Summary of the Research Project

The Role of the Board of Directors in Building Resilient Companies

The objective of my study is to investigate the role of the board of directors in building resilient companies. Resilient companies are companies that weather storms caused by macroeconomic or industry-specific forces – they not only survive downturns but also come out stronger than their competitors.

While the spotlight is often focused on the chief executive officer and the top management team, the board of directors has important responsibilities for guiding corporate policy and safeguarding the firm. Directors who are not entangled in day-to-day operating concerns can question whether investment, financing, and operating decisions will place the company in jeopardy when economic tides change. Effective corporate governance ensures that potential problems are identified early and corrected, and that risks are evaluated and understood. Existing literature investigates the association between corporate governance and firm performance but there is limited consensus across studies. The question of what drives effective corporate governance that positively impacts firm performance over the long term remains important.

There are a number of important steps in the analysis. First is to develop a scorecard to measure characteristics of boards in a manner that facilitates comparison across companies on relevant dimensions. Second is to investigate how these characteristics affect decision-making, especially investment and financing decisions that may impact resilience. Third is to consider how the board characteristics and investing/financing decisions affect resilience by relating them to measures of performance across different phases of economic cycles.

In my research, I examine four dimensions of governance that may influence corporate decision-making: compliance, social-cultural, strategic and performance. Compliance-based governance confirms fairness to shareholders and legitimacy for accessing capital. Social-based governance values the culture of a corporation that limits undesirable behaviours but encourages desirable behaviours. Strategy-based governance focuses on managing risk and creating firm value. Performance-based governance holds management accountable and allows for early corrective actions to ensure corporations' future success.

Board members of different cultural, demographic, and professional backgrounds may play important roles in guiding Canadian companies' activities and impacting their resilience and long-term performance. I develop a governance scorecard based on the profiles of board members at Canadian listed companies. My premise is that board members' social, cultural, educational and professional backgrounds reflect how companies weigh the importance of the four dimensions of governance. Therefore, I will compile the scores of individual directors to create a board scorecard that reflects governance styles.

I use structural equation modeling to first relate the profiles of boards captured through the scorecard to investing and financing activities reflected in the balance sheet, and second to relate the profiles and investing/financing decisions to key performance metrics across different phases of industry economic cycles. Performance metrics include both shareholder-oriented metrics such as profitability and metrics of importance to other stakeholders such as employee retention and environmental ratings. Comparing governance styles over industry cycles will provide valuable guidance to Canadian corporations to confront economy- and industry-wide shocks in the future. My findings will shed light on the role of the board and will add to the existing literature and debate about how corporate governance affects firm performance.