Journal of Financial Economics 108 (2013) 349–366

Contents lists available at SciVerse ScienceDirect

Journal of Financial Economics

journal homepage: www.elsevier.com/locate/jfec

# What do boards really do? Evidence from minutes of board meetings ☆

Miriam Schwartz-Ziv [a,b,c,*], Michael S. Weisbach [d,e,f]

[a] Northeastern University, College of Business Administration, Hayden 419E, 360 Huntington Avenue, Boston, MA 02115, USA
[b] Harvard Kennedy School, Women and Public Policy Program, 79 John F. Kennedy Street, Cambridge, MA 02138, USA
[c] Michigan State University, Eli Broad College of Business, Eppley Center, 645 N. Shaw Lane, East Lansing, MI 48824, USA
[d] National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138, USA
[e] SIFR, The Institute for Financial Research, Drottninggatan 98, SE-111 60 Stockholm, Sweden
[f] Ohio State University, Fisher College of Business, 740A Fisher Hall, 2100 Neil Avenue, Columbus, OH 43210, USA

ARTICLE INFO

*Article history:*
Received 13 January 2012
Received in revised form
5 March 2012
Accepted 6 April 2012
Available online 6 November 2012

*JEL classification:*
G30
L20

*Keywords:*
Boards of directors
Board minutes
Corporate governance
Supervisory models
Managerial models

ABSTRACT

We analyze a unique database from a sample of real-world boardrooms — minutes of board meetings and board-committee meetings of eleven business companies for which the Israeli government holds a substantial equity interest. We use these data to evaluate the underlying assumptions and predictions of models of boards of directors. These models generally fall into two categories: "managerial models" that assume boards play a direct role in managing the firm, and "supervisory models" that assume that boards monitor top management but do not make business decisions themselves. Consistent with the supervisory models, our minutes-based data suggest that boards spend most of their time monitoring management: approximately two-thirds of the issues boards discussed were of a supervisory nature, they were presented with only a single option in 99% of the issues discussed, and they disagreed with the CEO only 2.5% of the time. Nevertheless, at times boards do play a managerial role: Boards requested to receive further information or an update for 8% of the issues discussed, and they took an initiative with respect to 8.1% of them. In 63% of the meetings, boards took at least one of these actions or did not vote in line with the CEO. Taken together our results suggest that boards can be characterized as active monitors.

© 2012 Elsevier B.V. All rights reserved.

☆ Miriam Schwartz-Ziv is from Harvard University and Northeastern University, e-mail: miriam.schwartz@mail.huji.ac.il. Michael S. Weisbach is from Ohio State University, NBER, and SIFR, e-mail: weisbach@fisher.osu.edu. Miriam Schwartz-Ziv is very grateful to Eugene Kandel and Michael Weisbach, the co-advisors of her Hebrew University doctoral dissertation, upon which this paper is based. We thank the executive and non-executive employees of the Government Companies Authority of Israel who allowed us both formally and practically to conduct this research; the companies studied that kindly provided us with private and sensitive data; and seminar participants at Babson University, Brown University, Northeastern University, Ohio State University, Purdue University, the European Financial Management Association 2011 conference, the Western Economic Association 2012 conference, and the Financial Management Association 2012 conference, as well as the following people who shared their thoughts and advice at different stages of the preparation of this paper: Renée Adams, Amir Barnea, Steven Davidoff, Ada Demb, Dave Denis, Alon Eizenberg, Isil Erel, Rudi Fahlenbrach, Julian Franks, Ann Gillette, Ilan Guttman, Assaf Hamdani, Randal Heron, E. Han Kim, Stephanie Kramer, Saul Lach, Alexander Ljungqvist, Udi Nisan, Nadya Malenko, Avri Ravid, Artur Raviv, Karen Selody, Daniel Schwartz, Schraga Schwartz, Eytan Sheshinski, Léa Stern, Yuhai Xuan, Jun Yang, Scott Yonker, Tammar Zilber, and Clifford Smith, the referee. Miriam Schwartz-Ziv also thanks the Israeli Ministry of Science and Technology and Hebrew University's School of Business Administration for financial support.

* Corresponding author at: College of Business Administration, Northeastern University, Hayden 419E, 360 Huntington Avenue, Boston, MA 02115, USA. Tel.: +1 617 373 4713.

*E-mail addresses:* miriam.schwartz@mail.huji.ac.il (M. Schwartz-Ziv), weisbach@fisher.osu.edu (M.S. Weisbach).

0304-405X/$ - see front matter © 2012 Elsevier B.V. All rights reserved.
http://dx.doi.org/10.1016/j.jfineco.2012.04.011

## 1. Introduction

Given their central role in corporate governance, boards of directors have become a popular topic of research. A recent search of Social Science Research Network for "board of directors" yielded more than two thousand research papers on the topic.[1] A major difficulty in designing research about boards of directors is that the day-to-day workings of a boardroom are private, so that to understand the roles of boards, researchers must draw (possibly incorrect) inferences about their decision-making process from publicly observable data. The most common empirical research strategy on boards is to gather data on their structure and to draw inferences about what boards do from the way in which this structure affects observable variables about the firm. Theoretical research generally starts from a premise about what kinds of decisions boards make (managerial or supervisory), as well as the process by which these decisions are made. The uncertainty about the extent to which the empirical inferences are correct, and to which the underlying assumptions of the theoretical models characterize real world boards limits the applicability of this research.

In this paper, we supplement existing research, which is primarily based on publicly available data, with private data on the detailed minutes of board meetings for 11 Israeli business companies in which the government has a substantial equity interest (government business companies, or GBCs). Each set of minutes covers a year of meetings within the 2007–2009 period. These minutes show the details of board and board-committee meetings, including all the statements made by every participant in each meeting.[2] As such, they are significantly more detailed than minutes of American companies, which are usually thoroughly scrutinized by legal experts and describe board meetings only roughly. We transform the minutes into a quantitative database that characterizes the board meetings, allowing us to assess the way in which the boards work and interact with management. For each issue discussed, we describe what was discussed, whether an update was delivered or a decision was made by the board, whether there were any dissenting votes, whether the decision followed the recommendation of the chief executive officer (CEO), whether the board took an initiative to modify, define more specifically, or propose an alternative action to be taken, whether the board requested to receive further information or an update, and whether the board was presented with at least two proposals to consider. This database consists of the minutes from 155 board meetings and 247 board-committee meetings, in which 2,459 decisions were made or updates were given (1,422 decisions and 1,037 updates).[3]

This paper is the first to analyze board minutes in a systematic fashion. Doing so has a number of advantages over traditional empirical work that employs publicly available or interview-based data. Outcome-based empirical work typically relates board composition to observables such as CEO turnover, a hostile takeover, or adoption of a poison pill.[4] These events, albeit extremely important, are unusual and do not reflect the day-to-day functions of boards. In addition, a number of studies rely on questionnaires or interviews with CEOs and directors, with the goal of capturing the essence of the way in which they work together.[5] Yet, these studies rely on directors' memories and willingness to disclose their own actions, and they can, therefore, reflect inflated perceptions of directors regarding their own abilities and their contribution to the firm. The advantage of the minutes we analyze is that they record everything that happened at the meetings and provide a clear picture of what boards actually do.

A fundamental problem in the literature on boards of directors is that it has not agreed on the process by which boards govern the firm. Because of the complexity of the decision-making process inside firms, formal models of boards have generally focused their analysis on one particular role boards play. Some, including Song and Thakor (2006), Adams and Ferreira (2007), and Harris and Raviv (2008), adopt a "managerial" approach to boards of directors that presumes boards make managerial decisions such as which projects to undertake, and which employees to hire. These models emphasize the board's role with respect to what Fama and Jensen (1983) define as the "Decision Management" component of the decision process (i.e., the ratification and monitoring of decisions).

Alternatively, the "supervisory" approach, adopted by models such as Hermalin and Weisbach (1998), Almazan and Suarez (2003), and Raheja (2005), starts from the assumption that the main function of boards is to monitor and assess the CEO, rather than to intervene in particular issues. This approach models the board's role in what Fama and Jensen (1983) refer to as the "Decision Control" part of the decision process (i.e., the initiation and implementation steps). The minutes data allow us to do the somewhat unorthodox testing of the underlying assumptions made in each of the two approaches, in addition to testing their predictions.

Consistent with the supervisory approach, for the sample of GBCs we consider, boards discuss issues we classified as supervisory approximately two-thirds of the time. In addition, most of the time boards go along with the CEO's wishes: in only 2.5% of the cases did boards partially or completely vote against the CEO. Finally, we find that only 1% of the time was the board presented with more than one alternative to choose from.

However, we also find evidence suggesting that some of the time boards do play a managerial role. On average,

[1] The search was done on April 4, 2012.

[2] These minutes are complete and were not censored for sensitive information. In addition, the directors did not know the minutes would be used for an academic study. Perhaps a more accurate description than "minutes" would be "transcripts", but we use "minutes" throughout the paper because that is what they are referred to in practice.

[3] The minutes of meetings total 4,758 pages. The average number of pages of minutes per board meeting is 14.2; for board-committee meetings it is 10.5.

[4] See Weisbach (1988), Shivdasani (1993), and Brickley, Coles and Terry (1994).

[5] See, for example, Mace (1971), Lorsch and MacIver (1989) or Adams (2009).

دریافت فوری ← متن کامل مقاله

ISIArticles
مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات