The Role of the Board of Directors in Building Resilient Companies

Downturns are difficult times for companies because they face intense short-term pressures to preserve cash and meet commitments that make it difficult to look beyond the present survival concerns. While the spotlight is often focused on the chief executive officer (CEO) 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. 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.

There are a number of important steps in this study. 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 the first step, I examine four dimensions of governance that may influence corporate decision-making: compliance, social-cultural, strategy, and performance, as summarized by Van Wielingen (2016). These four types serve different purposes but together provide a framework for analyzing how corporate boards influence firm performance. Compliance-based governance is concerned with structures, processes, and rules. It confirms fairness to shareholders and create legitimacy for accessing capital and the links with organizational outcomes and performance are minimal. 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. It is comprised of a comprehensive system of control which creates coherence and a rationale for the commitment of an organization's resources. Performance-based governance holds management accountable and allows for early corrective actions to ensure corporations' future success. It is a system of accountability that allows for clear monitoring of the key drivers of performance. I am interested in ascertaining governance style by examining how Canadian corporations weigh these four aspects of governance and how their weight-setting impacts firm resilience and performance across industry cycles.

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 of the four dimensions based on the profiles of board members at Canadian listed companies. I identify the board members' skills based on their profiles and classify these skills into the four dimensions of compliance, social-cultural, strategy, and performance. 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 compile the skills of individual company's directors to create a board scorecard that reflects governance style of the company.

In my analysis, I 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.

As outlined above, this study focuses on the role of the board in building corporate resilience, and how corporate resilience influences the company's performance over the industry cycles. Ascertaining corporate governance style that facilitates comparisons across companies is one of the primary contributions of this study. Comparing governance styles over industry life cycles will provide valuable guidance to Canadian corporations to confront economy- and industry-wide shocks in the future. Findings on the effects of corporate resilience on firm performance will shed light on the role of the board in response to movements in the industry cycles and will add to the existing literature regarding the debate about how corporate governance affects firm performance.