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2009-05-01

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Recommended Citation
Egan, A., Maughan, R., Coughlan, J.: The Nomination and Motivations of Irish Non-Executive Directors of Listed Companies. Irish Accounting & Finance Association Annual Conference. http://www.iafa.ie/annual_conference/

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The Nomination and Motivations of Irish Non-Executive Directors of Listed Companies

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Abstract

This paper reports the preliminary findings of an empirical investigation into the process of appointing non-executive directors and their motivations behind the adoption of the position. While research into the board of directors has been extensive, little deliberation has been given to the motives of non-executives who choose to sit on boards (Roberts, 2002). Given that the board of directors has been charged with much more responsibility in recent years and is being held to a higher level of accountability than would historically be expected (Donnelly and Kelly, 2005), the choice of non-executives to continue to take up roles on boards is an interesting one and as such warrants academic attention. Many of the directors interviewed acknowledged that the remuneration received for the position did not fully compensate for the personal liability they exposed themselves to and as such was not an appropriate determinant of motive. Instead non-executive directors interviewed presented motivations such as the valid contribution they had to offer, or merely viewed the acceptance of non-executive positions as part of the job.

The validity of nomination and selection procedures demonstrated by Irish companies in sourcing non-executive directors has been highlighted as a consistent source of concern (O'Higgins, 2002, Brennan and McDermott, 2004, O'Regan et al., 2005). By focusing on the nomination of non-executive directors it is hoped that some insight will be gained as to the level of commitment organizations have made to implementing good corporate governance.

For the purpose of the study qualitative research in the form of semi-structured interviews with non-executive directors was carried out. This research method has been chosen as semi-structured interviews offer a focused approach to questioning, while allowing for greater probing and interaction with the interviewee than other methods provide. The non-executive directors interviewed demonstrated a lack of consistent viewpoint regarding the nominations process of organizations. Whereas some non-executive directors interviewed suggest the nominations procedure is a robust process, others would view it as the job of the chairman and have little or no knowledge of any actual procedure in place.

Introduction

Stemming from the financial scandals of the 1990s and the resulting corporate governance initiatives established (Lannoo, 1999), the board of directors has faced increased scrutiny. In particular non-executive directors of plc boards have been met with a substantial rise in responsibilities both from legal and other standpoints. Although the Cadbury Report (1992) and it's successors attempted to address many areas that were viewed as contributing to poor corporate governance, the board of directors was given by far the most weight.

While the board of directors as a whole has received much attention in both the academic literature and governmental reports on corporate governance, the non-executive directors of the board have been singled out as a very important group (Petra, 2005, Dahya and Mc Connell, 2007). Investigations into board role and composition often center around the expectations placed on non-executive directors and as a result the effects of their appointment to the board have been thoroughly reviewed (Baysinger and Butler, 1985, Hermalin and Weisbach, 1991, Mc Intyre et al., 2007). However there is a paucity of

research on the nominations procedures for non-executive directors and their motivations for adopting the position. By presenting the preliminary findings from a study of the appointment process for Irish non-executive directors and the motivations behind their acceptance of the position this paper begins to address the defecit in the literature.

This paper adopts the following structure: The research into the board of directors has been informed by literature surrounding the effect of corporate governance on this function and as such the literature regarding this area is addressed in the first section. From this, the research methodology adopted is outlined in section two. The third section outlines the key insights drawn from the interview process. This paper concludes with a discussion of these findings and the limitations of the research.

Regulatory Environment

The regulatory structure of a country is an important determinant of the corporate governance practices that are employed by the organizations operating in that environment. As such it contributes to our understanding of the board of directors and its various functions. Corporate governance reform has been a major focus in developed countries since the financial scandals of the 1990s (Child and Rodrigues, 2004, Cullinan, 2004). The Cadbury Report (1992) and it's successors such as the Higgs Review (2003) informed the subsequent Combined Code of Corporate Governance (2006). The Code itself offers a principles based approach to governance whereby those listed companies that do not comply with the Code are expected to outline the reasons why under its 'comply or explain' rule (Mintz, 2005). The Combined Code adopts an agency perspective to corporate governance reform with many of its recommendations focused on shareholder protection and director accountability (Code, 2006).

A common law system is in operation in both the UK and Ireland and is often used as an explanation for the similar corporate governance initiatives in place (Berglof, 1997, Oughe and De Langhe, 2002). The adoption of the Combined Code as a standard of corporate governance for companies listed on the Irish Stock Exchange is one such example. The passing of the Company Law Enforcement Act of 2001 established the Office of the Director of Corporate Enforcement in Ireland (ODCE) (Heneghan and O'Donnell, 2007). The initiative itself is a solely Irish one and as such it is important to

address it and the possible effect it has on corporate governance practice in Ireland. The aim of the ODCE is to ensure that all companies observe the rules of the relevant companies acts and to enforce any regulations which are not being met (ODCE, 2001). As Donnelly and Kelly (2005) note, listing on the ISE requires companies to make disclosure statements in their annual reports of their compliance with the Combined Code. That is not to say all recommendations regarding governance are met. Brennan and Mc Dermott (2004) suggest that there are still issues of independence that need to be addressed regarding non-executive directors of Irish boards. Given that the ODCE is a solely Irish initiative, it is arguably better able to address the corporate governance problems present in Ireland today. Heneghan and O'Donnell (2007) support the establishment of the ODCE and note that the contribution of the ODCE to Irish governance has been positive and has helped to foster a culture of compliance. As mentioned previously, the regulatory environment can greatly affect the corporate governance practices of organizations and as such it is important to be familiar with such areas when researching the board of directors.

A number of areas surrounding the board of directors in particular have been examined in the various reports undertaken on corporate governance in the UK. Letze, et al. (2008) outline the various reports in some detail. The Cadbury Report (1992) began the discussion by recommending what the reporting functions of directors should be. The Greenbury Report (1995) continued with a focus on director remuneration and the Hampel Report (1998) reviewed the findings of the previous reports while continuing to make recommendations. Finally the Higgs Review (2003) outlined the proposed role that non-executive director should take. Given the amount of attention that the board of directors has received, it would be fair to say that it is considered an important determinant of a company's governance standards and as such warrants academic attention.

Theoretical Perspectives

While agency theory has been the traditional lens through which corporate governance practices have been viewed, it has been subject to increased criticism recently. Some authors describe the view that executive directors are acting on self serving interests as overly harsh (Donaldson and Davis, 1991, Hendry, 2005). Furthermore, using non-

executive directors to monitor executive actions may damage managerial motivation rather than protecting shareholder interests. However, a number of other theories have been highlighted as offering suitable explanations of organizational behavior, and while they have yet to be included in reports on corporate governance, the academic literature supports the possibility that they inform governance perspectives as much as agency theory might (Scott, 1987, Hung, 1998).

Such perspectives include the resource dependence theory of the firm and legitimacy theory. While many theories have examined and acknowledge the role that the board of directors plays within an organization (Roberts et al., 2005, Hendry, 2005), resource dependence theory attempts to explain the function of the board as a mechanism for interacting with the external environment (Pfeffer and Salancik, 2003). The main proposal of resource dependence theory is that a firm reacts to its reliance on the external environment by using the board of directors as a tool to manage this dependence (Hillman et al, 2000; Pfeffer, 1972; Pearce and Zahra, 1992). Unlike other perspectives, resource dependence theory is specifically focused on the board of directors and how they are utilized by the organization. Given that this paper considers the nominations practices of boards it would be remiss then to ignore the possibilities that some organizations appoint non-executive directors based on their connection to the external environment.

Legitimacy theory offers yet another perspective on organizational actions. It considers the need for organizations to act within the social boundaries of the environments they operate in (Guthrie and Parker, 1989). Organizational legitimacy occurs where a firm's activities are suitably aligned with the expectations bestowed on it by the public (Dowling and Pfeffer, 1975). Therefore, where corporate governance is considered through the lens of legitimacy theory, the focus remains on how successfully the organization has adopted those governance norms imposed on it by society. Of particular interest is that where organizations do adopt a legitimacy perspective, symbolic isomorphism with environmental norms is often enough to satisfy stakeholder concerns and secure legitimacy (De Villiers and Van Staden, 2006). Legitimacy theory may serve as a useful indicator of a firm's commitment to good governance. While codes of governance and much of the literature focus on the agency relationship and the effect it

has on governance, there are a number of other explanations for an organizations actions that should not be ignored when attempting to review the nominations practices and motivations behind the adoption of board seats.

Board of Directors

Not unlike some definitions of corporate governance, for example that of the OECD (2004), definitions of the board of directors focus on the responsibilities that they have to the various stakeholders of the organization. One such definition comes from Molz (1985:86) who describes the board as 'a body entrusted with power to make economic decisions affecting the well-being of investors' capital, employees' security, communities' economic health and executives' power and perquisites'. Given such a definition it is understandable that the role and composition of the board has been awarded significant attention. However, some questions regarding the board remain unanswered. The literature on the initial motivations behind non-executive directors' acceptance of a board position is limited at best. Little attention has also been given to the nominations process of firms, with the introduction of a nominations committee under the Code appearing to satisfy many questions regarding this practice. These are areas that would arguably inform many of the practices of the board of director and as such warrant specific attention.

Role of the Board of Directors

It has been suggested that an organizations corporate governance actions may be explained by any number of the theoretical perspectives outlined above (Hung, 1998, Brennan, 2006). Perhaps then it is possible to consider board nomination practices using these same theoretical perspectives. In an effort to better determine the plausibility of this link it is important first to consider how organizational theories affect this role. The emphasis placed on monitoring and incentivizing top management by boards operating in organizations that adopt an agency perspective support such a statement (Rutherford et al., 2007). The maintenance of the organizations role within the environment it operates is an important function of the board from an institutional theory perspective (Hung, 1998). Furthermore within the resource dependence theory of the organization there is an expectation that a well structured board will improve external relationships and increase control over external resources (Hillman et al., 2000). From a stakeholder theory

perspective an important function of the board is that of coordinating the objectives of all of the firm's stakeholders (Hung, 1998). Molz (1985:86) concludes that the board is the 'internal authority within the corporation' and as such its foremost responsibility is that of maintaining control over all the other actors in its environment. The author further asserts that at the highest level attaining organizational legitimacy is the aim of this corporate control.

Mace (1972) suggests that duties of the board of directors in all companies should include advising the management team, serving as a power that the upper echelons can be held accountable to, and acting as a body that can intervene in a crisis situation. Denis and McConnell (2003) note that while the emphasis of board responsibilities in the US is placed on maximizing shareholder wealth, European boards are often expected to consider share value maximization as only one of many tasks. The role assigned to the board of directors arguably affects the optimal composition of its members. As such much has been written regarding the optimal composition of the board in both the academic literature and in government reports.

Non-Executive Directors

One recommendation stemming from the Combined Code is that independent, non-executive directors should make up at least half of the board of directors (Code, 2006). While the Code itself sets out a list of criteria outlining the attributes of an independent director, many other views on optimal board composition have been offered. Indeed it has been argued that composition of boards is an area that has received too much interest at the expense of discovering more about the motives and experience of individual directors on these boards (Roberts, 2002). It has been suggested that organizational performance can be improved by increasing board effectiveness (Brown, 2007). However, Hung (1998) argues that there is no single perspective that can explain board effectiveness.

Some authors, in line with the Combined Code propose that the most effective boards should contain a majority of non-executive directors (Roberts et al., 2005, Dahya and Mc Connell, 2007). While Choi et al. (2007) suggest non-executive directors can prevent self-serving behavior on the part of management, Dahya and Mc Connell (2007) focus on

the improved performance that they believe comes from increasing the number of non-executive directors on the board. Petra (2005) however points out that having independently structured boards may not always be the most appropriate method of preventing poor governance. He supports this statement by examining the boards of many companies in which governance failures have occurred, and found that at the time the majority of these boards were made up of independent directors. Furthermore, questions have been raised about the threat non-executive directors pose to board unity and the excess costs incurred by increasing their numbers on boards (Young, 2000). The preference for a majority of executive directors on boards has also been highlighted by a number of other authors (Hermalin and Weisbach, 1991, Muth and Donaldson, 1998).

While board composition is an important area of research, within an Irish context it is the nominations processes that have generated a lot of interest. The nominations procedures adopted by Irish companies in sourcing non-executive directors have been highlighted as a consistent source of concern (O'Higgins, 2002, Brennan and McDermott, 2004, O'Regan et al., 2005). O' Higgins (2002) refers to the 'old boys' network' in place in the Irish corporate environment and acknowledges the dangers this presents to women and minorities attempting to join boards as non-executive directors. Brennan and McDermott (2004) expressed concern regarding poor disclosure in annual reports and lack of compliance with the Combined Code regarding the establishment of nominations committees.

Venture Capitalists as Non-Executive Directors

The lack of research into the relationship between venture capitalists and the boards they sit on has been stressed by Gabrielsson and Huse (2002). Much of the research that does exist focuses on the role of the venture capitalist on the board and the effect of venture capital investment on floatation (Deakins et al., 2000, Van Den Bergh and Levrau, 2002, Gabrielsson and Huse, 2002, Filatotchev, 2006). Fried et al. (1998) note that the boards of venture capitalist backed firms often appoint very few internal directors with the majority of board positions being adopted by external venture capitalists. Interestingly, a distinction has been made between venture capitalist appointed non-executives and other non-executives. Deakins et al. (2000) suggest that venture capitalist appointed non-executives could be recognized as resource based appointments as opposed to other directors who can be considered agency based appointments. This view is a useful

example of how the motivations and expectations of non-executive directors may vary. Venture capitalist compensation depends on the success of those organizations in which they invest and sitting on the board of directors of these companies is one method of protecting this investment (Van Den Bergh and Levrau, 2002). The question arises then, of whether or not venture capitalist non-executive directors can be considered independent when acting on these boards. This research goes some way to answering that question.

The above literature contributes to our understanding of the board of directors and what their various roles and responsibilities should be. By focusing significant amounts of attention on these areas the literature imposes a certain importance on them. While this is certainly beneficial, extending research into other areas such as motivations and nominations practices will add to the literature on the board of directors and draw attention to the effect of the Combined Code of corporate governance on these motivations and nominations procedures.

Research Methodology

This aim of this research is to address the nomination and motivations of Irish Non-Executive Directors of listed companies. The purpose is threefold.

I. To develop an understanding of the nominations procedures in place in Irish plcs in an effort to determine the commitment to good corporate governance in these organizations.
II. To discover the effect that increased corporate governance requirements have had on the motivations of non-executive directors to adopt these board positions.

The research philosophy adopted for the purpose of this paper is that of interpretive approach. The interpretivist epistemology allows researchers to better examine the natural and cultural sciences, subjects which have been inhibited by the functionalist approach to research (Burrell and Morgan, 2000). Within the interpretivist paradigm phenomenology and grounded theory have been highlighted as useful approaches to research (Denzin and Lincoln, 1998). The authors note that both of the interpretivist methodologies share a desire to ‘emphasize the contribution of human subjectivity (i.e.

intention) to knowledge without thereby sacrificing the objectivity of knowledge' (Denzin and Lincoln, 1998:193). The phenomenological approach expects researchers to suspend any inherent ontological assumptions regarding the environment in question in order to better facilitate an understanding of the common knowledge and beliefs that are held by those within that environment (Goulding, 1999). This research philosophy is particularly suited in understanding human action (Patton, 2002) and as such will offer a unique insight into research regarding the motivation and nomination of non-executive directors.

Data Collection

In a departure from methods more commonly used for research into corporate governance and indeed the board of directors, this research adopts a qualitative approach. With the exception of a few (O'Higgins, 2002, Roberts, 2002) most research studies into the board of directors have adopted a quantitative approach (Dahya and Mc Connell, 2007, Baysinger and Butler, 1985, Hermalin and Weisbach, 1991). While this research is essential in developing a broad understanding of corporate governance practice, the use of a qualitative approach in the form of in-depth interviews in this case allowed for greater probing and interaction with the interviewee than other methods provide. For the purpose of this study interviews were carried out with eight non-executive directors currently sitting on the boards of Irish listed companies. Purposeful sampling was adopted with the requirement that the non-executive directors interviewed were board appointees of Irish listed companies. Of the eight non-executive directors interviewed only one was a female non-executive. The interviews were carried out in various locations with most participants choosing to meet at their workplace, although two preferred to meet at a neutral environment. The length of interview ranged from 30 minutes to 55 minutes. The interviews took place under the guarantee of anonymity for both the directors themselves and the organizations which they were attached to. The number of directorships held by each director ranged from one to fifteen plus. Experience levels also ranged with one director having less than a years experience on a board with the highest level of experience recorded as more than a decade. An interview guide was drawn up to enable the key topics of motivations and nominations to be addressed. Interview guides are recommended by Patton (2002) for a number of reasons. It acts as a

method of ensuring that the limited interview time is managed appropriately and it reminds the interviewer of key subject areas while not limiting the scope of response.

Data Analysis

While the interviews were recorded for subsequent transcription, notes were also made to identify any non-linguistic emphasis added by the interviewees. Transcription was undertaken on a continuing basis throughout the research and reviewed to ensure accuracy of transcriptions. Analysis was carried out in tandem with the research interviews to allow developing themes to be probed more acutely. A coding system was developed as the first stage in analysis to highlight key themes and group similar units of data into easily identifiable categories (Saunders et al., 2003). Coffey and Atkinson (1996) offer a useful illustration of how data interpretation can be broken down into the three stages of data display, exploring the codes and categories and transforming the coded data into meaningful data. This strategy was loosely adopted in the interpretation of data.

Discussion

Motivations of Non-Executive Directors

The non-executive directors interviewed perceived an industry interest and the valid contribution they had to offer to be their main motives for adopting the position. The motivations of non-executive directors in adopting board positions may offer some insight into other areas of board research such as…….. Director motivations may also provide some insight into the extent that corporate governance factors into the decision making of non-executives when adopting board positions.

> ‘There has to be an element of ego to it in so far as a sense that you can make a contribution to the organization and hopefully that that organization will be a better organization, however you define better, for your presence’ (Director D)

> ‘I have a huge interest in the … industry in general and in … in particular. Em so em em it was, it was something that you know that eh, it appealed to because of the fact that it’s a company that I know well and its an industry that I’m very interested in

and I though it would, I could make a valid contribution to the strategic direction' (Director A)

However these motivations were second to acknowledgements that most accepted the position because they were offered it and did not actively seek out non-executive directorships.

'I was asked' (Director A)

'I was asked first of all by the founder of the company to become a director of the company at the time it was a private company em when the company grew and was about to undergo a floatation on the New York Stock Exchange NASDAQ and the Irish Stock Exchange, there was to be a resignation of directors and a reconstituted board and again he asked me would I stay on because he felt it was important to have some of the old board with some of the new board post flotation I said I would……' (Director B)

'In both cases I was contacted by the chairman and asked to come and have a conversation. I'd no forewarning of either of them … I felt deeply honored to be asked. I felt very very interested and deeply honored … I'd be very strongly interested in Ireland's industrial development and its export development.' (Director D)

'You drift into these situations … you just, you get a name for doing it and it's of interest to you.' (Director C)

While the board of directors is charged with much more responsibility in theory, the ease with which non-executive directors take up positions on boards could suggest that this increased accountability is not, in practice, a concern. Furthermore, the admission by many directors that they were approached to take up the position suggests that the nominations process is not a very rigorous one.

Interestingly whereas non-executive directors viewed their own motivations in a positive light, they offered less favorable views as to the possible motivations of other non-executive directors. Although career development and knowledge accumulation were highlighted as some of the suspected reasons that other non-executives take up board positions on plcs, more often monetary compensation, ego, and vanity along with the networking connections these positions afford were highlighted.

> 'We've all seen I suppose a lot of non-executive directors being appointed post retirement from either private practices accountants or from whatever they may be in and there would be I suspect those circumstances a lot of people taking non-executive directorships because A it provides ongoing remuneration for limited days work and that is a, in my view, bad reason for becoming a non-executive director.' (Director B)

> 'A-lot of people do it to keep their hands in after they've retired because em the obvious reasons, you suddenly go from having a day job to having no job and they want to maintain contacts in the corporate world so the do it to that end, and to have income.' (Director C)

> 'For people who aren't in our business there's a massive amount of ego.' (Director E)

For the most part, the non-executive directors interviewed appear to adopt an opinion of their peers which is very similar to that of the agency perspective. Self-serving motivations are highlighted as the reason for joining boards and those altruistic motivations that they apply to themselves are not reflected in their view of others. Although non-executive directors highlighted remuneration as a possible motivation for others, they often made a point of ruling it out as a personal motivation with one director indicating that it was not sufficient enough to provide an explanation of their acceptance of the role. One director interviewed acknowledged the possibility that some directors remain unfamiliar with the Combined Code, having never read it. A lack of familiarity with the Combined Code and the responsibilities that it imposes on directors could go some way to explaining the ease with which non-executives appear to accept positions on

plc boards. Arguably, those directors who are aware of the details of the combined code would be less likely to take a position of such responsibility without first considering both the corporate governance status and financial history of the organization.

Nominations Procedures

The nominations procedure of a plc is a good indicator of how important corporate governance is to the firm. The structure of the procedure also offers insight into what attributes a firm might look for from it's non-executive directors and in doing so highlights the organizational theory that they most likely adopt. Interestingly the directors questioned had no particular knowledge of appointments to non-executive positions other than their own.

> 'I don't have a great deal of experience with that' (Director C)

> 'The procedures are pretty simple. Is there any controversy? Eh, no' (Director E)

> 'They (nominations committee) can make recommendations to the full board and the full board would then co-opt that non-executive director …' (Director B)

While one non-executive director questioned did suggest that the nominations procedure can be 'complicated' and another described the appointment of a non-executive director as being a process with steps involved for the most part this question elicited a very passive response from the interviewees. It appears that while directors have strong views on what attributes non-executives should possess and what the role should entail, they don't appear to regard the nominations process, which could be considered the foundation for establishing a good board, with the same concern.

Directors themselves acknowledged that people had 'favorites' when looking to fill board positions and that positions were sometimes filled based on recommendations. Such assertions not only support the argument put forward by O'Higgins (2002), they also point to a less than impressive commitment to good corporate governance on the part of the organizations. Were such organizations interested in improving corporate governance standards, the introduction of a formalized system of appointments may be of benefit.

Preferred Attributes of Non-Executive Directors

In her study of effective directors, O'Higgins (2002) highlighted seven characteristics recognized as important determinants of effectiveness. These included clarity of thought, experience, interpersonal skills, ability to contribute positively, commitment, independence, and ability to command respect.

By allowing non-executive directors to highlight those attributes that they appreciate in other directors some sign may be given as to the organizational theory they favor. When the interviewees were questioned as to what attributes they preferred in nominees they highlighted a number that offered insight into the possible organizational perspective adopted. Attributes such as 'integrity', 'financial or accounting skills' and an 'analytical mind' were all discussed as important requirements, however, it was experience that was consistently highlighted as an important characteristic.

> 'I presume what they are looking for is people with em, industry experience is a plus but it's not absolutely necessary … if I was picking people to run a board I'd look at their analytical skills and their openness because the board works really well when the board members are open with one another and communicate freely' (Director A)

> 'What they should look for is a non-executive director who can bring value to the executive directors who either through his experience in general business or more specifically his experience in the business of the company … so I think a non-executive director should bring some specific set of skills that have a relevance to the company of which he's a non-executive director' (Director B)

> 'It's very helpful if the director knows the sector that he's going to be a director of so past experience and knowledge of the sector is hugely important' (Director C)

Interestingly independence was only addressed once as an important attribute

> 'Typically they want those NEDs to arrive eh to be independent, they also, coupled with that need them to arrive with enough, sufficient industry knowledge, sufficient

> experience, however you want to define that, that they're not educating them all the time … ' (Director E)

Whilst the Combined Code focuses on the agency relationship and as such highlights the importance of independence in non-executive directors, the directors interviewed offered suggestions on other areas that they perceive as being important. One such characteristic is that of experience. As mentioned previously, the 'old boys' network' is recognized as playing a large part in the nominations of non-executive directors in Ireland (O'Higgins, 2002). Perhaps independence in not raised as a concern by directors as it may cause their own position to be questioned. One director discussed how he sits on the board of directors of an organization that his own firm provides professional services too but believes that this does not conflict with his ability to remain an independent director. Arguably, given the small environment in which organizations operate in Ireland in comparison to their European counterparts, maintaining connections with other resource providers is considered more beneficial than ensuring non-executives remain independent and free of conflict. As such, organizations may focus on the resource benefits of appointing a new non-executive director and as such seek out appointees who can offer some connections to the external environment.

Venture Capitalists as Non-Executive Directors

As mentioned previously a number of those directors interviewed pointed out that they adopted the position because it 'comes with the job' of being a venture capitalist. Venture capitalists who act as non-executive directors arguably raise questions as to their independence and ability to make decisions based on the best interests of the organizations stakeholders rather than their own shareholders.

> 'There's an inherent conflict between your duty to my underlying investors which is I'm representing my shareholding on the fund and the overall eh responsibility to shareholders as a whole. I can't think of a situation where there's actually been a difference between what would be good for us and what would be good for the overall shareholders but I'm sure you know it can arise and there is a prospect of it.' (Director C)

This conflict of interests is not apparent to all venture capitalists acting as non-executive directors.

> 'We would consider ourselves independent. Now would we pass the acid test that's now used in the Code of governance, em we probably wouldn't actually because of the size of the shareholding we represent … ' (Director E)

The role of the venture capitalist on the board of directors has previously been addressed (Gabrielsson and Huse, 2002, Van Den Bergh and Levrau, 2002), especially in the context of the IPO (Filatotchev, 2006, Suchard). However the independence of venture capitalists as non-executive directors has received less attention. As such, further research is needed in this area to determine the ability of venture capitalists to act as independent non-executive directors on the boards of firms which they invest in.

Limitations of Research

The study has several limitations. It is a small scale preliminary study carried out in an Irish context and as such the discussion cannot be considered representative of how boards operate in a wider environment. The scope of the study was limited to a small number of issues and as such did not address other relevant issues regarding the board of directors. Research into the area of venture capitalists as non-executive directors is not a major consideration of this paper and this area may be better suited to a separate study.

Conclusion

The above investigation offers important insight into the actions of non-executive directors at a practical level. Furthermore it often highlights the gaps between literature on the board of directors and the actual practice. This research is carried out in an Irish context and as such offers a unique insight into corporate governance and the board of directors in Ireland. It was also carried out at a time when the economic landscape was changing dramatically and directors were perhaps becoming more aware of their responsibilities and the scrutiny they could become subject to at the hands of the public. In relation to the Anglo Irish bank affair, one director questioned whether or not all members of the board should have been held to such a high level of accountability as the scandal broke. This again reinforces the observation that non-executive directors have

not, up until now, been subject to increased responsibility that should be imposed on them by the Code.

This paper addressed the motives of non-executive directors as it was felt that this under-researched area could add some insight into the effect that changes in the corporate governance environment has had on the adoption of the particular position. By highlighting the different reasons that non-executive directors choose to adopt this position it is hoped that this paper will contribute to the literature assessing the impact of corporate governance codes. Whereas a number of papers have looked at the effect of the Combined Code on organizations as a whole (Mc Neil and Rimmington, 2004, Pass, 2006), focusing on the effect of corporate governance on individual motives lends a different perspective to corporate governance debates.

It has been previously suggested that there is no place for corporate governance in times of economic success (Cadbury, 2000) and perhaps this has again been the case in recent years. Nominations processes remain largely informal and possibly continue to adhere to 'old-boys network' ideals (O'Higgins, 2002). Non-executives are proving to have adopted board positions in an unconsidered manner. It would appear then that non-executive directors have not felt the full weight of the Combined Codes efforts to increase director responsibilities and improve good governance.

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