best practice

Table 6.18: Pearson correlation

	BRDEVCF	BRDEVPF	BRDEVBP
BRDEVCF	1.000	0.178	0.182
BRDEVPF	0.178	1.000	0.494
BRDEVBP	0.182	0.494	1.000

Significant correlation occurs at > 0.3 but < 0.9

6.9.4 Board Committees and Processes - a conformance activity

The various requirement for boards to account for board structures and processes is strongly supported by both the AIMA (1997) guidelines and comments from directors (see Table 6.16). Board committees and processes emerged as a conformance activity. As a category this was included in the questionnaire (see Appendix D). The AIMA guidelines contain the following recommendations.

3.4 Board Committees Generally

Guideline 4 - Board Committees Generally

Committees of the board of directors should:

*generally be constituted with a majority who are independent directors;
be entitled to obtain independent professional or other advice at the cost of
the company and,*

*be entitled to obtain such resources and information from the company,
including direct access to employees and advisors to the company, as they
may require.*

*The composition and resourcing of board committees is fundamental to their
effectiveness and ensures that they operate on behalf of, and not to bypass,
the full board (AIMA 1997 p. 21).*

The guidelines (*Guideline 5 - Key Board Committees*) go on to recommend that the board should appoint an audit committee, a remuneration committee and a nomination committee. Directors provided examples of the various committees that were typically reporting to boards but essentially committees were seen as a mechanism for ensuring that the conformance activities were overseen and fulfilled.

*.../ you have got committees that devote their time to getting the work done on
the compliance issues.../ corporate governance committees and audit
committees.../*

The extent to which boards reflect the individual contexts of their organisations and environments can be also be found in the committee structure within the board.

*.../ in the best practice board there is a willingness to form short term
committees to explore ideas or interests of the board.../ there has been a
development of a board committee structure to deal with issues like
occupational health and safety or remuneration of staff and staff issues
generally, as well as risk and nominations committees and so on.../*

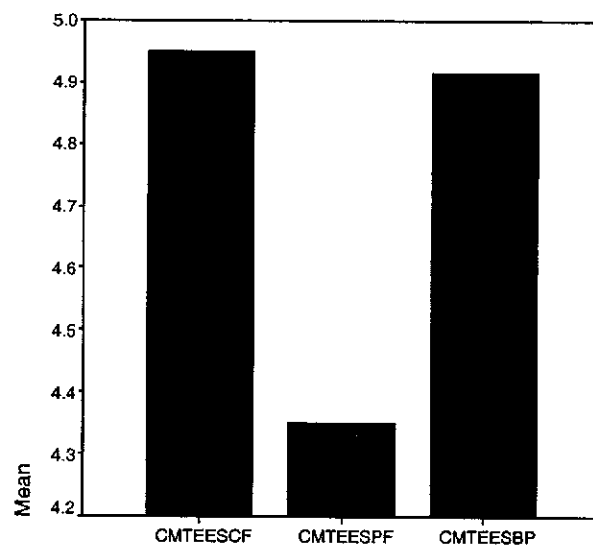
Luoma (1999) proposes that the committee process provides an avenue for visible stakeholder representation within the corporate governance processes. There is even a suggestion that a committee made up entirely of stakeholders is another option. One wonders how this would be received by those who see committees as already getting in the way of the 'real' work of a performing organisation.

.../ we spend so much time on damned committees that you forget about what you are there for.../ I have certainly worked with some companies that have got more committees than you could throw a stick at.../

Relationship between committees and processes and conformance / performance / best practice

The use of committees and processes was an item in the questionnaire. With the mean scores spread closely between 4.3 and 5.0 the histogram shown in Figure 6.14 suggests a relationship exists among all three dimensions, use of committees and processes as a conformance activity, use of committees and processes as a performance activity and use of committees and processes as best practice. The evidence here indicates that among directors the use of committees and processes is more likely to be considered a conformance activity but is also seen to contribute to performance.

Figure 6.14: Committees and processes and the relationship with conformance, performance and best practice



***Key**

Scale: 1-6

CMTEESCF Committees and processes as conformance activities

CMTEESPF Committees and processes as performance activities

CMTEESBP Committees and processes and best practice

*Key applies to Figure 6.14 and Table 6.18

The strength of the relationship is further examined using Pearson correlation (see Table 6.19). Evidence here shows that with a correlation of 0.673 there is a significant relationship between the use of committees and processes as a conformance activity and evaluation of the board as best practice. A correlation of 0.686 shows there is also a significant relationship between the use of committees and processes as a performance activity and the use of committees and processes as best practice.

Table 6.19: Pearson correlation

	CMTEESCF	CMTEESPF	CMTEESBP
CMTEESCF	1.000	0.418	0.673
CMTEESPF	0.418	1.000	0.686
CMTEESBP	0.673	0.686	1.000

Significant correlation occurs at > 0.3 but < 0.9

In the interviews directors talked about the use of committees as an instrument that facilitated attending to many of the conformance duties.

What committees should they be on? We have ...the risk committee and the audit committee ... the compliance committee ... the remuneration committee ... nominations committee ... executive committee.../

The statistical findings for this item suggest that conformance and performance activities can be supportive of each other in forming a best practice board.

6.10 Groups the BOCD directs its activities towards

The board activities are directed towards four principal groups (see Figure 5.2). These four groups, the board, management, owners and community are umbrella stakeholder groups that include subgroups that each have power to affect the firm's performance as well as holding a stake in the firm's performance. A board can be made up of three distinct groups, executive directors, non-executive directors who are not independent, and non-executive directors who are independent (see Figure 5.5). It is possible to find boards that have only one of these groups made up of executive directors (see chapter 5.4.1) although this is the exception rather than the rule.

.../ our company for instance has been built with all executive directors - with no non-executive directors.../

It can usually be expected that the board will include executive directors and non-executive directors (AIMA 1997; Bosch 1995; Hilmer 1993). The non-executive directors can contain two distinct groups. These are non-executive directors who are truly independent of management and non-executive directors who are not independent of management because of past or current relationships.

.../ you have got to distinguish between independent directors and non-executive directors.../ a director who is a partner in a law firm which is used by

the company is not independent .../ some retired executives want to continue to be managing their power bases in the corporation.../

Bosch (1993 p. 14) describes the requirements for independence as not being a substantial shareholder, not being employed in any executive capacity by the company within the last three years, not retained as a professional advisor by the company, not a significant supplier to the company and having no significant contractual relationship with the company other than as a director. Baysinger and Butler (1985) describe these directors as 'outsiders'. Non-executives Directors who are not independent (see Figure 5.5) were described by the same authors as 'grey area' directors. These were former employees, major shareholders or directors holding some other form of contractual relationship with the organisation such as when providing goods or services. In an Australian study (Clifford & Evans 1997) it was found that 35% of the non-executive directors in public listed companies in the study, were in this category.

In the board room the management group (see Figures 5.2 and 5.9) can be made up of a number of sub groups depending on the organisational structure. Executives who sit in the board room with voting rights are typically the Chief Executive Officer and the Chief Financial Officer. Baysinger and Butler (1985) describe this group as 'insiders'. The Company Secretary is usually present but not as a director and does not have voting rights. Often other members of management are also present either for the purpose of reporting or consultation.

.../ the best structure is where the CEO is obviously a director and there is room for one other [executive] director which is usually the CFO.../

Owners (see Figures 5.2 and 5.10) are identified as shareholders. There maybe individual large shareholders who hold a major interest in the corporation. There are numerous individual small shareholders whose interests are managed by the Funds Management Organisations responsible for handling their combined investments. Then there are individual small shareholders who manage their own investments.

.../ the board are there as employees of the shareholders .../ corporate governance has been driven by an alliance of all those forces, small shareholders, institutional shareholders.../

Community (see Figures 5.2 and 5.11) encompasses those groups not necessarily identified in any of the previous groups but whose interest in the corporation has the

potential to impact on the performance of the company (Freeman 1984; Freeman 1999). This can include groups such as employees, clients and suppliers.

.../ concerned with how the company is interacting with its environment, its community, with its suppliers and with all the various people that it does business with.../ their job is to do the best they can for all the stakeholders and a diverse range of stakeholders.../

6.10.1 Board activities directed towards the Board itself

The board's focus on itself (see Figure 5.3) is linked to many of the demands that are made of it with regard to conformance issues. Satisfying the requirements and providing information on board structure, roles on the board, committee structures, succession planning, evaluation of board performance and disclosure of remuneration details are all regulatory activities that directors considered an important part of managing the affairs of the BOCD. Francis (1997) reports that in his survey managing board affairs did not rank among the list of primary responsibilities of the board. In this research directors have indicated that they consider that many of the elements that make up the management of board affairs are considered important and should be attended to by members (see Figure 5.3).

In considering the activities of the BOCD that are directed towards the board itself there is the general focus on the board as a collective and then there is a very specific focus on the CEO. Some of these activities, such as succession planning and evaluation of the board, were also identified and examined within categories that described activities as performance or conformance.

Francis (1997 p. 366) reports that among public listed companies he surveyed directors listed choosing the CEO as second in the list of primary responsibilities. Directors participating in this doctoral research concurred that this was one of the most important tasks that the board has.

.../ choice of CEO .../ Australian boards should appoint the CEO, determine his remuneration in a fair manner and assess his performance each year.../

Bosch (1995 pp. 221-226) observes that, as the level of accountability required of CEOs to their boards has increased, there is increasing evidence that boards will remove unsatisfactory CEOs and appoint people they deem to be suited to deliver the outcomes sought by the corporation. The events of 1998 saw BHP remove both the chairman and

CEO as a consequence of poor company performance. There are companies that are prepared to be more proactive about the assessment of the performance of both the company and the CEO. Jimenez (2002) reporting for *The Weekend Australian* quotes Jill Ker Conway at the announcement of the removal of Lend Lease CEO.

Higgins was the wrong type of leader, she said. Lend Lease needed 'someone able to drive longer term growth' (Jimenez 2002 p. 31).

As well as the regulatory activities directors named 'on the job training' among the activities that the BOCD needed to address when looking to manage its own affairs. This function could be considered a necessary component of both conformance and performance in so far as both will be done poorly if attention is not given to developing new directors. This 'training' was viewed as being most appropriately directed at newly emerging executives in the corporation as well as newly appointed directors.

.../ it is a hell of a place for on the job training and the only way that you can really train directors in that sense of the word only is to put them there as an executive.../my chairman says to me when you are ready to really recommend an executive director come and talk to me.../

The development of a board culture is a product of the way things are done and will generally reflect elements of corporate culture. Chaney explains culture as (1999 p. 14) the special combination of features that enable the organisation to be successful. Where energies are directed to developing shared values within the board directors believe that the board culture will reflect the level of interaction that is required for attaining this.

.../ it is very obvious that the cultures of the various boards is very much driven by the chairman.../

A board operating within a consensus model of decision making is one that espouses shared values.

.../ a board which continues to be non consensus is a dangerous board, even though the issues might be very important. .../ whether we should go out of our way to have opponents on boards so that boards in fact become more controversial on their way to consensus?.../

The way in which ethical dilemmas are explored will reflect such a culture. A board characterised by an authoritarian culture will impose a resolution. A board espousing shared values will struggle with individual perceptions of the dilemma and arrive at a position that is acceptable to all members.

.../ you might elect to stay on the board because by staying there you may have the occasion to change their mind. By getting off the board you cannot.../ I have been fortunate and I feel pretty comfortable about not having to compromise my ethical standards in any way.../

The Independent Director

Within the board the role of the independent director has taken on a greater significance in the Australian BOCD since the events of the watershed era (see 2.3). Discussions dealing with the need for independent directors generate a discussion first, concerning just what an independent director is. The discussion here looks to operational aspects of independence on the BOCD. Later in the chapter (6.13.1) there is a further discussion of the notion of independence on the BOCD. This is part of the discussion arising from the terms used in the definition of corporate governance drawn from the directors' interviews.

Much has been written about whether or not independence is linked to improved performance (Heracleous 2001; Clifford & Evans 1997; Hermalin & Weisbach 1991). Francis (1997 p. 301) claims that traditional functions of directing 'have little apparent effect on the performance of the company'.

Directors who were interviewed claimed that the independent director had a role on the board - and that there was potential for this role to be a significant one. At the same time they did not make a claim for independence being a significant influence on performance. There was a ready recognition of the fact that literature did not support such a position. Some directors considered there were disadvantages associated with the practice of an independent chairman particularly in attaining a competitive edge in the market place.

.../ after the eighties there was a bit of throwing the baby out with the bath water. I think that we lose an enormous amount by not having the system of executive chairman.../

However it was recognised that independent directors have the potential to provide an independent view (see 6.13.1). It was considered that providing an independent view in

the boardroom assisted directors in maintaining a balance of power within the boardroom with a view to sustaining board management relationships. Because these things were considered important to the overall operation of the board, resulting in benefits to the organisation, it followed that having independent directors on the board was of importance.

.../ providing first of all an independent view .../ stand alone independent thinking .../

In spite of the fact that requirement for independent directors was seen to be a way of opening up BOCDs to people who were likely to bring new perspective to the board table it is claimed that most boards having secured both executive and non-executive membership lack the diverse thinking that is required for challenging management's thinking (Grady 1999 p. 10). In Grady's view this is because most directors are men 'cut from the same cloth'. Leighton (2000 p. 258) reporting on the structural characteristics of Canadian and U.S boards claims,

It takes a bold and secure director or search firm to put forward the name of a woman, a labour sympathizer, socialist, environmentalist or other outspoken advocate to any board selection committee, and if someone is suggested from 'outside the box', that name usually disappears in the process ... (Leighton 2000 p. 258).

6.10.2 Board activities directed towards Management

When Justice Rogers (1992) made the observation that within business conglomerates the opportunity for non-executive directors to exercise meaningful control over management was extremely slight he highlighted the extent to which management is seen as the embodiment of the corporation or the focal point of the organisation (Freeman 1984). As a social entity (Francis 1997) the corporate identity is able to reflect the characteristic features of the management team and its make-up. This view of the firm differs significantly from Jensen and Meekling's (1976 p. 311) 'black box' view described as 'legal fiction' serving as a nexus for contracting relationships.

Grady (1999) describes the board role in way that implies that a closer relationship can exist between the two groups than is usually demonstrated on Australian BOCDs . This is also borne out by some of the comments made in interviews.

.../ I tend to take the point of view that management have to do their very best to work with the board. Boards have to be courteous and thoughtful but it is up to the managers to get on with the boards.../

Among directors there were those who saw the traditional separation of board and management as necessary. One participant holding the role of chairman on a board held firmly to the idea that boards and management should remain separate.

.../ I also have the responsibility to be the bridge between management and board because I am leading the board.../

Another director held similar views.

.../ once they get interlinked into where management is it will become counter productive.../

These views are consistent with the traditional property model supported by agency theory (Francis 1997).

Finklestein and Hambrick (1996) talked about the monitoring role of the board. Pease and McMillan (1993 p. 29) talk about the dual roles of the board describing them as strategic planner/pilot and that of supervisor/monitor. Participants also identified these two roles,

.../ divides them into pilot boards and monitoring boards.../ The piloting, monitoring thing is I think, only just one way of looking at it.../

Some directors considered that a board that is demonstrably a pilot board is focused on compliance requirements.

.../ in the past I think that they were all pilot boards.../ the accrediting board could in fact be the piloting board.../

For others the monitoring role was seen to focus on the board's role of ratifying and monitoring the implementation of strategy. Development of strategy was not included in any descriptions of the monitoring role. This suggests that directors saw the monitoring role as consistent with agency theory (Fama & Jensen 1983) but not extending to the more dynamic model of best practice (see Figures 6.3 and 6.15) they promote in the interviews.

.../ their job is to ensure that this Chief Executive that they put in and that they are monitoring against his strategies, is in fact achieving the increments in shareholder wealth that they set out to do, rather than get involved in a really hands on way with what he is doing on a constant basis.../

Directors warned that too close a relationship with management puts the independence of directors at risk.

.../ directors have to associate with the company but they still have to maintain that air of independent and objective overview.../

Grady (1999 p. 12) on the other hand, maintains that exercised properly the strengthening of this relationship can actually work to also strengthen and maintain the independence of directors.

The activities of the board that participants saw as directed towards management included maintaining board/management relationships, reflecting on what is happening in the company and monitoring the delivery and implementation of strategy (see Figures 5.2 and 5.9).

.../ it is a collective thing. In board performance analysis it is very important to get management input.../ how does the board relate to management? That is an equally important question.../ but I think that it is a chairman's role and duty to make sure that the other members of the board do have similar contacts, for example, by plant visits, by meeting with managers, by having managers address the board, by meeting with customers, by meeting with suppliers.../

This suggests that directors see interaction between management and the board as enhancing their ability to function as a board. In reference to the board's role one director commented on what was perceived to be a best practice relationship between board and management.

.../ best practice companies I would see as proactive and interactive with management .../

In the discussions concerning the various activities of the board, in particular those that were perceived as related to performance of the organisation it was clear that there was a reliance on a strong working relationship between the board and management. The

relationship between board and management is clearly demonstrated when the board is called upon to make judgements about risk based on the information made available by management. When directors claim that 'risk taking is what generates value for shareholders' there is clearly a reliance on management to facilitate this function of the board through the provision of relevant and sufficient information. The relationship with management was seen by most directors as crucial in the development of strategy.

.../ you really want a board to be ... interacting in an iterative kind of way in the development of the strategy .../ the board is responsible for the vision and strategy of the company. However, this is not done in a vacuum and the board works in an integrated fashion with the management to arrive at (a) the final strategy and (b) the manner in which the strategy is to be implemented .../

Reflecting on what happens across the company, and taking cognizance of what happens in the delivery and implementation of strategy calls for extensive awareness of external environmental influences. By implication there is need to be connected to these things in the organisation. This is what Grady (1999) refers to as the board's responsibility to contribute to creating history as opposed to restricting the board's functions to reviewing history through the process of reviewing and assessing what has happened in the company to this point. Dunphy (2000) supports this position and suggests there is increasing demand for corporations to work towards a future vision rather than be entrenched in precedent and past practices. Stacey (1996b) claims it is also necessary to know what is happening and how these things are impacting on the environment and anticipating the ways that they need to be adjusted in response to the environment.

6.10.3 Board activities directed towards Owners

Participants have described the owners as shareholders (see Figures 5.2 and 5.10). Shareholders are owners in a corporation by virtue of the monetary investment that they make in the company (Butterworth 1997 pp. 408, 410). Directors saw the shareholders as the real owners of the company.

.../ the real owners are the shareholders.../

Individual small shareholders, simply in terms of numbers, are a significant group.

.../ in most if not all public companies the individual shareholders in numbers of shareholders, far exceed the number of institutions. It may be that it will still

be so crowded that those individual shareholders will not have the comprehension of what is being presented to them that they should have.../

The way in which small shareholders receive and make use of information has an impact on this phenomenon.

.../ there seems to be a rift or a gap in the seamless understanding that I so value, between what I call the small shareholders who come to the annual general meeting, the institutions who do not really go to the annual general meeting but have their own method of knowing what goes on in the company and the boards.../

A director observed.

.../ a lot of executives get rich, but not necessarily the shareholders.../

In spite of the large numbers of individual shareholders the implication is that as a group their influence is limited. A major shareholder can hold significant influence when the holding interest is large enough to ensure a place on the board or where a threat to sell will destabilise price. Without a mechanism for galvanising smaller shareholder interests in the boardroom it is clear that other than at the Annual General Meeting only a major shareholder is in a position to wield significant influence. The Australian Shareholders Association provides individual small shareholders with the benefits of a concerted voice, when as isolated voices they could easily be overlooked or ignored. However it does not provide them with a voice or voting rights in the board room. Funds Management Organisations are another mechanism available to small investors. However when a small investor uses the Funds Management Organisation as a medium for investment the title of individual investor no longer applies as the investment now has the combined strength of the multiple investors using the same Funds Management Organisation along with the added share buying strength and financial strength of that organisation. In contrast to the small individual investor, the funds Managers can register dissatisfaction with the way in which the corporation is managed by swiftly and efficiently dumping stock in what is commonly called the 'Wall Street Walk' (Useem 1996). Similarly they have a greater ease of access to global markets. Directors were aware of the versatility that funds managers offer investors.

.../ the emergence of the funds, the institutional investors who can just as easily invest in Slovenia as they can in Melbourne or Sydney.../

In the interviews conducted for this research it is interesting to note that it is the Funds Managers who refer to the power of the Wall Street Walk and not the directors themselves.

.../ the Wall Street Walk is always an option.../

The role of the BOCD in a public listed company involves enhancing investor confidence (Bosch 1993; Hilmer 1993; Useem 1996). The board will only achieve this by producing positive performance results for the organisation. This suggests that in the main, concentrating on performance activities will satisfy the need to focus on shareholder interests.

Consultation with the shareholder does not figure as a significant dynamic in the development of corporate strategies designed to achieve shareholder value (Useem 1996). From time to time there are examples of shareholder activism and evidence of the impact of such on the decisions that BOCDs make. The events of 1998 within BHP, leading to the resignation of both the chairman and the CEO are one such example (Jackson 1998; Lacy 1998; Lacy & Beeby 1998). However such examples are significant more because they are the exception rather than the rule.

6.10.4 Board activities directed towards Community

The label 'focused on community' (see Figures 5.2 and 5.11) encompasses the broader issues implicit in the consideration of stakeholder groups that in most cases include employees, clients/customers and other groups that are relevant to the operational context of the organisation.

.../ concerned with how the company is interacting with its environment, its community, with its suppliers and with all the various people that it does business with.../ all the other things that we might talk about in the governance area are about making certain that in ensuring success you do not neglect the importance of the company's need to provide a safe workplace, its need to observe the law, its need to be thoughtful about the interest of the people who work in the company and the ethics of the company in relation to others that it does business with and all sorts of things like that.../

Wallis (2000) and Freeman (1999; 1984) talk about stakeholder groups that are best identified as community groups located outside the organisation. Directors also discussed the way in which organisations need to take community interests into account.

.../ our companies have to start taking responsibility for their role in their communities because if they do not they will lose the trust of the community which has detrimental effects in terms of governmental decisions, community decisions and customer decisions which again is against the interests of the shareholders.../

While directors identified two community groups as having the power to affect the firm it could not be assumed that they were in a position to be similarly affected by the firm. They were the media and the Australian Institute of Company Directors (AICD). The media is recognised for the role it plays in transmitting information and forming public opinion. Directors felt that in many cases the information conveyed by the press was not accurate.

.../ so much of the criticism that appears in the press is ill informed.../

The AICD is a representative body of Australian company directors focusing on the needs of directors (Australian Institute of Company Directors 2001). As such it is in the best interest of the BOCD to be mindful of services offered by the Institute and recommendations coming from it.

.../ the Institute itself has been increasing the level of professionalism [among directors] .../

In the sense of the word as used by Freeman (1984), these two groups can be considered as stakeholders in so far as they have the capacity to influence or have an impact on the BOCD and the organisation. It is possible that for various companies there are other such strategically positioned groups within the community that a board should take into account and towards whom a board may need to direct its energies. Freeman (1984) proposed stakeholder analysis and analysis of societal issues as parts of his Enterprise Level Strategy Process. He examines the economic, political, social and technological effects of organisations on the stakeholders and their perceptions of these effects. Then he examines how these issues effect both the organisation and the stakeholders separately. It can be argued that by analysing economic, political, social and technological forces around them BOCDs are able to determine how best to address the community interests around them. Directors talked about these forces in various contexts but most consistently they were present in discussions about preparing for future change.

.../ markets change through global economic factors, supply and demand factors and competition and the entrepreneurship occurring throughout the world - that induces through technology and other things, competition.../ I think that to a point it is also the general climate, the corporate law, economic climate, social climate, which would make them ready to accept change.../ allow themselves time to deal with what they perceive to be, or what their advisers perceive to be political or legislative challenges that are going to come up so that they are ahead of the game that faces them.../ obligations to see that those companies are organised in a way that they are economically effective and socially responsible.../

6.11 Relationships between the dimensions of performance, conformance and best practice

Findings in the preliminary study (McCabe & Nowak 1997b) pointed to an emphasis on boards that were occupied with conformance issues in contrast to boards that were occupied with performance. This is consistent with the emergent models depicted in Figures 6.1 and 6.2. In the course of the interviews that focused on best practice in corporate governance the distinction between the two dimensions enabled a range of activities for each to be identified. There were also some efforts to identify specific best practice activities in the same way.

.../ looks at all the important things like strategy ...safety ... monitoring performance.../ comparing ourselves with other boards.../

Producing a checklist of activities did not fit with the way directors talked about best practice. By attempting to describe best practice in these terms the concept is fixed in a particular point in time and a particular context so denying the idea of an evolving system that reflects the forces and influences of its time (Charkham 1992 p. 8). Grady (1999) suggests that using checklists for identifying best practice activities is a hallmark of the entrenched practice of 'looking backwards' rather than 'forwards'. Grady views this as inhibiting the pursuit of best practice.

In the interviews with directors, achieving best practice was often discussed in terms that indicated that there was a notional relationship between conformance, performance and best practice. The separation between the two dimensions of conformance and performance was not as clearly marked as had appeared to be the case in the preliminary study. This view is consistent with the emergent models depicted in Figures 6.3 and 6.15.

.../ and the only rule in best practice for a board is what is best for the business provided that it is in compliance.../ it has got to be a blend of performance and conformance with a slight emphasis on performance.../ in the best practice area, compliance would be very, very much proactive and future rather than ticking boxes and covering backsides.../

Lewin (1998 pp. 3-4) quotes the 1997 Annual Report of North Ltd as saying 'the minimum standard of behaviour laid down in the Corporations Law is not in itself adequate to ensure that the best interests of the corporation are properly served'. He points out that 'best practice is not a static level of performance but is a process of continual improvement'.

Where the first models (Figures 6.1 and 6.2) anticipated separate activities and associated behaviours, the later models (Figures 6.3 and 6.15) included relational links. The resulting dynamism illustrated in Figure 6.15 pointed to the underpinning set of behaviours that enabled the activities to be identified as best practice.

Furthermore the statistical evidence on the conformance activities supported the idea of a relationship between conformance and performance. The consistent showing of activities as performance activities that contribute in some measure to best practice has contributed to the decision to place performance at the centre of the best practice model in Figure 6.15.

6.12 Summary of Best Practice Discussion

The first of the proposed models (Figure 6.1) was mainly representative of the preliminary study rather than the data from the main study. While there was data supporting the second model (Figure 6.2), directors' comments indicated a dissatisfaction with this model. This was a reflection on how directors saw things happening around them. The findings relating to what directors perceived to be best practice in corporate governance in Australia (see 5.7) was an expression of what directors saw themselves striving for in their respective board roles. It was here that language and concepts consistent with complex adaptive systems theory (Lewin & Regine 2000; Griffin, Shaw & Stacey 1998; Holland 1995) was evident.

Figure 6.15: Best practice model emerging from the findings

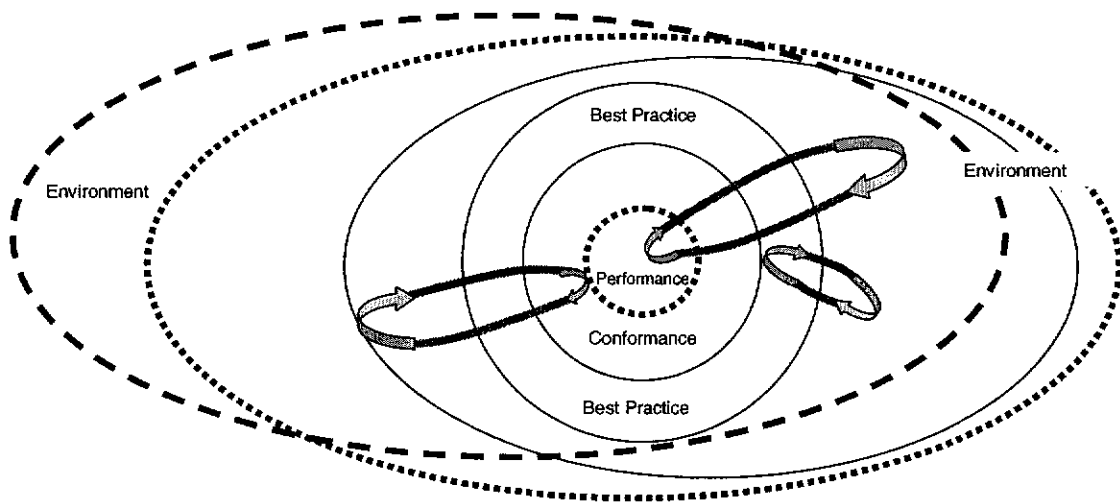


Figure 6.3 is the preliminary model that is suggestive of complex adaptive systems theory. The final model (Figure 6.15) emerges from the data as the concept of best practice that is forming in the minds of directors.

.../ there is ... a keen desire for the directors to focus on the balance between short term bottom line performance this year and long term strategic intent of where the company is going to be in three to five years time.../ they need to have collectively a large number of alternative models of how things can work so that they are not fixed in one way of doing things.../

Statistical analysis showed that directors believed that there is a significant relationship between how they view most activities as relating to performance and how they view them as relating to best practice. Considering this evidence in the quantitative data the model presented in Figure 6.3 was altered. In Figure 6.3 conformance activities were placed at the hub of the model. Changes to the model show performance at the hub as the central function driving best practice in corporate governance. The border between performance and conformance was also changed from a solid boundary to a perforated boundary to indicate the fact that activities can contribute to both performance and conformance as the statistical data for the item 'committees and processes' showed (see Table 6.19).

The resulting model (Figure 6.15) placed performance at the centre of the model with best practice encompassing both performance and conformance. The distinctive feature of the model portrayed a dynamic relationship between all three as well as with the environment. This dynamism is demonstrated through an interactive process that is iterative and non-linear. Stacey (1996b p. 108) identifies networks of large numbers of

interacting agents interacting in an iterative and non-linear manner among the key features of a complex adaptive system whose basic purpose is performing tasks and surviving. The arrows indicating feedback mechanisms at work (Figure 6.3) were also altered to better represent the iterative and interactive nature of double loop learning (see Figure 6.15). This feature of the model allows for change to be viewed as self-generated.

Two different outlines in Figure 6.3 depict the changing dimension of the environment encompassing the organisation. This depiction was also altered by having a third environment boundary added to the new model (Figure 6.15). Each environment boundary depicts a different point in time and indicates that at any point in time this dimension of the model is expected to differ from any other point in time.

Placing performance at the centre reflected the position taken by Donaldson (1999) with a focus on portfolio theory. With conformance and performance activities performed in an iterative and interactive manner, the identifiable features of complex adaptive systems theory are suited to describing the underpinning behaviours that make them best practice. Self-organising, adaptable behaviours featuring uncertainty and non-linear feedback are integral to both the tentative model as shown in Figure 6.3 and the emergent model shown in Figure 6.15.

In the depiction of the final model, removing the fixed boundary between performance and conformance places an emphasis on an integration of the two requirements. As a result it is then possible for performance to provide a foundation and justification for the 'why' of what is done in conformance while allowing the regulatory framework to direct the 'how'. Implications for corporate governance resulting from the acceptance of this model are further considered in chapter 7.

6.13 Corporate Governance - a definition-in-use

Eliciting a definition of Corporate Governance from responses given by directors of public listed companies was a stated objective of the research (see 1.5.5 and 6.3.2). The definition-in-use is dependent on ideas expressed by directors throughout the interviews. Words and phrases are extracted from the interview data and combined to construct the following definition.

Corporate governance is.../ the ongoing independent exercising of professional judgement.../ by the board as custodian of the company's assets,.../ in the best interests of a variety of stakeholders including shareholders, employees, customers,.../ with a commitment to demonstrate integrity, responsibility and accountability.

Combining the phrases to produce the definition-in-use satisfied the objective. Each phrase is now examined with reference to the research data and relevant literature.

6.13.1 Independent exercising of judgement

Ongoing independent exercising of professional judgement - The word 'independent', as used by the participants, presents two levels of meaning. Initially it appears to convey the ideas associated with the preferred model for Australian boards, a board structure comprised of 'a majority of non-executive directors with an appropriate mix of skills and experience' (Bosch 1993 p. 12). Hilmer's (1993) recommendation was that no less than a third of the board should be genuinely independent. Directors talked about what was required to satisfy the requirement to demonstrate independence as part of the board structure. This aspect of independence was discussed earlier in this chapter - see 6.10.1.

.../ a true non-executive director is a fairly rare breed in some senses, in that he doesn't have, or she doesn't have, any other relationships with the company, or never had.../ my definition of an independent director is one who does not represent a major shareholder, a major supplier or someone who is involved in giving professional advice or trading with the company and does not have through any of those stakeholder roles an opportunity to significantly influence decisions of the company.../

As well as encompassing the concepts that pertain to the structure of the board [AIMA, 1997 #1216; Donaldson, 1993 #1186] the term independent also includes the board's activities with regard to deliberation and making judgement (Bosch 1993; Wymeersch 1998). This was what directors referred to as independence of mind or independent thinking.

.../ the ongoing independent exercising of professional judgement in the best interests of the shareholders.../ you somehow need to make the directors more independent in a real sense as well as in the structural definitional sense.../

For some directors the dilemma of independent thinking was seen to be greater for executive directors. They pointed to the fact that when a proposal is brought to the board by the executive it has already been thrashed out within management. As one of the participants explained,

.../ another executive director in the board meeting cannot get a second bite at the cherry and say well I know that is what the boss is bringing but I disagree. That is tantamount to handing in your resignation.../

Despite this, participants believe that an independence of mind is a necessary attribute for any director whether executive or independent. Directors connected to management also need to demonstrate independence of mind.

*.../ I mean the person who is on the board has to have an independence of mind
.../ I want every body to have an independence of mind.../*

However pragmatism dictates that those who have both independence of income and status more easily demonstrate this type of independence of thought. As one participant suggested,

.../ it is conceivable that you would have somebody there as a representative of a large shareholder who was an independent thinker but the probability would be less just as the probability that a retired executive would be independent, would be less .../

Pease and McMillan (1993 p. 29) point out that maintaining a strong independent view should not compromise the need to also maintain 'a sufficient and 'interested' knowledge of the company'. As Bosch (1993 p. 12) points out this can be addressed by ensuring that independent directors provide 'an appropriate mix of skills and experience'. Overriding both the need for adequate knowledge and diversity of skills is the need to bring 'independent judgement to tasks where there is a potential for conflict of interest' (Directorate for Financial Fiscal and Enterprise Affairs 1999 p. 9).

Many of the participants considered demonstrating independent thinking would go a long way to remove the 'rubber stamp' label (Berle & Means 1932) associated with the role of the BOCD.

.../ I think that there is a much greater tendency now for boards to become involved and familiar with the substantive issues facing companies so that they really are increasingly engaging them in debate rather than rubber stamping or rejecting from a rather uninformed base.../

The discussion of how directors demonstrated their capacity for independent thinking covered such resources as having independent sources of information, making their independent investigation into information supplied by management and being prepared to put forward independent views. Some independent directors have their own research staff to access sources of information external to the organisation.

.../ you are talking about a man or a woman who is very much their own person, who will speak out. Who is totally free of obligation to any specific interest within a company. Is totally concerned with the best interests of the company and is prepared in the belief that they are doing that .../ in a perfect world, you would have independent sources of knowledge.../

This description of independence finds resonance with Wymeersch's (1998) description,

... independence is not only a question of regulation and legal status. At the end of the day, it is a matter of the strength of the director, of his personal stamina and willpower (Wymeersch 1998 p. 1099).

The all important question at the time of selection to the board was considered to be,

.../ do they have independence of mind and of thought?.../

Appointing directors that are independent of the organisation to public listed boards does not in itself ensure this independence of thought and professional judgement. The differentiating feature for the independent director is that information is freely available to them and able to be supplemented by them with other independent sources of information. Conger (1998 p. 140) proposes that the Board of Company Directors (BOCD) is a repository of knowledge and experience that of necessity must match the strategic demands of the company.

The recent example of the collapse of the insurance company HIH, in Australia (Chenoweth & Hepworth 2001; Honourable Justice Hely 2001) is viewed as an example of poor judgement endorsed as a result of inadequate information being provided to board members. In this instance the prevailing board culture resulted in an over reliance on the individual judgement of the CEO and a strong dependence on groupthink (ABC 2001) rather than individual assessments weighed up with a decision taken and acted upon as a result of thorough analysis. It was not sufficient that the board structure provided apparently 'independent' directors.

Pease and McMillan (1993 p. 46) consider that by ensuring that there are both directors who are non-executive and independent and directors who are non-executive but not independent (see Figure 5.5), it is possible to sustain a healthy climate of conflicting and diverse thinking on the board, so avoiding the perils of groupthink. Independence of mind is seen as an essential prerequisite if the intent of the regulatory requirement is to be met.

They also believed that they needed to have confidence that they could request internal information from the CEO and management sources when what they had was deemed to be insufficient.

.../ I cannot really make a rational objective decision or judgement about this unless I have got that level of input of information, or standard of information.../

Again, the HIH example (ABC 2001) or that of the Bond Corporation (Francis 1997) provides evidence of what can potentially result when this confidence in the CEO's willingness to provide access to critical information is missing.

The appointment of independent non-executive directors was promoted as the norm in Australia (Hilmer 1993; AIMA 1997; Australian Stock Exchange 1998; Norburn et al. 2000) as a result of the watershed events of the nineteen eighties. The inclusion of independent non-executive directors enables the board to have access to diverse areas of information but it does not necessarily ensure that this objective is met. Boards are encouraged to recruit members from a wide range of professional backgrounds that are relevant to the industrial and marketing environment of the organisation (Pease & McMillan 1993).

The value of this independence was seen to be lessened when the independent director was reliant largely on management for information that was required in performing as a member of the board. However providing a board structure with a majority of independent non-executive directors does not ensure the integrity of the board (Francis 1997). People with backgrounds within the industry and its competitive environments or associated fields are in a position to gain their knowledge from sources independent of the internal management. They are also in a position to supplement the knowledge and expertise of management. In the words of one of the participating directors,

.../ they bring to a company some experience which would benefit management.../ if the independent director does not have the capacity for

getting information or knowledge about the company or the industry or the world, other than through management then its independence is mitigated .../

In the framework of agency theory boards of directors, acting on behalf of shareholders should be independent of management (Bosch 1993; Hilmer 1993; Renton 1994; Norburn et al. 2000). Donaldson (1993 p. 82) argues that research evidence does not necessarily support this to be the position. Francis (1997 p. 100) agrees and describes the director as having a dual role - one is self-regulatory and the other managerial. The managerial role is seen as an intrinsic part of the board's attention to the company's performance in the marketplace.

Professional Judgement

Underlying directors' use of the term *professional judgement* there is an assumption that in a truly professional manner all sides of the situation can be considered.

.../ the independent director also will bring to that board table his experience in other industries or other companies, which might even be a company in the same industry.../ a lot these non-executive directors have an involvement in other spheres of life that all help to provide a better background to decision making in the company.../

Demonstrating professional judgement is an extension of the requirement that directors are able to demonstrate independence in their thinking. Included in this assumption is a requirement that the board has access to all relevant information. Bain and Band (1996 p. 88) discuss this as a recently developed requirement resulting from the fact that directors are 'increasingly required to understand not only their own organisation, but also its industry, its competitive environment, prospective management successions, and its short, medium and long-term strategies.'

Traditionally management was the principal provider of information to BOCDs. In the view of participants this remains for many the model for non-executives to access critical information.

.../ Non executive directors receive information in a very formal channel.../ as a director you are absolutely at the mercy of the Chief Executive and the management and you rely on them enormously to give you the information that you need .../

While the practice of appointing independent directors does not necessarily arise from the logic of agency theory (Nowak & McCabe 2001) the dependence of independent directors on management as the principal source of information does. Management are the agents appointed by the owners to operate the company. In this position management is in control of the operational information pertaining to the day-to-day running of the organisation. Directors are dependent on management for this information. In this study directors discussed the problems associated with accessing information they needed.

.../ Chief Executives want to, even the good ones ... tend to want to control the flow of information to the board.../ if people putting up the information on the proposals have the power, it is difficult to get around that.../

Bosch (1995 p. 15) attributes the collapse of the State Bank of South Australia to a management team that manipulated 'the provision of information to the board in order to procure the result which management sought.'

Most participating directors believed that management would give them information if they asked for it but in many cases it would be a case of having to ask for specific information.

.../ if they think that it is inadequate they can always ask for more information or they can ask to come in and have a talk or a proper briefing.../

Directors in this study made a strong case for independent directors having independent means of accessing information.

.../ encourage them rather than discourage them from getting independent information .../ it is a matter of keeping themselves informed .../

The recommendation that all directors have unrestricted access to company documents and that the company fund external sources of information (Governance 1999 p. 20) addresses these concerns and moves the current practice within Australian BOCDs towards the practices that prevail in the American approach to accessing information. Francis (1997) indicates that more and more Australian directors are turning to outside experts, credit rating agencies risk analysis and business audit companies in their quest for information when assessing their own organisation.

One participant talking about his lengthy experience with American boards indicated that,

.../ anything that you wanted to do has to go through almost a separate process of due diligence to convince the independent directors that it was fair to the minority shareholders and that often included getting independent legal and independent accounting advice for the independent directors.../

Experiences among participants indicate that this level of independence is not yet a part of the Australian board culture.

.../ (for) a non-executive director of an Australian company, it would be extraordinary if he went out and sought independent legal advice because he needed to protect himself in a transaction that the company was involved in.../

If management is the principal supplier of information the extent to which the BOCD is dependent on management is conducive to a highly predictive arrangement. Solutions tend to be those proposed by and sought by management. This has the capacity to restrict the potential for innovation and change. Complex adaptive systems theory defines this situation as simple and linear (Stacey 1996b). Simple linear lines of communication restrict discussion and produce highly predictive outcomes (Griffin, Shaw & Stacey 1998). If X is the case then Y is expected (Jones 1995).

The trend towards information being accessed freely from within the organisation and also from external sources (Francis 1997) does not fit within the predictive model and has potential for far less predictable outcomes. A non-linear way of operating is complex and enables dynamic interaction to produce emergent solutions (Griffin, Shaw & Stacey 1998). This framework allows independent contributions with regard to deliberation and the making of judgement. BOCD members are encouraged to bring innovative and challenging ideas to the board room.

6.13.2 Custodial Function

As custodians of the company's assets - The custodial concept highlights the fact that the BOCD is appointed by the shareholders as an internal check to ensure that there are sanctions and checks against management acting in its own interests. Agency theory (Gomez-Mejia & Balkin 1992) emphasises the role as a contractual commitment principally to the interests of the owners or shareholders. One participant commented on the custodial role as being,

.../ the responsibility that directors have to the shareholders as custodian of the company's assets .../

Within the framework of agency theory the custodial function of the BOCD is seen to provide shareholders with protection against management acting from a position of self-interest (Worsham, Eisner & Ringquist 1997). Having a BOCD in place is not sufficient in itself to ensure that shareholders interests are protected. Experiences of the shareholders of companies facing financial disasters over recent decades have provided ample evidence that more than a structure is required. Some such cases include HIH (Chenoweth & Hepworth 2001), Adelaide Steamship Company (Francis 1997), Bond Corporation (Bosch 1995) as well as the case that was to become the catalyst for governance reform in Australia, AWA (Norburn et al. 2000).

The earlier discussion (6.13.1) surrounding the concept of independent judgement indicates directors see themselves operating increasingly in a non-linear or emergent model of multiple realities (Griffin, Shaw & Stacey 1998). This view of the BOCD recognises that interaction with boards is not restricted to the linear dimensions of two players. There is recognition by the board that all organisational players influence and are influenced by events rather than simply the BOCD and shareholders. This is a key element in the principles underpinning stakeholder theory (Freeman 1984; 1999). In the following quote one of the directors expands on the non-linear and societal view of the custodial role of the BOCD.

.../ at a more subjective level, the question then becomes, is the board ..., as custodians of the vision and hopefully the moral driver of the company, are they discharging that responsibility? Are they ensuring through the chief executive officer that employees and their benefits are appropriate, stimulating and effective.../

Within stakeholder theory the custodial role requires an awareness and appreciation of value systems at work within the organisation as well as a commitment to shared values (Whiteley 1995).

6.13.3 Best Interests of Stakeholders

In the best interests of the shareholders, employees, customers and a variety of stakeholders - Jones (1995) provides a description of the firm in its relationship with its environment.

The firm is characterized by relationships with many groups and individuals ('stakeholders'), each with (a) the power to affect the firm's performance and/or (b) a stake in the firm's performance (Freeman 1984). In many cases both conditions apply. Stakeholders include but are not limited to shareholders.

Jones has explored stakeholder groups on the normative assumption that the interests of all stakeholder groups have intrinsic value and no set of interests should assume to dominate over the others.

Directors who were interviewed also hold the view that the responsibility of the BOCD with regards to performance of the organisation is not exclusive to shareholders but should be inclusive of all stakeholders.

When directors discussed their representative role on the board there was agreement that directors were,

.../ elected to represent the owners of the company, the shareholders .../

However directors viewed the interests of stakeholders as not restricted to this group alone, but extended to a responsibility to

.../ guide the corporation to do the right thing for all its stakeholder groups over time .../

While Jones' (1995) definition appears to exclude those who have an interest in the organisation but are not in a position to affect the firm's performance it was not clear whether directors would make as fine a distinction. One definition provided by directors describes stakeholders as follows.

.../ all the active community groups who feel that they are stakeholders and they want their views taken account of.../

The particular stakeholder groups named in the emergent definition are those identified by directors in their interviews but are not intended to exclude other groups. The implication is that the social entity of the organisation is adopted in preference to the property entity (Francis 1997). Jones (1994) suggests that taking this view means moving from the perspective of what the corporation owns to the perspective of a system of primary stakeholder groups.

Jones' (1995) definition of the firm has further implications in that it recognises that groups and individuals not holding a monetary interest in the organisation, such as illegitimate stakeholder groups (Freeman 1984) can be in a position to influence decision making within it. It also allows for individuals to belong to more than one of the groups (Jones 1995). With membership of some stakeholder groups overlapping at times, and relationships between groups and individuals varying both in formality and specificity, predictability is lessened. These groups and individuals are also part of other groups that interact with entities outside the organisation. In this complex arrangement there is a need for decision makers to rely on information and energy that is found in the environment supporting the operational context (Stacey 1996b). For the various stakeholders connected to the organisation this calls for a continual adaptation as various relationships alter and new ones are formed (Jones 1995). For the BOCB it requires an ability to continually read the environment, gaining both information and energy, enabling it to renew itself through self-organisation (Stacey 1996b).

In Freeman's view (1984) stakeholder theory addresses the potentially confrontational nature of the predictive 'them Vs us' scenario that often characterises encounters between the management of the organisation and labour or environmentalists. As a normative theory Freeman (1984 p. 210) claims that the stakeholder approach does not prescribe a particular moral stance from within a predictive model (Griffin, Shaw & Stacey 1998) but provides a framework that invites 'a host of differing moral views' for consideration. This view is closely aligned with Griffin's (1998) emergent model where effective management of conflicting positions contributes to the shared understanding of values (Whiteley 1995) of various players. This allows for the emergence of a position that is not exclusive to one or other of the stakeholder groups.

Central to the application of stakeholder theory is the identification of stakeholders in the organisation (Luoma & Goodstein 1999). The question 'who are those groups and individuals who can affect and be affected by the achievement of an organisation's purpose?' (Freeman 1984 p. 54) has raised questions concerning groups that previously were not considered. In Freeman's (p. 53) view there are illegitimate stakeholder groups such as terrorists that must also be taken into account if strategic plans are to be implemented. Certainly this is borne out in the wake of the events of September 11, 2001 (Romei, Eccleston & Shannahan 2001). More than a month after terrorist attacks in New York and Washington, Dr Alan Greenspan, chairman of the US Federal Reserve reported to a congressional committee that economic growth and productivity were suffering the effects of terrorism and it was too soon to gauge the prospects of recovery (Hartcher 2001). Taking up Freeman's claim that terrorists are stakeholders to be reckoned with it can be argued that ignoring terrorists as a stakeholder group in the course of developing

strategy reduces the prospect of victim organisations and those associated with them recovering in a timely fashion. By not having provided for unseen contingencies an organisation can unwittingly contribute to its own demise.

The role of stakeholders within an effective governance structure is highlighted in the *OECD Principles of Corporate Governance* (Directorate for Financial Fiscal and Enterprise Affairs 1999). Principle III of the document recommends that the rights of stakeholders be recognised and ‘active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises’ be encouraged. Successful performance of the company is crucial, not only to the interests of the shareholders, but also to the other stakeholders. For example if a company cannot provide sustainable profits and satisfy its shareholders then employees are without a job, customers are without a product or services and other stakeholders such as suppliers or contractors are adversely affected.

In a public listed company the organisation’s purpose will include high in its list of priorities ‘to provide a profitable return on shareholder capital’ {REF from an annual report}. As one of the participants described it,

.../ how do you measure the performance of a board? Ordinarily you measure it in relation to shareholder wealth or in relation to its strategic objectives or thrusts or performance.../

The fortune/misfortune of any one group with interests in the organisation has a flow on effect for the entire range of groups associated with the company and possibly those associated with any number of those groups. As observed by directors,

.../ you see you have got to get everything in harmony and synergy .../ most biological organisms try to live in symbiotic relationships which expose them least to stress. Boards do the same thing. As the wick gets turned up, whoever is turning the wick up, society, shareholders, the industry you are in .../

In referring to the ‘best interests of stakeholder’ the intention is to focus on the performance of the company in a wider context than simply returning value to shareholders. Stakeholder theory (Freeman 1984) supported by the theory of complex adaptive systems (Stacey 1996a) provides a framework for the BOCD when working towards a shared understanding of all stakeholder interests.

6.13.4 Commitment to Accountability

With a commitment to demonstrate integrity, responsibility and accountability - In the wake of the events of the 'watershed era' in the nineteen eighties the legal and regulatory framework took greater control of the way in which boards attended to conformance matters. This led to an observation by directors in the course of the 1990s that integrity was no longer seen to be the operational framework for these matters (McCabe & Nowak 1997b).

First stage analysis of the interviews with directors gave the impression that conformance activities were indeed directed and controlled by regulation. Further analysis revealed that directors believe that while these activities are controlled and monitored within a regulatory framework they should be driven by integrity. Bosch (1993) expresses a similar sentiment in the following statement

In an economy run on market principles, the freedom allowed by society to the producers of goods and services is dependent on the degree to which the public has confidence in the integrity of the participants. The lower the standard of behaviour, the more regulations are needed (Bosch 1993 p. 32).

Integrity is deemed by directors to underpin all that a director is called upon to do as a member of the BOCD.

.../ that the other directors on the board have integrity and have good reputations and you feel comfortable in working with them.../ decent people loaded with integrity .../ the characteristic that you are looking for in boards and management if it comes to that, is integrity.../ Am I going to be on a board with people of integrity?.../

Some participants promoted the other side of the argument claiming that an over reliance on a regulatory approach promoted a culture where people would test the system and experiment with what they could 'get away with'.

.../ I think sometime that changes in the law, changes in accounting methods really encourage people to be a bit cute about how they do things rather than to be absolutely transparent.../

The more proactive approach that places emphasis on the intent of the law rather than satisfying lists of regulatory requirements was promoted as being more worthwhile for all interested parties.

.../ I think that people are becoming much more serious and concerned about, not only bringing out the annual report but actually observing what is required.../

In 1996 Listing Rule 4.10.3 was introduced as a measure to promote the idea that corporate governance was not simply about government regulation but about directors, management and shareholders being responsible for the fate of the company (Factor 1996). The call by directors in this study for directors to demonstrate accountability and responsibility with integrity can be interpreted as indicating that there is a belief among directors that conformance matters should be driven by an ethical rather than regulatory position (McCabe & Nowak 1997b). There is an assumption underpinning directors' comments, suggesting that integrity as an attribute of a value system is perceived and understood to be valued in the same way universally. This is an assumption that is open to challenge. Etzioni (1988) highlights the significance of moral factors within corporation and the workplace and insists that shared commitments and values are a result of extensive and continued moral dialogues (Etzioni 1996).

6.14 Summary of the Definition-in-use

The definition (see 6.13) includes defining features of the board, in particular its independent structure and its decision making role. It also includes the custodial role of the board and the driving principles for dealing with conformance and performance issues conducted from a platform of integrity. The analysis here supports the position that all components of the definition are underpinned by an acceptance of stakeholder theory, recognising the corporation as a social entity. The provision for multiple and varied stakeholders in a constantly changing environment aligns with the principles of complex adaptive systems theory.

Chapter 7 Implications, Recommendations and Conclusion

This research provides a description of directors' perceptions of best practice in corporate governance in Australia and a definition of corporate governance. A best practice model was produced, based on the findings. The discussion of the findings is supported by literature from stakeholder theory and complex adaptive systems theory. Stakeholder theory (Freeman 1984) with its focus on the corporation as a social entity (Francis 1997) was discussed in Chapter 2. The relevance of complex adaptive systems theory (Holland 1995; Stacey 1996b; Stacey 1996a) to this research emerged as part of the process for developing theoretical sensitivity and was discussed in Chapter 6. Further implications for corporate governance arising from these areas of literature are presented in this chapter. This is followed by recommendations and a conclusion.

7.1 Implications

In the interviews directors gave their perceptions of best practice in corporate governance in Australia. They identified a range of activities that they associated with best practice. A questionnaire examining ten activities raised as important in the interviews was distributed to 252 directors of public listed companies. The response rate was 24.5%. The questionnaire asked directors to provide information relating to how important these activities were to best practice and at the same time also asked how well boards perform these activities.

Directors were asked to rank from 1 - 6 how they viewed each activity as being related to best practice in corporate governance. The ranking scale used was 1 - Very Strongly Unrelated; 2 - Strongly Unrelated; 3 - Mildly Unrelated; 4 - Mildly Related; 5 - Strongly Related; 6 - Very Strongly Related. Directors were also asked how well they considered boards handled each activity. The ranking scale used was 1 - Unacceptable; 2 - Very Poorly; 3 - Poorly; 4 - Well; 5 - Very Well; 6 - Excellently (see appendix D). Appendix E contains the table of frequencies calculated for each item and tabulated to assist in comparing the responses concerning how well the activities are performed by BOCDs and how important that item is to best practice.

In Table 7.1 these activities are ranked in order of importance for best practice according to the responses of participating directors and compared with how well directors believe boards perform on these activities. Appendix E contains the tables for each activity. Table 7.1 uses the percentage of directors who rated the item's importance to best practice 5 or

6 (strongly or very strongly related to best practice). This is compared with the percentage of directors who see the activity as being very well done (5 or 6, very well done or done excellently) as shown in the tables located in Appendix E.

Table 7.1 Comparing level of importance with how well activities are performed

	Ranking in Order of Importance	% who see the activity as important to best practice	% who see the activity as well done by boards
1.	Improving shareholder value	93.5%	45.2%
2.	Development of strategy	93.4%	39.4%
3.	Succession planning	91.8%	11.3%
4.	Readiness for change	86.9%	17.7%
5.	Willingness to change	85.3%	30.6%
6.	Development of vision and mission	82.2%	27.4%
7.	Board evaluation	76.1%	19.3%
8.	Risk taking	72.2%	25.9%
9.	Committees and processes	71.7%	48.3%
10.	Delegation of regulatory work	50.9%	37.7%

Directors claim that the activities listed in Table 7.1 are an important part of best practice in corporate governance. However they also claim that BOCDs do not handle these activities extremely well. The implications for BOCDs are twofold. On the one hand directors believe that these activities are important activities for a best practice board. For all listed activities more than 50% of responding directors agreed that they were very strongly related to best practice. The percentage of directors ranking the activity as strongly or very strongly related to best practice ranged from 50.9% for delegation of regulatory work to 93.5% for improving shareholder value (see Table 7.1).

It is argued that the best practice model that emerged from the findings is aligned with complex adaptive systems theory (Stacey 1996a). This calls for BOCDs to recognise that they operate in a dynamic changing environment. The theory calls for self-generative change processes. Regular evaluation by the BOCD of the BOCD and its activities with a view to making activities relevant to the operational environment satisfies this feature of the best practice model. It is worth noting that the statistical data shows that 54.9% (see Appendix E) of respondent directors believed that BOCDs generally perform board evaluation either poorly or very poorly. They also indicated that 76.1% (see Table 7.1) of respondent directors believed it was strongly or very strongly related to best practice.

Activities such as readiness for change, willingness to change and succession planning were other board activities deemed by directors to be reliant on the ability of the board to

self-generate change processes. For each of these activities a high percentage of respondent directors saw the activity as important to best practice. Succession planning was considered strongly related to best practice by 91.8% of respondent directors. Readiness for change was ranked as strongly related by 86.9% and willingness to change by 85.3% of respondent directors (Table 7.1). In contrast to the level of importance that directors placed on these activities directors did not consider that these activities were well done (Table 7.1).

Iterative interaction is a key feature of both the best practice model (Figure 6.15) produced in this research and of complex adaptive systems theory (Stacey (1996b)). It is also a feature of the way in which stakeholder values are assessed (Freeman 1984). Iterative interaction enables consistent reading and interpretation of the operational environment. Both stakeholders and operational context can be accounted for in this way. Directors discussing best practice in corporate governance, claimed that iterative interaction with management and other stakeholders was necessary in the development of strategy (see 6.8.3). Of the directors who participated in the survey, 93.4% saw development of strategy as strongly related to best practice but only 39.4% considered that it was very well done by boards (Table 7.1). Development of vision and mission was viewed by directors as contributing to the development of strategy (see 6.8.3) but was also viewed as very important for a best practice BOCD with 82.2% of respondent directors believing that it was strongly related to best practice. Only 27.4%, however, believed this was very well done by boards.

Directors believe that they need to improve the way in which board activities are performed. In considering the way that BOCDs perform these activities the highest scoring activity was 'committees and processes' with only 48.3% (Table 7.1) of participating directors seeing it as being done excellently or very well. Only 11.3% (Table 7.1) of respondent directors considered that succession planning is being done excellently or very well. On each activity (Table 7.1) that was examined directors indicated that there was a need to improve the way the activities were performed if the BOCD was to be considered as operating as a best practice board.

The best practice model (Figure 6.15) is aligned with complex adaptive systems theory and demonstrates the essential features of the theory. Directors have described how a best practice board can perform the range of activities that have been examined in the questionnaire. In doing this they have drawn out the significance to some of these activities of focusing on stakeholders. The assumption here is that improving the way BOCDs perform these activities can be done best by aligning BOCD practices with stakeholder theory (Freeman 1984).

7.1.1 Implications for governance drawn from Stakeholder theory

In stakeholder theory stakeholders come from two main areas. There are those that can affect the company and there are those that are affected by the company. Freeman explains,

One way to understand [stakeholder theory] is to think of the stakeholder concept as an umbrella for the problems in business strategy and corporate social responsiveness. To be an effective strategist you must deal with those groups that can affect you, while to be responsive (and effective in the long run) you must deal with those groups that you can affect (Freeman 1984 p.46).

In Table 7.2 the elements of stakeholder theory (Freeman 1984) are identified alongside evidence drawn from what participating directors had to say.

Table 7.2: Comparing elements of stakeholder theory and what directors had to say.

Elements of stakeholder theory	What participating directors had to say
Stakeholders can affect the organisation or they can be affected by the organisation.	<i>.../ their job is to do the best they can for all the stakeholders - and a diverse range of stakeholders.../ governing the activities of a company in a responsible and long term perspective for the betterment of all the stakeholders.../ concerned with how the company is interacting with its environment, its community, with its suppliers and with all the various people that it does business with.../</i>
Stakeholders and the organisation have the capacity to impact politically, economically and socially on one another.	<i>.../ there has always got to be better things that the company can do for the betterment of all its stakeholders.../ undertaking those activities to be communicated to interested parties whether they be shareholders, government, customers that the company and the board are undertaking the required or appropriate activities which is satisfying the needs of, predominantly the shareholders but there are other interested stakeholders.../ to a point it is also the general climate, the corporate law, economic climate, social climate.../</i>
Stakeholders and the organisation can have different values	<i>.../ all the active community groups who feel that they are stakeholders and they want their views taken into account.../ asks questions, raises issues, takes decisions that will help guide the corporation to do the right thing for all of its stakeholder groups over time.../ having a concern about the ethical standards and the value standards.../ a different industry will have different needs</i>

Political, economic, social and technological change affect stakeholders and the organisation in different ways

and different values.../ when we lend are we sure that we are lending to people who comply with the laws for environment and so on.../

.../ having discussions at the strategic level on what are the implications for technology on our business.../your obligations to the community or to environmental issues.../

Source: (Freeman 1984)

Directors do not appear to differentiate between types of stakeholders in the same way that Freeman does (i.e. those who affect the organisation and those who are affected by the organisation). The descriptions that they give do not exclude either group. Directors do, however, place emphasis on the diversity of views and interests that need to be taken into account by the board. Many of these interest groups will lie outside the formal structure of the organisation.

In order to deal effectively with identifying the interests and values of various stakeholder groups alongside those of the organisation, the BOCD will need to consider the political, economic, social and technological changes affecting both it and its stakeholders. This type of analysis, leading to development of corporate strategy is directed towards the future. As some directors observed,

.../ for best practice you have to then be monitoring your management, looking after your succession, looking after the future generation of the company.../ looking to the future and into the next millennium, there are changes that boards need to deal with to get them into a strong proactive position well into the next decade.../ steering the company in a future direction.../

Freeman observes,

Thus, by calling those affected groups 'stakeholders', the ensuing strategic management model will be sensitive to future change, and able to turn new 'external changes' into internal changes (Freeman 1984 p. 46).

Drawing on stakeholder theory the implication for corporate governance is that board room policy needs to take into account the diversity of interests and values - social, political, economic and technological - of all stakeholders. Selby (2000 p. 248) writing to the question 'how will increasing the diversity of board members improve the form and function of boards?' suggests,

Diversity can improve boards by diversifying the culture, adding values and discourse that better reflect diverse consumers and shareholders (Selby 2000 p. 249).

Earlier discussions about the importance of independent directors on boards (6.10.1 and 6.13.1) point to the fact that continuing with the current structure of largely ‘independent’ boards is one way of ensuring that board structure requirements uphold the need for diversity in its composition. However as Selby points out diversity is not simply about structure but also culture and values. Attending to the principles that uphold stakeholder theory will ensure that a BOCD avoids the pitfalls that are inherent in what Selby calls ‘the professional and social homogeneity of board members’ (p. 148).

The stakeholder approach focuses on analysing both the internal and external environment of the corporation and planning effective responses to them. The stakeholder approach makes provision for dealing with future changes in a dynamic manner. When directors discuss their views of a best practice BOCD they have identified the main elements of stakeholder theory and their thinking appears to be aligned with the theory.

7.1.2 Implications for governance drawn from complex adaptive systems theory

Stacey explains the competitive advantage that is assisted by a complex adaptive system.

Competitive advantage also requires organisations to sustain paradox... Evidence shows that when organisations resolve the paradox they eventually fail (Miller, 1990) whereas those that sustain paradox and operate in nonequilibrium states are more likely to survive (Pascale, 1990) (Stacey 1996b pp. 172-173).

Table 7.3 shows how directors’ ideas when talking about best practice in corporate governance are aligned with complex adaptive systems theory. The ten characteristics of complex adaptive systems provided by Stacey (1996b) listed in Table 6.1 are used again in Table 7.3 and placed alongside what directors had to say.

Table 7.3: Elements of complex adaptive systems theory and what directors had to say

Elements of complex adaptive systems theory	What directors had to say
Basic purpose is performing tasks and surviving.	<i>.../ Because remember that at the end of the day that change was locked around the future survival of the company as a driving force or a competitive force in that particular industry or financially the ability to able to pay shareholder dividends in the coming year and so on.../</i>
Large numbers of interacting agents in networks.	<i>.../ concerned with how the company is interacting with its environment, its community, with its suppliers and with all the various people that it does business with.../ undertaking those activities to be communicated to interested parties whether they be shareholders, government, customers.../</i>
Coevolves as a result of interacting with an environment made up of other complex adaptive systems.	<i>.../ it has got to make sure that it has good relationships with its suppliers, and the governments in the environments in which it operates and so on.../</i>
Interacts in an iterative non-linear manner.	<i>.../ creative board members of the creative boards who are not satisfied with the status quo.../ this constructive discontent is such an essential part of all of the thinking that we do.../</i>
Discovers, i.e. acquires information about systems in its environment and about the consequences of its interaction with those systems through feedback.	<i>.../ I think that boards need to get out and about.../ to think about the changes in the environment to look at the way things are moving and foresee the potential scenarios that could evolve and then look at the strategic implications of those scenarios.../</i>
Chooses, i.e. exercises free will in identifying and selecting regularities in feedback information, condenses them into a schema or model of its world.	<i>.../ I love people to have constructive discontent in that, why are we doing it this way? Is this the best way to be doing it? Why are we in this business? Is this the best business for us to be in? Why are we looking at expanding into that business that is different from what we are doing now? Is it what we should be doing? This inquiring and this discontent, not destructive, but this constructive discontent is such an essential part of all of the thinking that we do.../ in an environment of self assessment is the way a board should operate.../</i>
Acts according to its schema rules in relation to the systems that are its environment.	<i>.../ are part of the continuous learning environment where they are .../ 'A' sits there as a lawyer who also happens to be a company director. 'B' sits there as an accountant who also happens to be a company director. Then I wait for when they pass the nexus and suddenly they become a company director who is also a lawyer or also an accountant.../ skills are appropriate to where the business is going and what the needs will be at some stage in the future.../ just like everything else compliance issues change and evolve.../</i>

Discovers the responses its action provokes, as well as the consequences of those responses

.../ how do we think collectively and individually we are handling these things and are there ways we can improve the process? .../

Adapts its behaviour by performing simple or single loop learning using feedback information.

.../ I mean, good governance is to me, directors being able to say, what is this? What caused this? Who did this? Who is doing what? When is it going to happen? .../

Performs complex or double loop learning by revising its schema and adapting even further.

.../ Why are we not doing A,B,C or what is the impact of this, that and the other thing and helping the company to find its pathway through the complexities of the challenges that it faces.../ the company has to evolve to the new environment because nothing is constant in this world .../

The emergent model for interacting with the operational environment (Table 7.4) provided by Griffin, Shaw and Stacey (1998) provides a useful device for classifying the characteristics of BOCDs that pursue best practice in corporate governance as described by directors. Griffin, Shaw and Stacey (1998) argue that social constructionist thinking offers the intersubjective construction of a co-created reality where self-organising processes produce emergent patterns. These are the same characteristics that are found in complex adaptive systems theory.

Table 7.4: Characteristics of the emergent model

- | |
|---|
| <ul style="list-style-type: none">• Emergent patterns are unpredictable;• Expectation is a potential unfolded by experience and the exploration of what is possible;• Long term evolution is unpredictable and uncontrollable but intelligible;• Intersubjective voices interact with other subjects in the coevolution of a socially constructed reality;• Self-organisation seeks the establishment an emergent order;• Agents operate in a mutually created and sustained social world. |
|---|

(Griffin, Shaw & Stacey 1998 pp.315-339)

In the development and overseeing of strategy within the organisation the BOCD considers various stakeholder interests and values and deliberates on how they fit or do not fit with those of their own organisation. Management and employees will contribute to the dialogue. This type of activity draws on aspects of Freeman's (1984) stakeholder theory and demonstrate's the way in which different voices interact with other subjects in the coevolution of a socially constructed reality (Griffin, Shaw & Stacey 1998).

The involvement of BOCD along with management and employees in the development of strategy results in a shared vision and sense of mission in the implementation of the

business strategy. Griffin, Shaw and Stacey (1998) describe this shared reality as agents operating in a mutually created and sustained social world.

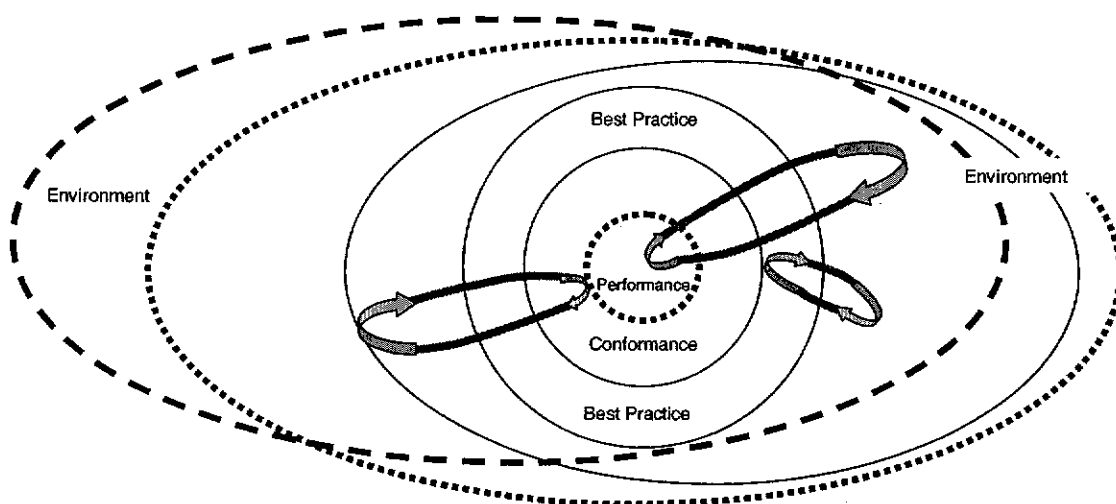
In the systems and processes by which directors perceived that the best practice BOCD operates there is provision for dealing with changes that are going on around the organisation. This is done proactively as opposed to reactively. Long term strategy is viewed as a guide but is readily adapted to take cognizance of those elements of the environment that may eventually render certain strategies ineffective. Directors perceive that the best practice BOCD regularly revisits, evaluates and modifies its strategy and planning with a view to effective implementation of revised strategies and plans. In this way the plans that emerge over the long term unfold out of experience and exploration of possibilities. The outcome can provide long term solutions that were unpredictable at the outset but make sense in the light of what is happening within the operational environment surrounding the organisation. This is what Griffin, Shaw and Stacey (1998) describe as the long term evolution of unpredictable but intelligible, self-organised emergent patterns.

When Grady (1999) refers to the board's responsibility to contribute to creating history as opposed to reviewing history she is promoting the same ideas as Dunphy (2000) who claims that corporations need to work towards a future vision rather than be entrenched in precedent and past practices. The advantage for BOCDs using this approach is that they are in a position to deal with a changing environment proactively rather than reactively.

The best practice model: performance / conformance relationship

The best practice model (Figure 6.15) that emerged from the findings is presented again here for ease of reference.

Figure 6.15: Best practice model emerging from the findings



In the course of the main study, interviews with directors suggested that the separation between the two dimensions of conformance and performance was not clearly marked as in the preliminary study. In the best practice model (Figure 6.15) this is depicted by removing the fixed line that was used in the earlier tentative models to separate the two dimensions and replacing it with a perforated line.

.../ and the only rule in best practice for a board is what is best for the business provided that it is in compliance.../ it has got to be a blend of performance and conformance with a slight emphasis on performance.../ in the best practice area, compliance would be very, very much proactive and future rather than ticking boxes and covering backsides.../

The essential feature of the model is the way in which the BOCD is able to self-organise its responses to the changing environment as a result of ongoing dialogue that is interactive and iterative. This apparent integration of the performance and conformance roles may be seen as a demonstration of this process.

The interactive iterative nature of best practice discussed in the interviews conducted in 1998 was also reflected in a contemporary governance document at the time. In extracts taken from the 1997 Annual Report of North Ltd, Lewin (1998 pp. 3-4) quotes 'the minimum standard of behaviour laid down in the Corporations Law is not in itself adequate to ensure that the best interests of the corporation are properly served' while also pointing out that 'best practice is not a static level of performance but is a process of continual improvement'.

7.1.3 Implications for corporate governance

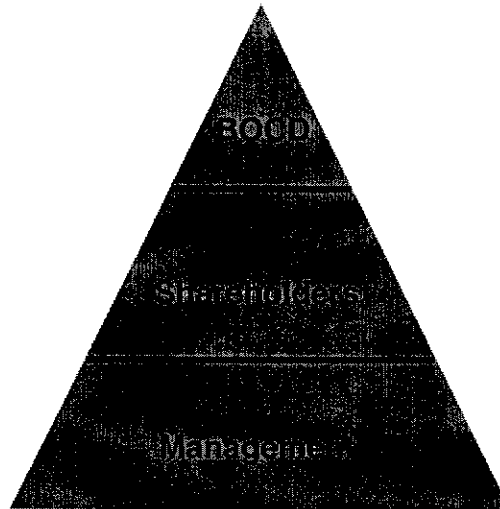
Elkington proposes (1998 p. 285) that 'the better the system of corporate governance the greater the chance that we can build towards genuinely sustainable capitalism'. In linking sustainability to best practice Elkington draws on Charkham's *Keeping Good Company* (1995) and Garratt's *The Fish Rots from the Head* (1996) to develop the argument for this position.

He describes the traditional view of the BOCD as positioned at the apex of a triangle (see Figure 7.1). The focus of the BOCD in this traditional model is from the top down viewing the affairs of the organisation from the perspective of a sustained and fixed identity (Morgan 1997). Elkington (1998 p. 3) describes the main characteristic of the traditional paradigm as 'exclusive'.

In the words of one of the participating directors the old model BOCD was typically identified as,

.../ highly traditional, highly cultural in the old style, ... insisting on boxes being ticked for correctness .../

Figure 7.1: Orthodox view of the BOCD at the head of the organisation



Source:Adapted from (Elkington 1998; Garrat 1996)

As an alternative view of the BOCD Elkington uses Garratt's term *business brain* placing the BOCD at the brain centre (see Figure 7.2) of the organisation rather than at the top of a structure. The alternative model (Elkington 1998 p. 286; Garrat 1996) places directors in the position where 'their role is to develop, monitor, and cope with the results of the company's internal and external learning processes.' Elkington (1998 p. 3) describes the dynamic interaction with all stakeholder groups in the new paradigm as 'inclusive'. The approach to board/management relationships is driven by an awareness of the ability of both parties to continue to explore new paradigms in the way they operate together.

Participating directors have described their role in terms and language consistent with Elkington's description of directors as not simply monitoring but developing, monitoring, and coping with the results of the company's internal and external learning processes and exhibiting 'inclusive' characteristics.

.../ developing corporate philosophy, strategy or a notion of what the company was attempting to do in a broad thoughtful way.../it comes down in the end to monitoring, guiding and checking and ultimately directing.../ we monitor and counsel and encourage.../ part of the continuous learning environment .../

running a board which is inclusive.../ AGMs ought to be somewhere where a learning process takes place and people get to understand more and more about their company.../

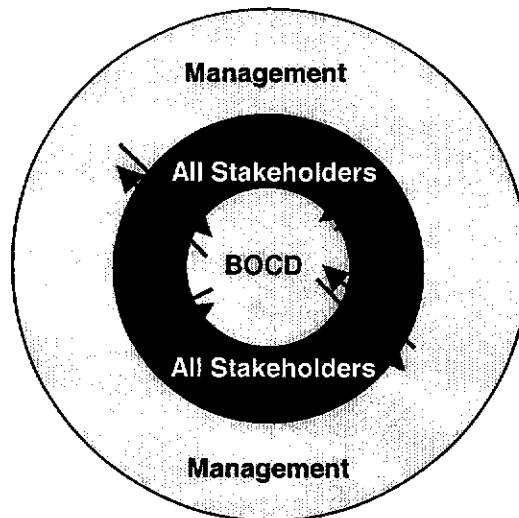


Figure 7.2: A Dynamic view of the BOCD at the centre of the organisation

Adapted from (Elkington 1998; Garrat 1996)

Elkington's two models of governance resonate with the foundation principles of Freeman's (1984 p. 35) stakeholder theory. Freeman describes the old stakeholder model as static and 'adversarial groups were not considered as stakeholders'. Stakeholders were considered to be exclusively 'stockholders'. The new stakeholder model proposed by Freeman (1984) included in stakeholders those whose interest in the organisation have the potential to 'make a difference', be that positive or negative. Such a model was 'based on an analysis of the organisational capabilities and environmental opportunities and threats' (Freeman 1984 p. 34).

Drawing again on Charkham (1995), Elkington (1998 p. 285) identifies three key tests for corporate governance systems that are 'building towards genuinely sustainable capitalism'. These three key tests (see Figure 7.5) are described in terms of sustainable capitalism and identified in the findings.

Table 7.5: Three key tests for corporate governance systems

Elkington's Criteria	Findings: How directors see it being done	Findings: Where it is focussed
dynamism	<i>a well operating board is a dynamic body.../ [the board] has got to have a dynamic composition about it.../</i>	the board management shareholders community
accountability	<i>accountability and responsibility are sheeted directly home to the board.../</i>	Management shareholders various relevant stakeholders regulators
social performance	<i>environmentally state of the art, communities will want you to be there because you are representing a different kind of developer [other] than the quick buck developer.</i>	all stakeholders the community the environment

The dynamism to which both Elkington and directors refer is demonstrated in an ability to move forward with continual improvement in performance, especially shareholder return (Dunphy & Benveniste 2000). The essence of the dynamism is in the BOCs capacity to read the environment in its economic, social and physical dimensions. These arguments resonate with the earlier work of Freeman (1999; 1984) on both stakeholder interests and social issues as part of the development of strategy. Similarly these ideas are also reflected in the way that sustainability and complex adaptive system theories support each other (Whiteley & McCabe 2001).

7.2 Recommendations

It is useful here to restate the two principal findings of the research. The first of these describes a best practice board. The best practice model developed from the interview data (Figure 6.15) supports the description.

A best practice board attends to a range of activities that are a constant part of the board's agenda (i.e. conformance activities and performance activities). Both sets of activities are directed at stakeholder groups in a climate of change that is self generated, fluid and diverse.

The second finding was a definition of corporate governance provided by the participating directors.

Corporate governance is.../ the ongoing independent exercising of professional judgement.../ by the board as custodian of the company's assets,.../ in the best interests of a variety of stakeholders including shareholders, employees, customers,.../ with a commitment to demonstrate integrity, responsibility and accountability.

The findings of this research give rise to a range of questions. On the one hand there are questions that suggest there are things that BOCDs can address within their own environments. Other questions arise that suggest areas of further research.

The findings show that directors have aligned their thinking with complex adaptive systems theory. It is also shown that stakeholder theory provides the mechanisms that enable BOCDs to perform activities in ways that contribute to the development of the best practice board.

The extent to which directors give importance to those activities that contribute to the best practice board they describe is outlined in Table 7.1. The statistical data relating to how well directors believe these activities are performed raises a series of questions. Directors claim the activities such as development of strategy, readiness for change and willingness to deal with change are very important to best practice but are generally poorly done by BOCDs. Two related questions that arise for BOCDs are,

- (a) What new initiatives are required for the BOCD to improve how it performs these activities?
- (b) What practices currently in use prevent the BOCD from improving how it performs these activities?

Arising from this consideration the statistical data relating to board evaluation raises further questions. With self-generative change as an important element in the best practice model that directors describe, and also a feature of complex adaptive systems theory, it is apparent that board evaluation will be an important part of how boards appraise their performance. This activity can provide important data in planning improvement in other areas of board activities. With only 76.1% (Table 7.1) of respondent directors ranking board evaluation as strongly related to best practice and 54.9% (Appendix E) believing that it is poorly done, it may be that BOCDs do not do this well because they do not place sufficient importance on it. BOCDs should be asking themselves,

- (c) How are we currently evaluating our performance and to what end?

This research places performance at the hub of corporate governance with conformance activities supporting it. Conformance activities are there to assist the BOCD attain continued and sustained performance. In describing the relationship between performance and conformance in this way some immediate questions arise.

- (d) Do practices among BOCDs of public listed companies support this relationship?
- (e) Does recognition of this relationship require exploration of new ways of thinking about performance and conformance?
- (f) What are the implications of this relationship with regard to risk management and risk taking as functions of the BOCD?

Dunphy and Benveniste (2000) argue that corporations can sustain highly productive performance indefinitely as opposed to the traditional perspective of a business cycle with performance peaks and troughs. If it is accepted that performance is at the hub of best practice in corporate governance further research will consider,

- (g) How is performance interpreted within the Dunphy and Beneviste framework? How does this compare with the directors' concept of continued and sustained improvement of shareholder value?

Participating directors talked about the improvement of shareholder value. As a performance activity this is different from the share price that is more traditionally considered as the focus of performance. The question that BOCDs need to consider is

- (h) What does focussing on improvement to shareholder value as distinct from improving shareholder price mean for a corporation?

Directors talked of the dilemma that they are faced with when attempting to read the early warning signs that things are not as they should be. Directors are also wary of over reacting to initial signals.

.../ boards are caught between not wanting to be too short term reactionary and actually pick up early warning signals that their strategy has gone wrong.../ it is very clear to the directors what they need to monitor to give them an early warning signal as to when strategy as well as operations might be off the track.../

Further research would consider,

- (i) What are the practices and strategies that safeguard against short term reaction while enabling the BOCD to recognize early warning signs that things are going wrong? Findings of this research imply that this could be done effectively within the framework of complex adaptive systems theory.

Directors gave descriptions of evolutionary stages that the BOCD goes through in preparing for public listing on the Stock Exchange, satisfying the requirements for public listing and then becoming mature listed companies.

.../ A sits there as a lawyer who also happens to be a company director. B sits there as an accountant who also happens to be a company director. Then I wait for when they pass the nexus and suddenly they become a company director who is also a lawyer or also an accountant.../ Virtually, by the time that we got up to the listing stage they had crossed. The learning curve of the individuals took them from the accrediting fixation to the performing fixation.../ It is not that long ago when in many of our companies the Chief Executive was in fact the largest shareholder. And so the other directors have sort of been added on around the edge to sort of help him. You know, put his accountant and the lawyer and a few other people just to help him building the business.../ And indeed that model, you do not have to go back very far to find that model. But of course the whole thing has moved on from there.../

Further research would consider,

- (j) Do the emergent models Figures 6.1, 6.2 and 6.15 represent a chronological developmental sequence for a newly formed board approaching public listing as it develops into a long standing and well performing public listed board?

7.3 Conclusion

In the course of the research there was an attempt to demonstrate methodological rigour. This was done by applying Lincoln's (Lincoln 1995) emergent criteria for rigour. However the methodological questions that were faced throughout the study prompted exploration of other newly emerging approaches. In the evolving and emergent approach that characterises the constructivist methodology adopted in this research there is a reliance on the ability to 'make sense' of the data. Sense making theory (Weick 2001; Denzin & Lincoln 2000) supporting an interpretivist approach within a constructivist

methodology lends itself to the study of unstable social phenomena such as corporate governance.

In chapter three the claim is made that the research will make a contribution to the discussion of rigour as applied to the interview process and the criteria for rigour as applied to the overall research. The mechanisms applied in the interview process include an examination of the exploration process, the use of theoretical sampling in the development of the interview schedule, use of a mapping instrument for the approach to the interview and a self-debriefing strategy for the interviewer. The discussion concerning criteria for qualitative research considered both the trustworthiness and the authenticity of the study. These various approaches were developed in the literature during the nineteen eighties and nineteen nineties. As a linked study the use of the construct generated instrument introduces a quantitative method as a part of the overall qualitative research.

The findings of the research present what directors perceived as best practice and identified behaviours that are conducive to best practice activities. The interviews were conducted in the later half of 1998. One may be tempted to consider that what directors had to say was a 'wish list' for corporate governance in Australia. However literature published between 1998 and early 2002 is used in the discussion chapter. This body of literature adds to the ideas explored by the participants giving them greater substance and legitimacy.

The best practice model focuses on performance with a potential for integrating conformance activities. The model and the two principal findings are consistent with complex adaptive systems theory. Stakeholder theory provides the mechanism for developing activities that support the best practice model as perceived by the participating directors. In this model there is no provision for agency theory with its principal focus on conformance activities.

Directors have described the best practice board using language that is consistent with complex adaptive systems. Chaney (1999 p. 8) claims that modern BOCDs are describing themselves as 'complex adaptive systems' and learning to behave as such.

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Appendix A

Organisational Data Form for Participating Directors

Letter of Approach to Directors

Letter of Approach to Directors containing referral

Letter of Confirmation of Appointment

DEMOGRAPHIC DETAILS
for Directors of Public Listed Companies

PARTICIPANTS ARE ASKED TO VERIFY THESE DETAILS OR AMEND THEM IF NECESSARY.

Age:

Gender:

Educational Qualifications:

Company Name:

Company Size:

*Market Capitalisation is
turnover is
number of employees*

Executive Director / Non Executive Director (please indicate)

Other companies of which you are a member of the Board of Directors	Number of Directors on the board

September 8 1998

Mr/Mrs/Ms Surname
Director
BBBBBB Corporation
Address1
Sydney NSW 2000.

Dear Mr/Mrs/Ms Surname

I am a Ph D student at the Graduate School of Business, Curtin University. The topic I am studying is 'Best Practice in Corporate Governance'. As part of the data collection exercise for my doctoral study I need to interview Directors of public listed companies and Fund Managers, in both Melbourne and Sydney.

In the early stages of the study I interviewed Western Australia based Directors of public listed companies as well as some Fund Managers. I am now ready to interview Directors and Fund Managers from Sydney and Melbourne. I am contacting people like yourself in both cities with a request for an interview.

Following the receipt of this letter I will contact you by phone and discuss this request further. If you are unable to grant this request I would greatly appreciate any help you could give me by way of an introduction to others who are in a position to participate in the study.

Yours sincerely

Margaret McCabe
Curtin University of Technology
Graduate School of Business
30th floor, QV1 Building
250 St George's Terrace
Perth WA 6000.
Ph: (08) 9266 4184

September 7 1998

Mr/Mrs/Ms Surname
Company
Address 1
Suburb State Post Code

Dear Mr/Mrs/Ms Surname

I am a Ph D student at the Graduate School of Business, Curtin University. The topic I am studying is 'Best Practice in Corporate Governance'. As part of the data collection exercise for my doctoral study I need to interview Directors of public listed companies and Fund Managers, in both Melbourne and Sydney.

In the early stages of the study I interviewed Western Australia based Directors of public listed companies as well as some Fund Managers. I am now ready to interview Directors and Fund Managers from Sydney and Melbourne. I am contacting people like yourself in both cities with a request for an interview. When speaking with Mr/Mrs/Ms N..... last week s/he suggested that I should contact you.

Following the receipt of this letter I will contact you by phone and discuss this request further. If you are unable to grant this request I would greatly appreciate any help you could give me by way of an introduction to others who are in a position to participate in the study.

Yours sincerely

Margaret McCabe
Graduate School of Business
Curtin University of Technology
30thFloor, QVI Building
250 St George's Terrace
Perth WA 6000

November 26 1998

Mr/Mrs/Ms Surname
Company
Address 1
Suburb State Post Code

Dear Mr/Mrs/Ms Surname

Thank you for agreeing to contribute to my doctoral study. The title of the study is *Director's Perceptions of 'Best Practice' in Corporate Governance*.

The details of the interview time are as follows:

**Wednesday, December 2 at 10.00 am at your office which is located on Level XX, at ??
ZZZZZZ Street, Melbourne.**

I expect that the interview will take forty to forty-five minutes. I would find it easier to record the interview on tape if you agree to this. I will give you the transcript of your interview for checking and review.

Confidentiality is assured and I undertake to store your interview in accordance with protocol set by Curtin University for storing and handling such confidential material. Your individual contribution to the research will not be identifiable. In developing the findings, categories of meaning and aggregated outcomes are the points of interest.

I would appreciate an update of your demographic details which I have compiled from published sources so that I can identify contributor groups. I would ask you to check these details prior to the interview and amend them if necessary.

Once again I thank you for your participation and I look forward to meeting with you at the agreed time.

Yours sincerely

Margaret McCabe
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250 St George's Terrace
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Ph: (08) 9266 4184

Appendix B

Organisational Data Form

Letter of Approach to Fund Managers

Letter of Confirmation of Appointment

DEMOGRAPHIC DETAILS

For Fund Managers

PARTICIPANTS ARE ASKED TO VERIFY THESE DETAILS OR AMEND THEM IF NECESSARY.

Age:

Gender:

Educational Qualifications:

Company Name:

Company Profile:

<i>Wholesale funds:</i>	<i>\$</i>
<i>Retail funds:</i>	<i>\$</i>
<i>Australian Sourced Funds:</i>	<i>\$</i>
<i>Foreign Sourced Funds:</i>	<i>\$</i>
<i>Total Funds:</i>	<i>\$</i>

September 26 1998

To: Funds Managers in Sydney and Melbourne

Mr/Mrs/Ms Surname
Company
Address 1
Suburb State Post Code

Dear Mr/Mrs/Ms Surname

I am a Ph D student at the Graduate School of Business, Curtin University. The topic I am studying is 'Best Practice in Corporate Governance'. As part of the data collection exercise for my doctoral study I need to interview Directors of public listed companies and Fund Managers, in both Melbourne and Sydney.

In the preliminary stages of the study I interviewed Western Australia based Directors of public listed companies as well as some Fund Managers. Extending the study will allow for a broader range of background and experience among participants in the study. I am contacting people like yourself in both cities with a request for an interview.

Following the receipt of this letter I will contact you by phone and discuss this request further. If you are unable to grant this request I would greatly appreciate any help you could give me by way of an introduction to others who are in a position to participate in the study.

Yours sincerely

Margaret McCabe
Curtin University of Technology
Graduate School of Business
30th floor, QVI Building
250 St George's Terrace
Perth WA 6000.
Ph: (08) 9266 4184

November 26 1998

Mr/Mrs/Ms Surname
Company
Address 1
Suburb State Post Code

Dear First Name

Thank you for agreeing to contribute to my doctoral study. The title of the study is *Director's Perceptions of 'Best Practice' in Corporate Governance*.

The details of the interview time are as follows:

Monday, August 31 at 11.15am at your office which is located on Level XX, ?? ZZZZZZ Street, Melbourne.

I expect that the interview will take forty to forty-five minutes. I would find it easier to record the interview on tape if you agree to this. I will give you the transcript of your interview for checking and review.

Confidentiality is assured and I undertake to store your interview in accordance with protocol set by Curtin University for storing and handling such confidential material. Your individual contribution to the research will not be identifiable. In developing the findings, categories of meaning and aggregated outcomes are the points of interest.

I would appreciate an update of your demographic details which I have compiled from published sources so that I can identify contributor groups. I would ask you to check these details prior to the interview and amend them if necessary.

Once again I thank you for your participation and I look forward to meeting with you at the agreed time.

Yours sincerely

Margaret McCabe
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Graduate School of Business
30th floor, QV1 Building
250 St George's Terrace
Perth WA 6000.
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Appendix C

Debriefing Notes

Name

Company

Date

Setting

In his office which is small by comparison to other offices I have been in in the course of the study. The office was divided into two main areas. One for his working space which contained his desk and chair and two chairs on the other side. The other area had two lounge chairs with an occasional table in between. The office was simply furnished and lacked the obvious ostentatious display of wealth that is a feature of most settings that I interviewed in.

Proxemics

Seated facing each other with the low occasional table in between us.

Paralinguistics

Position of arms changed regularly. As the question was posed he would change his position in the chair as if signally a shift in the focus of his thinking.

Timing

Other

Regularly expressed concern about whether his responses were helpful.

Name

Company

Date

Preliminaries

The location for this interview is an old historic building in XXXX. When you walk inside you are struck by the vastness, the size and the ornateness of the establishment. As a child I recall entering this building and thinking that this was the closest thing that I could imagine to Buckingham Palace. The marble columns, the old Banking Chamber was still exactly as I recall in the 1940s. The only thing that was different was that I wasn't standing there holding my mother's skirt. But the size and the magnificence of the building was just as awe inspiring.

The Chairman's office was of equal proportion to everything else about the building. The air of formality was of the 'old days' of banking. There was no sense of being allowed to call him by his Christian Name but I took it upon myself to do so as that was how I have dealt with all directors and to allow this situation to alter the dynamics that significantly was not helping me get what I wanted from the interview.

When I asked if there were any questions he had about the study which would help him in how he approached the interview the answer was 'No'. We were going to talk about 'best practice' in corporate governance and so we could get started. He wanted to be out of here by twelve o'clock.

Proxemics

N..... sat on 'his side' of his desk and I sat on the 'visitor's side of the desk. There was other furniture in the room but there was never any question of whether or not we might use any other arrangement. The seating arrangements meant that he appeared to sit slightly higher than I was seated. To offset this I leant forward onto the desk and managed to keep eye contact as near to eye level as possible.

Paralinguistics

Seated forward with arms folded flat on the desk for a large amount of the time but tended to shift in the chair regularly. I am not sure if this was a signal of some discomfort with the discussion on some occasions. The discussion does suggest that this may be the case but I may be reading too much into this here.

Timing

It was difficult to read whether the pauses were 'time out to think' or 'finality'. I suspect that when I listen to the tape I may find that I have misinterpreted some of the 'time out to think' pauses for 'finality' pauses.

Post Discussion

Not much post discussion on the points of the interview. Gave me a paper he had presented last week to the shareholders at the Annual General Meeting.

Appendix D

Questionnaire Distributed to Directors

Corporate Governance Survey

In this survey you are asked to consider your answers in view of your experiences on public listed boards. Each activity is examined in the light of its relationship to the concepts of conformance, performance and best practice in the context of corporate governance as exercised by public listed boards. Choose the response that best indicates your ideas and fill in the appropriate circle. Please provide a response on each of the three concepts, conformance, performance and best practice.

VSR - Very Strongly Related

SR - Strongly Related

MR - Mildly Related

MUR - Mildly Unrelated

SUR - Strongly Unrelated

VSUR - Very Strongly Unrelated

	VSR	SR	MR	MUR	SUR	VSUR
How related is risk taking to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is succession planning to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is improving shareholder value to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is delegation of regulatory work to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related are committees and processes to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is development of strategy to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is evaluation of the board to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is a sense of vision and mission to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is a willingness to change to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How related is a readiness for change to the concept of						
Conformance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Best Practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

In boards, how are the following activities handled?

- E - Excellently**
- VW - Very Well**
- W - Well**
- P - Poorly**
- VP - Very Poorly**
- U - Unacceptably**

	E	VW	W	P	VP	U
<i>Risk taking</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Succession planning</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Improving shareholder value</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Delegation of regulatory work</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Committees and processes</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Development of strategy</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Activities of board evaluation</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Developing a sense of vision and mission</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Willingness to change</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<i>Readiness for change</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

What do you perceive to be the underlying philosophy and assumptions of a best practice board?

Age: _____

Qualifications: _____

Gender: Male

 Female

Thank you for completing this survey

Appendix E

Tables of Frequencies for items in questionnaire

Table of frequencies for 'risk taking' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
1. Risk Taking	3	19.4	19.4	1	3.3	3.3
	4	54.8	74.2	2	8.2	11.5
	5	19.4	93.5	3	3.3	14.8
	6	6.5	100.0	4	13.1	27.9
	Total	100.0		5	49.2	77.0
				6	23.0	100.0
				Total	100.0	

Table of frequencies for 'development of strategy' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
6. Development of Strategy	3	19.7	19.7	1	1.6	1.6
	4	41.0	60.7	3	1.6	3.3
	5	36.1	96.7	4	3.3	6.6
	6	3.3	100.0	5	29.5	36.1
	Total	100.0		6	63.9	100.0
				Total	100.0	

Table of frequencies for 'succession planning' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
2. Succession Planning	2	1.6	1.6	2	3.3	3.3
	3	33.9	35.5	4	4.9	8.2
	4	53.2	88.7	5	37.7	45.9
	5	11.3	100.0	6	54.1	100.0
	Total	100.0		Total	100.0	

Table of frequencies for 'board evaluation' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
7. Board Evaluation	2	8.1	8.1	3	3.3	3.3
	3	46.8	54.8	4	19.7	23.0
	4	25.8	80.6	5	41.0	63.9
	5	17.7	98.4	6	36.1	100.0
	6	1.6	100.0	Total	100.0	
Total	100.0					

Table of frequencies for 'development of vision and mission' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
8. Development of Vision and Mission	2	3.2	3.2	2	1.6	1.6
	3	21.0	24.2	3	3.2	4.8
	4	48.4	72.6	4	12.9	17.7
	5	24.2	96.8	5	40.3	58.1
	6	3.2	100.0	6	41.9	100.0
Total	100.0		Total	100.0		

Table of frequencies for 'readiness for change' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
9. Readiness for Change	2	1.6	1.6	3	4.9	4.9
	3	25.8	27.4	4	8.2	13.1
	4	54.8	82.3	5	37.7	50.8
	5	16.1	98.4	6	49.2	100.0
	6	1.6	100.0	Total	100.0	
Total		100.0				

Table of frequencies for 'willingness to change' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
10. Willingness to Change	3	17.7	17.7	3	3.3	3.3
	4	51.6	69.4	4	11.5	14.8
	5	25.8	95.2	5	52.5	67.2
	6	4.8	100.0	6	32.8	100.0
Total		100.0	Total	100.0		

Table of frequencies for 'improving shareholder value' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
3. Improving Shareholder Value	3	8.1	8.1	1	1.6	1.6
	4	46.8	54.8	2	1.6	3.3
	5	45.2	100.0	3	1.6	4.9
	Total	100.0		4	1.6	6.6
				5	24.6	31.1
			6	68.9	100.0	
			Total	100.0		

Table 7.6: Table of frequencies for 'committees and processes' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
5. Committees and Processes	3	4.8	4.8	1	1.7	1.7
	4	46.8	51.6	4	26.7	28.3
	5	43.5	95.2	5	46.7	75.0
	6	4.8	100.0	6	25.0	100.0
	Total	100.0		Total	100.0	

Table of frequencies for 'delegation of regulatory work' items

A				B		
How in the experience of directors the activity is done on boards				How directors view the activity's relationship to best practice		
Activities	Ranking Scale	Valid Percent	Cumulative Percent	Ranking Scale	Valid Percent	Cumulative Percent
4. Delegation of Regulatory Work	3	6.6	6.6	1	1.7	1.7
	4	55.7	62.3	2	3.4	5.1
	5	31.1	93.4	3	10.2	15.3
	6	6.6	100.0	4	33.9	49.2
	Total	100.0		5	42.4	91.5
				6	8.5	100.0
				Total	100.0	